

Guildford Coal Ltd (GUF.ASX)

Initiation - Multi-billion tonne potential across Australia and Mongolia

Event:

- We initiate coverage on GUF with a BUY recommendation and a price target of A\$1.90/share.

Investment Thesis:

- Progressing to JORC on multiple projects:** GUF has commenced an aggressive drill program at its Hughenden, South Gobi and Kolan projects and is expecting to identify a JORC Resource by Q4 2011.
- Significant Project potential in Queensland:** Independent geologists have identified an exploration target of 0.62Bt to 6.535Bt of potential Thermal coal resource at the Hughenden project which covers approximately 16,500km² in the Galilee basin. The Galilee Basin has had a number of companies exploring and identifying resources in recent years, defining a cumulative JORC Inferred resource of approximately 22Bt. The advantage of GUF's Hughenden project over other stranded assets in the Galilee basin is the potential access to existing rail (runs within tenements) and port infrastructure (~320km) via the Port of Townsville (POTL).
- Near-term production opportunities in Mongolia:** The Mongolian Project presents a significant opportunity for GUF to become a coal producer in a short period of time. GUF also has the potential to market coal at the mine gate in Mongolia reducing the infrastructure requirement in this region. Management have initially flagged first coal production at the South Gobi Project in first half CY2012. An initial exploration target of 0.29Bt to 0.731Bt of potential coking and thermal has been identified in Mongolia.
- Experienced Board and Management:** We expect management will continue to de-risk the company going forward in terms of delineating a JORC Resource and developing strategic relationships with potential project partners including financiers.

Catalysts

- Initial JORC 4QCY11, Hughenden & South Gobi Project.
- Drilling results on Sierra and Kolan projects.

Recommendation:

- We initiate on GUF with a BUY recommendation and a price target of A\$1.90, which represents approximately 70% upside to the current share price.
- We see GUF as a quality investment opportunity that offers both Australia and Mongolia coal exposure. We envisage the company will grow in profile and market cap as management delivers an initial JORC Resource over the coming months. GUF has approximately (\$20m in cash which will allow them to facilitate exploration budgets over the next 12 months).
- Our PT is derived using EV/Resource metrics using an exploration target of 1.6Bt of resource across its Hughenden project (approximately 30% of independent geologists target), an exploration target of 300Mt from its other QLD projects and an exploration target of 365Mt at its Mongolia projects (approximately 50% of independent geologists target). Additionally we have valued GUF's assets at \$0.35/t, which is in line with current peer valuations.

Rating	BUY
Previous	N/A
Price Target (A\$)	\$1.90
Previous (A\$)	N/A

Share Price (A\$)	\$1.12
52 week low - high (A\$)	0.34-1.365
Valuation (A\$/share)	\$1.87
Methodology	EV/Resource
Risk	High

Capital Structure	
Shares on Issue (m)	419.7
Market Cap (A\$m)	470.0
Net Debt/(Cash) (A\$m)	-19.5
EV (A\$m)	450.5
Options on issue (m)	0.0
12mth Av Daily Volume ('000)	1,136

Board	
Craig Ransley	Non Executive Chairman
Tony Bellas	Non Executive Deputy Chairman
Michael Avery	Managing Director
Hon Alan Griffiths	Non Executive Director
Mike Chester	Non Executive Director
Norah St.George	Executive Director

Major Shareholders	
TheChairmen1 Pty Ltd	47.7%
Och-Ziff Capital Management	12.4%
Credit Suisse AG	6.0%

Key Milestones	
Maiden JORC resource	4QCY11
Pre-feasibility Hughenden	2QCY12
Production in Mongolia	4QCY12

Share Price Graph



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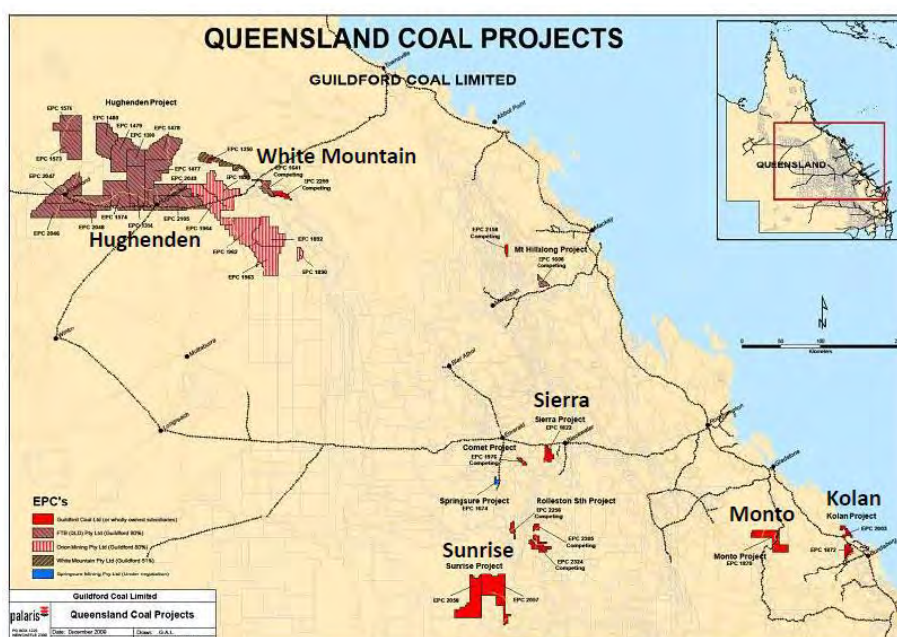
COMPANY OVERVIEW

GUF is targeting a variety of coals in their exploration program including thermal, hard coking and PCI coal.

Over the next 24 months GUF will be focused on delineating initial JORC resources across three projects in Queensland and an additional two in Mongolia.

- Guildford Coal (GUF) is a coal exploration company that has a diversified portfolio of tenements across Queensland and Mongolia. The company has in excess of 20,000km² granted or under application.
- GUF via a wholly owned subsidiary Guildford Coal (Mongolia) Pty Ltd owns 70% of Terra Energy LLC (TE), a newly established Mongolian coal company that owns six exploration licences across two coal projects, namely the South Gobi and Middle Gobi projects.
- GUF's key focus is to create shareholder value through Identifying and securing potential assets, with the aim of exploring and developing coal deposits ultimately leading to production.
- GUF is targeting a variety of coals in their exploration program including thermal, hard coking and PCI coal. This will provide diversification of product that could potentially be sold into the export market.
- Over the next 24 months GUF will be focused on delineating initial JORC resources across three projects in Queensland and an additional two in Mongolia. In total GUF has five key projects, as well as additional pipeline projects in Queensland which are close to existing rail infrastructure and present the opportunity to access multiple port facilities. Figure 1 highlights GUF's coal projects in Queensland.

Figure 1: GUF's Project Location QLD



Source: Guildford Coal Ltd

Chairmen 1 Pty Ltd, is an entity associated with the key board and Management of GUF.

- Payment to Chairmen 1 Pty Ltd:** Part of the arrangement in the IPO listing of GUF was to pay Chairmen 1 Pty Ltd a success fee for a successful drilling program. The fee equates to \$0.20/t of Indicated resource and is capped at 500Mt. Chairmen 1 will be entitled to \$20m for each 100Mt of Indicated Resource of coal in connection with one or more of the relevant projects outlined in the prospectus namely GUFs QLD assets (Mongolia assets will be excluded) for a period of five years commencing July 1 2010. We expect once GUF get to an Indicated Resource of 500Mt the stock should achieve a EV/t of at least \$0.75.

SUMMARY OF PROJECTS

The Company has several exploration projects including:

Hughenden Project – (Galilee/Eromanga Basin)

An initial JORC Inferred Resource is expected during the 2H CY11.

- The Hughenden project is GUF's flagship asset, located in the northern end of the Galilee basin covering approximately 16,500km². The project target has the potential for open pit and underground superior export quality thermal coal.
- Independent geologists Moultrine Database and Modelling (MDM) have completed a comprehensive assessment of the Hughenden project and have identified an exploration target of 0.58Bt to 5.72Bt of thermal coal. An initial JORC Inferred Resource is expected during the 2H CY11.
- Currently, four drill rigs are onsite at Hughenden, and the latest data indicates significant coal seams exist with individual seams up to 5.5m and a cumulative thickness interpreted to be approximately 11.9m of net coal from the Permian Betts Creek Beds which was 70% thicker than anticipated.

Kolan Project – (Maryborough Basin)

GUF is targeting 100Mt of coking coal from this project with an initial JORC expected 1H CY12.

- The Kolan project is located approximately 20km north-west of Bundaberg and 160km south of Gladstone, the project covers approximately 237Km².
- GUF is targeting 100Mt of Hard Coking coal from this project with an estimated CSN Value of +7-9 post beneficiation. We have assumed an initial target of 75Mt from this tenement based on a yield of 75% with an initial target of JORC is estimated for early 2012.

Sierra Project - (Bowen Basin)

GUF is targeting 200Mt of coking coal from this project by the end of 1H2012.

- The Sierra project has recently be granted with drilling to commence in Q4 2011. The project is targeting the Fair Hill, Burngrove and Crocker Formations in the Bowen Basin with potential Hard Coking qualities and CSN values of +7-8.5 post beneficiation. Sierra is an open cut target, located in between Stanmore Coal's (SMR) Mackenzie River project with a current JORC Inferred resource of 99Mt of Coking Coal and Newland Resources (NRL) Comet Ridge project with reported CSN values of up to 8.5, and an exploration target of 200-250Mt of coking coal. Additionally, there is a rail link adjacent to the property with potential access to the ports of Gladstone.
- GUF is initially targeting 200Mt of Hard coking coal from this project. We have assumed an initial target of 80Mt from this tenement based on a yield of 40%. GUF are targeting initial JORC resource by June 2012.

Mongolian Projects – (South Gobi Basin & Ongi Gol Basin)

Independent Geologists have identified an exploration target of 29Mt to 731Mt from the Mongolian projects.

- GUF have two exploration projects in Mongolia, via its equity interest in Terra Energy (70%). The South Gobi project consists of four exploration licences in the South Gobi Basin known to host premium thermal and coking coal deposits, while the Middle Gobi project consists of two exploration licences targeting coal bearing seams in the Ongi Gol Basin. Independent geologists have identified an exploration target of 0.29-0.731Bt for these two projects is targeting a maiden JORC resource for the South Gobi Project in Q4 2011.

Other Projects – (Sunrise & Monto)

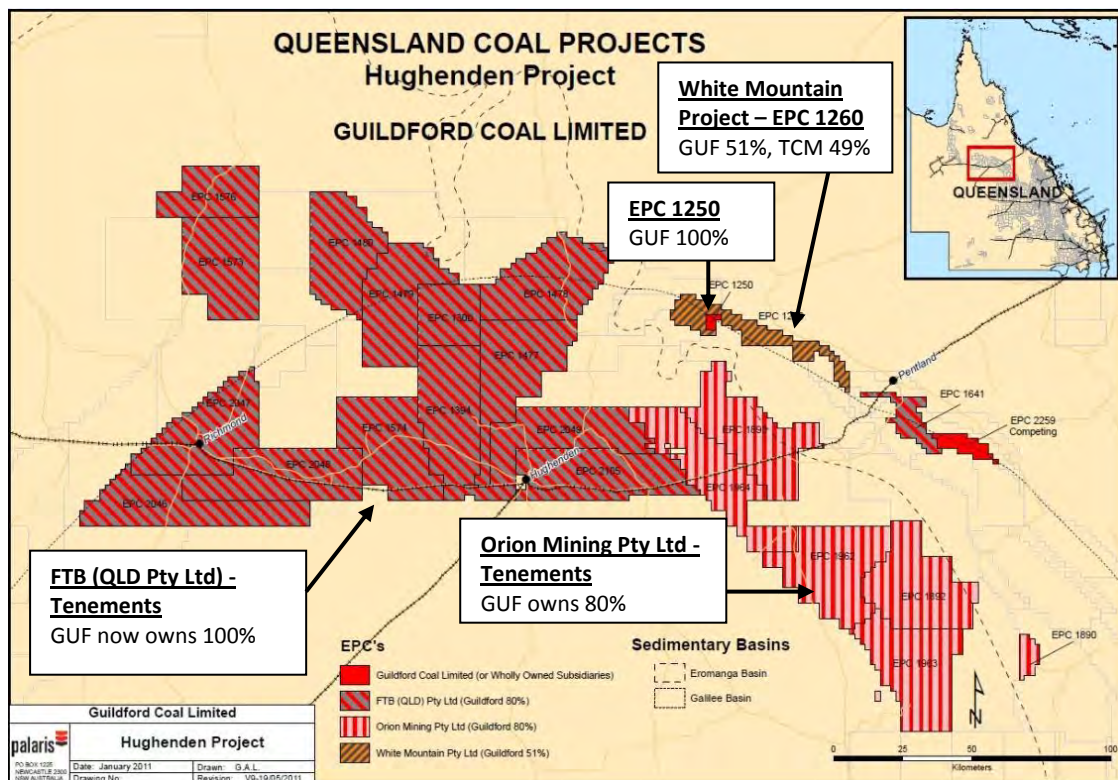
- GUF have two additional pipeline projects in Queensland; namely Sunrise and Monto but are not focusing on these at this point in time. Both projects are currently in Native title and are not granted at this stage.

HUGHENDEN PROJECT, QUEENSLAND (Galilee Basin)

The Hughenden project covers approximately 16,500km² running approximately 100km north and south of the Galilee basin and approximately 300km from east to west.

- The Hughenden Project is GUF's prime asset which is located in the northern end of the Galilee Basin. Hughenden covers approximately 16,500km² running approximately 100km north and south of the Galilee basin and approximately 300km east to west. To date approximately 11,500km² has been granted.
- The location of GUF's Hughenden project is outlined in Figure 2 below. There is a known sub-crop line along the north-eastern edge of EPC 1250 and EPC1260 with an estimated 60Mt of high quality export thermal coal visible from surface. These EPC's have been given highest priority for exploration activities.
- On the 12th of May 2011, GUF acquired a 51% interest in the White Mountain Project (EPC 1260), via a heads of agreement signed with Tiaro Coal Limited (TCM). GUF has paid \$3.3m upfront and is committed to spending approximately \$5m on exploration and development from this project. The tenement covers approximately 399km² and has a potential exploration target of 0 to 745Mt from EPC 1260. (See yellow & black tenement in figure 2 below).
- Additionally, Guildford's 100%-owned EPC 1250, which is located within the boundaries of EPC 1260 has an exploration target of 40-70Mt. The combined total area of the White Mountain project within Hughenden (EPC 1250 & EPC 1260) is approximately 420km² representing approximately 2.5% of the total tenement area within the Hughenden project.

Figure 2: Hughenden Project Location



Source: Guildford Coal Ltd

Moultrine Database and Modelling (MDM) have completed a comprehensive assessment of the Hughenden project and have identified an exploration target of 0.58Bt to 5.72Bt of thermal coal.

Target Resource

- Currently GUF has no JORC Resources or Reserves. In total, Independent geologists Moultrine Database and Modelling (MDM) have completed a comprehensive assessment of the Hughenden project and have identified an exploration target of 0.58Bt to 5.72Bt of thermal coal with an initial JORC Inferred Resource expected during Q4 2011.
- Additionally, Palaris has identified an initial exploration target up to 745Mt from the White Mountain Project (EPC 1260), and approximately 40-70Mt from EPC 1250, which is located within the boundaries of EPC 1260. The combined total area of the White Mountain project within Hughenden (EPC 1250 & EPC1260) is approximately 420km² representing approximately 2.5% of the total tenement area within the Hughenden project.

Figure 3: Exploration Target

Hughenden Project	Ownership Interest	Exploration Target (Mt)	Area (km ²)	Net to GUF
White Mountain Project - EPC 1260	51%	0 - 745	399	0-380
EPC 1250	100%	40-70	21	40-70
Remaining EPC's	80-100%	580-5720	16,080	460-5720
Total		620-6535	16,500	500-6,170

Source: Guildford Coal Ltd

Geology

- The primary seam that GUF is targeting within the Galilee Basin is known as the Permian aged Betts Creek Beds. Recent results from Linc Energy's (LNC) Pentland project, indicates the Betts Creek Beds have been proven to be of economic significance. The second coal seam target is located in the Eromanga Basin and is known as the Jurassic aged Blantyre Beds (Injure Creek Group).
- GUF has completed a detailed assessment of recent and historical geological and exploration data for the northern end of the Galilee Basin and constructed a geological model for both the primary and secondary targets.

Exploration Program

- GUF recently reported drilling at Hughenden intersected significant coal seams from borehole H005 with interpreted 11.9m of net coal from the Betts Creek Beds with multiple individual seams of up to 5.5m in thickness. Initial cores from hole H017 on EPC 1477 at Hughenden are identified in figure 4 below.

Figure 4: Initial Core holes from Hughenden EPC 1477



Source: Guildford Coal Ltd

GUF is currently undertaking a comprehensive drilling program expected to result in a delineation of a Inferred JORC before the end of 2011.

Operations

GUF has a \$20m exploration program over FY11 and 12.

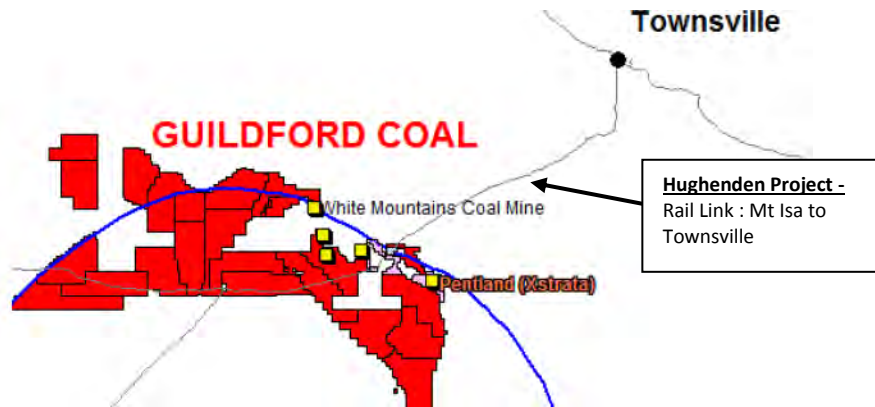
- GUF has a two year exploration program with a proposed expenditure of \$20 million over FY11 and 12. Given Hughenden is their prime asset, we believe GUF will spend approximately \$14m out of the \$20m on this project over the next two years.
- Currently, four drill rigs are onsite at Hughenden, and the latest data indicates significant coal seams exist with individual seams up to 5.5m and a cumulative thickness interpreted to be approximately 11.9m of net coal from the primary target being the Permian Betts Creek Beds.
- Recent drilling has also intersected thin coal seams interpreted to be from the overlying Eromanga Blantyre coal sequence and the preliminary results of laboratory analysis on cores taken from drilling show that the coal has some swell and could be potentially used as a blend for a PCI metallurgical product.
- Two drills are operating on EPC1477, EPC1478 and EPC1300 to complete a pattern of holes to give a maiden underground JORC resource by Q4 2011.
- The third drill rig has been commissioned to specifically target the potentially thicker extensions and coking coal potential of the Eromanga Basin while the fourth drill rig has been commissioned to commence drilling on the White Mountains Project (EPC1260) to confirm the open cut resource. White Mountains is the most likely start up project for Hughenden and is only located 15km from the Mt Isa to Townsville rail line.
- GUF has a Scoping Study currently underway by Flanagan Consulting Group to help in the preparation of an Initial Advice Statement, Terms of Reference and Environmental Impact Statement in line with the GUF's strategy of fast tracking project advancement. Additionally, the company has commenced background hydrology studies to collect data from a full wet and dry season over a 12 month period.
- A detailed project schedule has been developed for Stage 1 of the Hughenden project with the aim to deliver first coal by the end of 2013 assuming a successful exploration program and feasibility studies.

Infrastructure

GUF has successfully entered into Memorandum of Understandings (MoU) for both rail and port facilities and is progressing to a HoA for access to a heavy gauge railway along the Mt Isa to Townsville rail line with ARG, a subsidiary of QR National.

- In our view, infrastructure remains one of the primary risks for many projects getting off the ground. One of the main reasons we favor GUF is because the Townsville to Mt Isa rail line traverses the Hughenden project. Current capacity is ~5Mtpa and the rail connects directly to the port of Townsville, located ~320kms away.
- The current Mt Isa to Townsville rail line runs across several of GUF's tenements to the south of the current drilling program and there is an expectation that there will be significant upgrades to infrastructure in this region over the next three years to the order of 10Mtpa.
- GUF has successfully entered into Memorandum of Understandings (MoU) for both rail and port facilities and is progressing to a HoA for access to a heavy gauge railway along the Mt Isa to Townsville rail line with ARG, a subsidiary of QR National. Potential rail capacity for GUF is 3-4Mt within the next three years.
- GUF has an MoU with Australian Railroad Group (ARG). The companies have agreed to develop a pit to ship supply chain solution for the initial Hughenden open cut project to utilise the current existing rail capacity on the Mt Isa to Townsville rail line. ARG is a subsidiary of QR National and is responsible for bulk freight transport between mines and port. Figure 5 highlights the current rail link which transcends the Hughenden project.

Figure 5: Mt Isa to Townsville Rail Solution



Source: Guildford Coal Ltd

- In respect of a port solution, GUF has an MoU in place with the the Port of Townsville Limited (POTL) to jointly conduct a feasibility study on the logistics of exporting coal through the port of Townsville. The current capacity at POTL is 10Mtpa and the POTL has recently outlined a master plan which highlights a potential increase by an additional 20Mt within the next 10 years. Figure 6 highlights the expansion plans at POTL.

Figure 6: Townsville Port Solution



Source: Guildford Coal Ltd

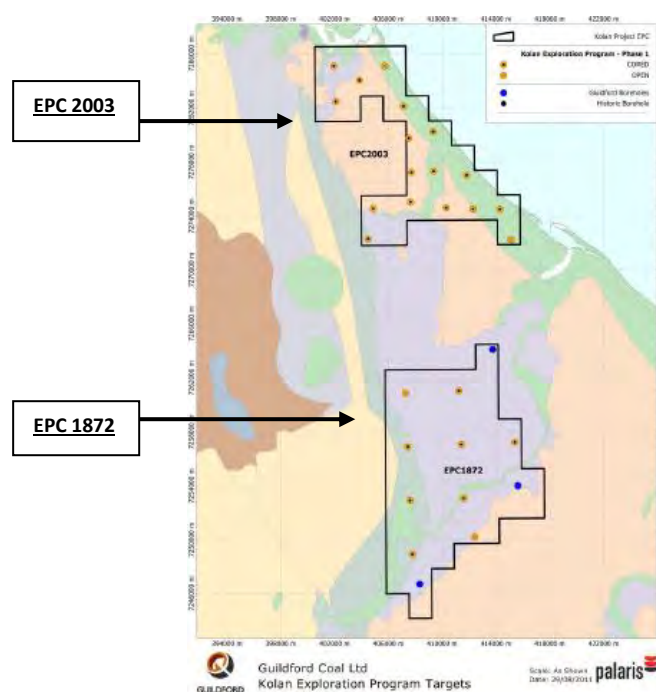
- We view the port and rail solution to be a viable option for GUF given its close proximity to the Hughenden project. There is a far greater likelihood of a Heads of Agreement being reached once a pre-feasibility study is completed for coal transport and shipping.
- Additionally we see that a JORC at Hughenden will be the catalyst for securing the port and rail deal.

The Kolan project has the potential for quality hard coking coal

KOLAN PROJECT, QUEENSLAND (Marybrough Basin)

- The Kolan project covers approximately 237km² and is 20km North West of Bundaberg and approximately 160km south of Gladstone.
- The project contains two EPC's 1872 and 2003 comprising of 48 sub-blocks equivalent to a surface area of approximately 164km². A total of 25 sub-blocks (85.7km²) of the tenement are covered by the Kolan Barage Catchment Area, established to ensure the preservation of water quality. The catchment area does not inhibit exploration and subsequent mining.
- The basin lies partially onshore and partially offshore with a potential hard coking coal capability with a CSN Value of 8, ash content 8-10% and 75-80% yield based on recent drilling of nearby tenements including Northern Energy (NEC.ASX). The location of the project is outlined in Figure 7 below.

Figure 7: Location of Project



Source: Guildford Coal Ltd

Target Resource

- The current exploration target at Kolan is 100Mt of Hard Coking Coal. We have assumed an initial target of 75Mt from this tenement based on a yield of 75% with an Initial JORC target expected in Q4 2012.

Figure 8: Exploration Target

Kolan Project	Ownership interest	Exploration Target (Mt)	Area (km ²)	Net to GUF
EPC 1872	100%	0-50	142	0-50
EPC 2003	100%	0-50	95	0-50
Total		0-100	237	0-100

Source: Guildford Coal Ltd

Geology

- The primary seam that GUF is targeting within the Maryborough Basin is known as the Tiaro and the Burrum Coal measures which have been mined for over 100 years. NEC is currently drilling in the Maryborough basin and it is understood that the project requires beneficiation to produce a saleable product. Theoretical yields have been estimated to be in the order of 40-50%, however GUF believe they are targeting a much higher quality seam in the Maryborough Basin.
- To date, historical drilling located between EPC1872 and EPC2003 showed the following characteristics which confirm the target potential of CSN values between 7-9 as highlighted in Figure 9 below.

Figure 9: Historical Results from Surrounding Tenements (excludes GUF EPCs)

Depth From (m)	Depth To (m)	Thickness (m)	Yield @ FC 1.40	Ash @ FC 1.40	VM @ FC 1.40	TS @ FC 1.40	CSN @ CF 1.40	Fluidity @ CF 1.40
34.08	34.67	0.59	8.9	7.3	32.2	0.72	9	18,000
36.28	36.78	0.5	47.2	12.3	29.2	0.66	8	2,000
49.82	50.07	0.25	51.4	15	29.6	0.66	7	2,000
50.07	50.5	0.43	45.7	9.1	29	0.65	8	350
50.5	50.85	0.35	23.7	10.6	28.5	0.66	8	500
50.85	51.07	0.22	7.4	8	30.7	0.75	8	4,000
51.07	51.97	0.9	41.8	7.3	28.4	0.61	8	80
51.97	52.18	0.21	79.8	5.3	28.7	0.72	8	150
52.18	52.4	0.22	56.5	5.4	28	0.66	7	100
52.4	53.1	0.7	26.9	11.2	28.4	0.68	8	300
53.1	54.2	1.1	20	6.5	29.2	0.78	8	800

Source: Guildford Coal Ltd - (currently not in GUF's tenements but within surrounding area).

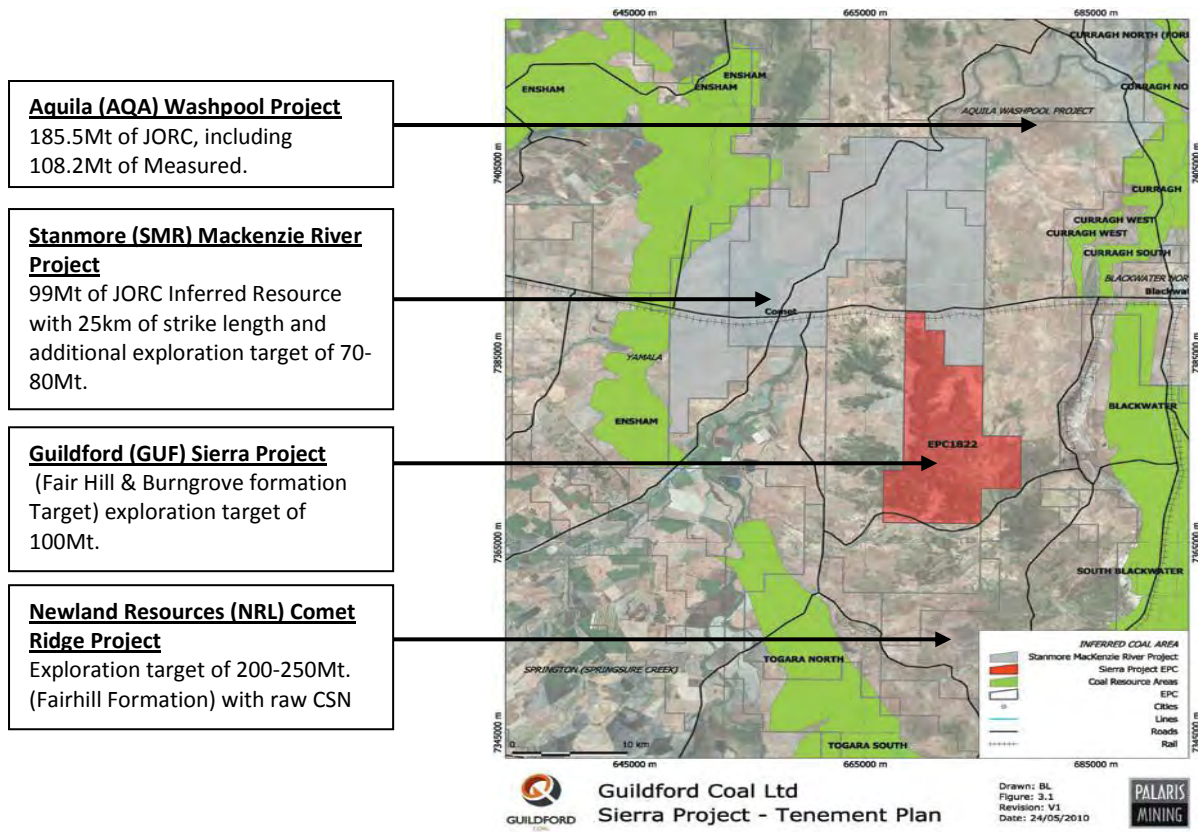
Operations

- Drilling has recently commenced on EPC2003, with 1 drill rig currently on site. The exploration target is at shallow depths to approximately 100m below surface.
- Field activities have commenced and a scoping paper is being prepared for the Kolan Project including the preparation of an Initial Advice Statement, Terms of Reference and Environmental Impact Statement.
- The project is connected to the Port of Gladstone via the Maryborough Northern Rail System which runs adjacent to the Kolan Project. GUF is targeting 1Mtpa of capacity into the Wiggins Island Coal Expansion Terminal Stage 2 at Gladstone.

SIERRA PROJECT, QUEENSLAND (Bowen Basin)

- The Sierra project is targeting Hard Coking Coal in the Fair Hill, Burngrove and Crocker Formations in the Bowen Basin. Sierra is an open cut target, located in between Stanmore Coal's (SMR.ASX) Mackenzie River project which has a current JORC Inferred resource of 99Mt of Coking Coal and Newland Resources (NRL.ASX) Comet Ridge project with reported CSN values of up to 8.5, and an exploration target of 200-250Mt of coking coal. Figure 10 highlights GUF's Sierra project as well as the surrounding tenements of existing explorers. The areas highlighted in Green are existing operating mines within the Bowen Basin.

Figure 10: Location of Project



Source: Guildford Coal Ltd

Target Resource

- We have an initial exploration target of 200Mt and is targeting a maiden JORC Resource by June 2012.

Figure 11: Exploration Target

Sierra Project	Ownership interest	Exploration Target (Mt)	Area (km ²)	Net to GUF
EPC 1822	100%	0 - 200	399	0-200

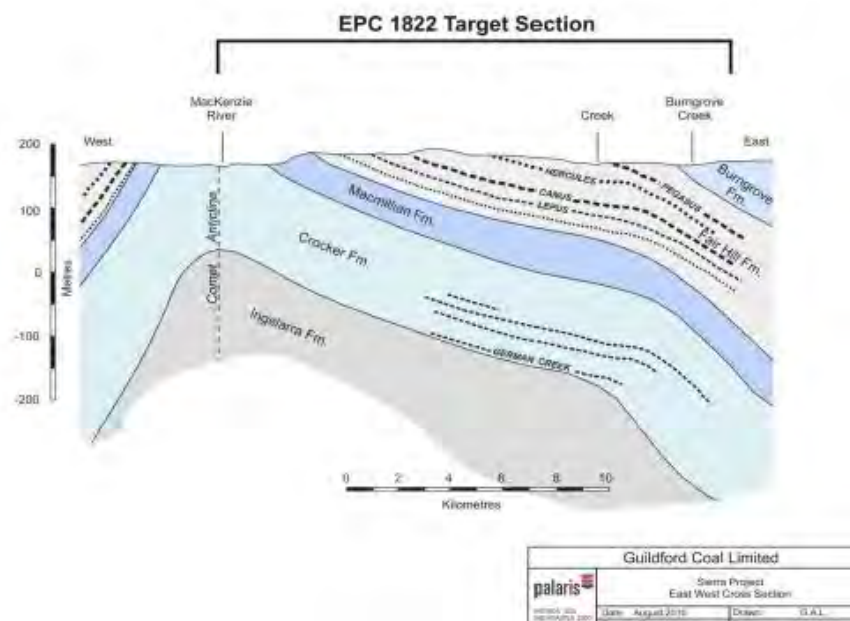
Source: Guildford Coal Ltd

Geology

- The Burngrove and the Fair Hill Formations are the main geological features within the Sierra project in the Bowen Basin. Initial boreholes in these formations indicate a highly banded seam of approximately 60-80% coal and 20-40% stone with approximately 30-40% ash content.
- The washability yield in these formations has been identified in a concept study by Aquila Resources' (AQA) Washpool project which is located to the North East of the Sierra project. The equivalent yield of these formations under AQA's testing was approximately 41% (Burngrove) and 51% for (Fair Hill).
- Sub-cropping exists on EPC 1822 which occurs along strike to the North of the tenement. The benefits of this permit include a potential low strip ratio and low mining costs given formations have been identified close to surface as highlighted in Figure 12 below.

Figure 12: Target Section on Sierra

The benefits of this permit include a potential low strip ratio and low mining costs given formations have been identified close to surface.



Source: Guildford Coal Ltd

Exploration Program

- On the 24th of August 2011, GUF announced the granting of the Sierra tenement. A drill rig will be on site in the last quarter of 2011 and drilling will commence at EPC1822 targeting an estimated strike length of 20km across the Fair Hill formation.
- Recent drilling to the immediate south of the project by Newlands Resources (NRL) (comet ridge project) has identified multiple thick intersections of up to 14m with a near surface exploration target of 200-250Mt with reported CSN values of 8.5.

Infrastructure

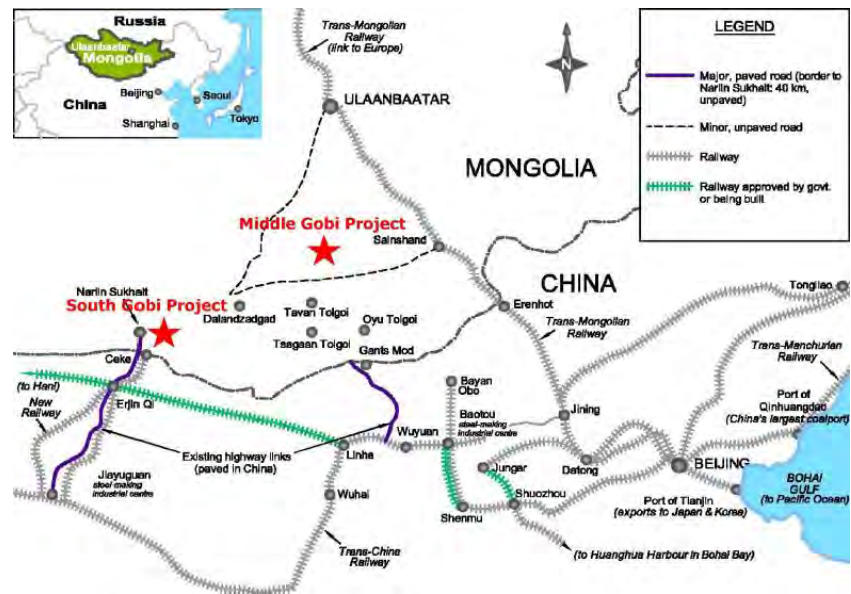
- The Blackwater rail system is the largest of the four coal systems in Queensland servicing the Bowen Basin. The rail network runs across the Northern edge of the Sierra project and carries the second highest tonnages on the QR network, after the Goonyella system with coal carried to two export terminals at the Port of Gladstone; RG Tanna Coal Terminal, and Barney Point Coal Terminal.

SOUTH & MIDDLE GOBI PROJECT, MONGOLIA (South Gobi Basin)

The benefits of the South Gobi permit include a potential low strip ratio and low mining costs given the significant untapped resource in the region and access to cheap labor.

- The South Gobi project is 50km East of two operating mines that currently produce in excess of 5Mtpa and one large coal project which has a total coal resource of approximately 750Mt.
- The first is the Nariin Sukhait Mine, which is owned and operated by MAK-Qin Hua (a Mongolian and Chinese Joint Venture) otherwise known as MAK Mine.
- The second is the Ovoot Tolgoi mine, which is located adjacent to the south of the MAK Mine and is owned and operated by SouthGobi Energy Resources (SGS: 1878 HK) which is listed on the Hong Kong Stock Exchange.
- The Middle Gobi Project is located in the Dundgovi Province which is approximately 300km south of Ulan Bator and approximately 220km west of the Mongolian railway grid.
- The project has two exploration licences targeting a large shallow, open pit thermal deposit to potentially feed demand to Mongolian and Chinese electricity generators. Figure 13 highlights the location of the South and Middle Gobi projects.

Figure 13: Location of Project



Source: Guildford Coal Ltd

Target Resource

- Independent geologists have identified an exploration target of 29Mt to 731Mt across the South and Middle Gobi projects as highlighted in figure 14.

Figure 14: Exploration Target

Mongolia Projects	Ownership interest	Exploration Target (Mt)	Area (km ²)	Net to GUF
South Gobi	70%	0-582	554	0-407
Middle Gobi	70%	29-149	8	20-104
Total		29-731	562	20-511

Source: Guildford Coal Ltd

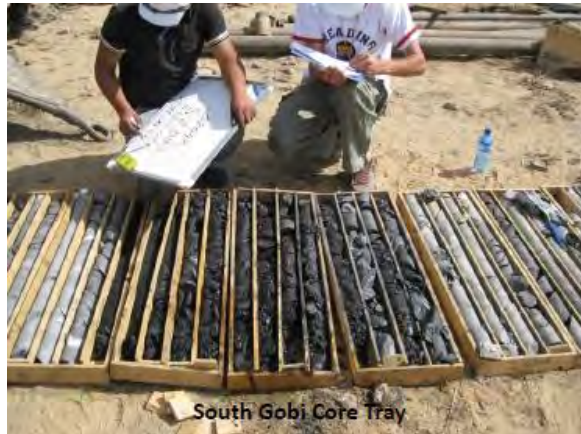
Independent Geologists have identified an exploration target of 29Mt to 731Mt across this region.

GUF is currently undertaking a comprehensive drilling program expected to result in a delineation of a Inferred JORC before the end of 2011.

Geology

- The South Gobi region is known to contain vast amount of thermal and coking coal that is close to surface offering low strip ratio for miners. Field mapping of coal seam outcrop on the South Gobi project is approximately 1.5km in length with reported apparent net coal thickness of 21m within the region.
- Figure 15 highlights a seam within the South Gobi project with an apparent estimated thickness of 13.7m.

Figure 15: Initial Core holes from the South Gobi project



Source: Guildford Coal Ltd

Exploration Program

- Recent reported drilling at South Gobi intersected significant coal seams from the first four exploration holes within GUF's tenements with net thickness ranging from 9-16 metres. A geological model will now be developed with a view to delineate a JORC inferred Resource in the coming months.

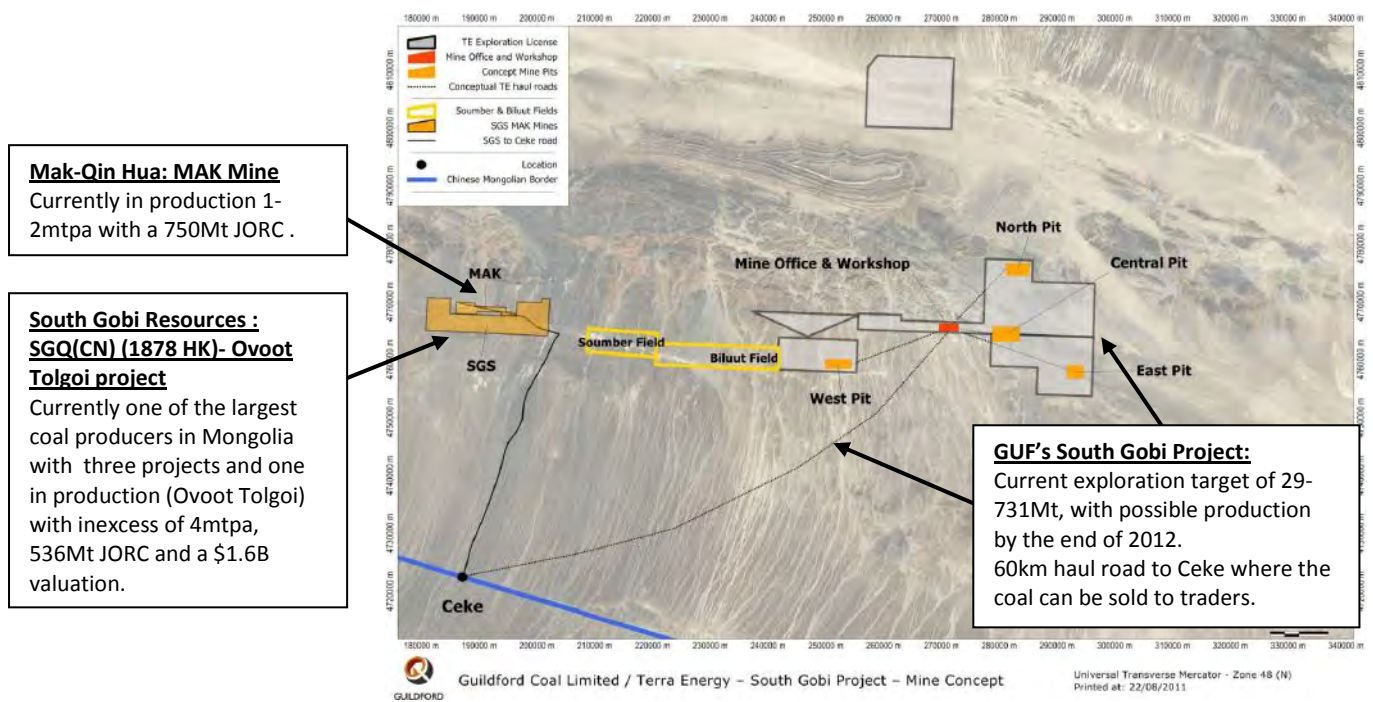
Operations

- A mining license application is currently underway with a view that a truck and shovel operation could be established for an open pit resource by the end of 2012 with an estimate production of 1-2Mtpa.
- Target customers are Chinese traders with the view the coal will be sold ROM unwashed at the mine gate. Selling prices for unwashed ROM coal are estimated to be US \$40/t with an expected cash cost of \$20/t.
- GUF have conceptually designed a mine office and workshop that will be built onsite at the South Gobi project. We believe GUF are well positioned in this space to take advantage of close proximity to Ceke and to take advantage of favourable labour rates to allow for a low cost production model.

Infrastructure

- The less reliance on infrastructure in this region is attractive for many companies, who don't have to rely on large amounts of CAPEX to get into production. This offers GUF the opportunity to become a producer of coal in a relative short space of time.
- GUF have developed initial plans for an office and workshop within the South Gobi project. As highlighted in figure 16 below.

A mining license application is currently underway with a view that a truck and shovel operation could be established for an open pit resource by the end of 2012.

Figure 16: Initial plans at the South Gobi project


Source: Guildford Coal Ltd

Additional Funding Arrangement with Och-Ziff

- Following GUF's acquisition of Terra Energy LLC (TE), GUF entered into a call option with one of GUF's substantial shareholders Och-Ziff Capital Management Group LLC (Och-Ziff) with respect to TE.
- Och-Ziff is one of the largest alternative asset managers in the world, with approximately \$30.0 billion in assets under management as of June 1, 2011.
- Under this arrangement Och-Ziff Funds have the option to acquire a 25% stake in TE for A\$25m in cash if GUF first exercises its right to move to 70% interest. GUF recently moved to 70% interest in TE for a total consideration of \$17m. To date Och-Ziff haven't exercised their option, but we anticipate this may be done once a JORC on the South Gobi project is identified (approximately October 2011).
- Post exercise of the Och-Ziff option, GUF's stake in TE will reduce to 52.5% and TE is expected to be fully funded to first production.
- The Mongolian acquisition was introduced by Och-Ziff, and reflects the ongoing strong support of Och-Ziff since its original investment in GUF in 2010. Combined with the strong local knowledge of Guildford's Mongolian partners, GUF's relationship with Och-Ziff is expected to result in a number of further opportunities going forward.
- GUF will continue to control the TE board with 3 out of 4 board members.
- GUF has engaged UBS to investigate a separate Australian listing of TE based on the view that TE could rapidly move from explorer to producer, with first coal expected in 2012.

FINANCIALS AND VALUATION

- In determining an appropriate valuation methodology to use for GUF we have considered the following factors:
 1. long lead time to production estimated for 2013;
 2. insufficient CAPEX and OPEX data; and
 3. non-JORC with only exploration target.
- As a result, we have valued GUF using EV/Resource market multiples. Our \$1.90 price target is based on the following:
- We have applied a conservative exploration target of approximately 2.2Bt across four key projects, namely Hughenden, Kolan, Sierra and South Gobi. We have used an exploration target of 1.9Bt of resource across its QLD projects (approximately 30% of independent geologists target), and an exploration target of 365Mt at its Mongolia projects (approximately 50% of independent geologists target). Additionally we are attributing \$20m to the potential of its other projects being Comet, Sunrise and Monto.
- We have taken a conservative approach in our initial targeted estimates for GUF and will re-assess these exploration targets once the company has confirmed an initial JORC Resource which we expect in the coming months.
- Our PT is derived using EV/Resource metrics. We have applied an adjustment to GUF's Mongolian assets based on a current 70% ownership via Terra Energy. Additionally we have valued GUF's Queensland's assets at \$0.35/t, which is in line with the current peer valuations.
- There is significant upside to our valuation for GUF given we are taking a conservative estimate of GUF's exploration target and a conservative valuation of approximately \$90m for GUF's South Gobi asset, significantly lower than the recent \$477m Banpu bid for HUN who had approximately 844Mt of JORC in the South and Middle Gobi basins, the same basins GUF is targeting. GUF's total portfolio of assets and potential exploration targets is shown in Figure 17 below.

We have applied a conservative exploration target of approximately 2.2Bt across four key projects.

Applying a EV/t metric of \$0.35 we derive our valuation of \$1.87/sh

Figure 17: GUF's total Portfolio

Mongolia Projects	Ownership interest	Exploration Target (Mt)	Area (km ²)	Net to GUF
Hughenden	51-100%	649-7,266	16,500	500-6,170
Kolan	100%	0-100	237	0-100
Sierra	100%	0-200	399	0-200
South Gobi	70%	0-582	554	0-407
Middle Gobi	70%	29-149	8	20-104
Other	100%	0	2864	
Total		678-8,297	20,562	520-6,981

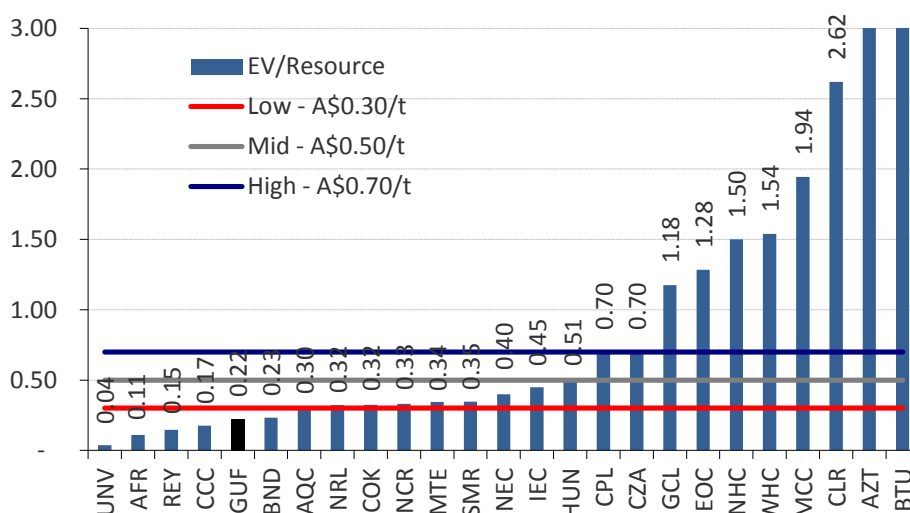
Source: Guildford Coal Ltd

PEER COMPARISON

- We have compared GUF to a number of its peers including explorers, developers and producers. The market is valuing GUF's peers between \$0.04/t to \$1.51/t currently for explorers with an average price of \$0.35/t.
- GUF's closest peer comparables in our view would be Bandanna Energy (BND) and Hunnu Coal (HUN), both targeting large tonnage in Queensland and Mongolia respectively and are also in the coal exploration stage.
- BND has identified a current JORC resource of 1.4Bt of thermal coal across its Bowen and Galilee assets in Queensland, while HUN is based in Mongolia and has a current JORC Resource of 844Mt. Banpu's recent all cash offer bid for HUN indicates the potential value uplift that could be experienced with GUF with the bid equating to a EV/Resource valuation of \$0.51/t.
- The average EV/t of for an explorer is currently \$0.35/t and we are currently using an exploration target to value GUF against its peers which is equivalent to 30% of the independent geologists exploration target for GUF. We expect to upgrade this estimate as as the company delineates a resource and begins to advance its suite of projects.

Banpu's recent all cash bid for HUN with 844Mt resource equates to \$0.51/t.

Figure 18: EV/Resource



Source: FSB Research, Company Announcements. *We have used estimated exploration targets for GUF and NRL based off FSB assumptions.

Sensitivities

- Figure 19 shows a sensitivity analysis for a range of EV/Resource values of \$0.30/t, \$0.50/t and \$0.70/t. This shows the notional value for GUF ranges from \$0.48 per share to \$12.14 per share. Our Mid point valuation range of \$0.50/t for our exploration target of 2.2Bt for GUF equates to a PT of \$2.30 per share which slightly higher than our initial \$1.90 PT.

Figure 19: Sensitivity Analysis

Project	Targeted Resource (Mt)	\$0.30/t Valuation per share	\$0.50/t Valuation per share	\$0.70/t Valuation per share
Low	600	\$0.48	\$0.77	\$1.06
Mid	2,150	\$1.60	\$2.30	\$3.66
High	7,200	\$5.23	\$8.68	\$12.14

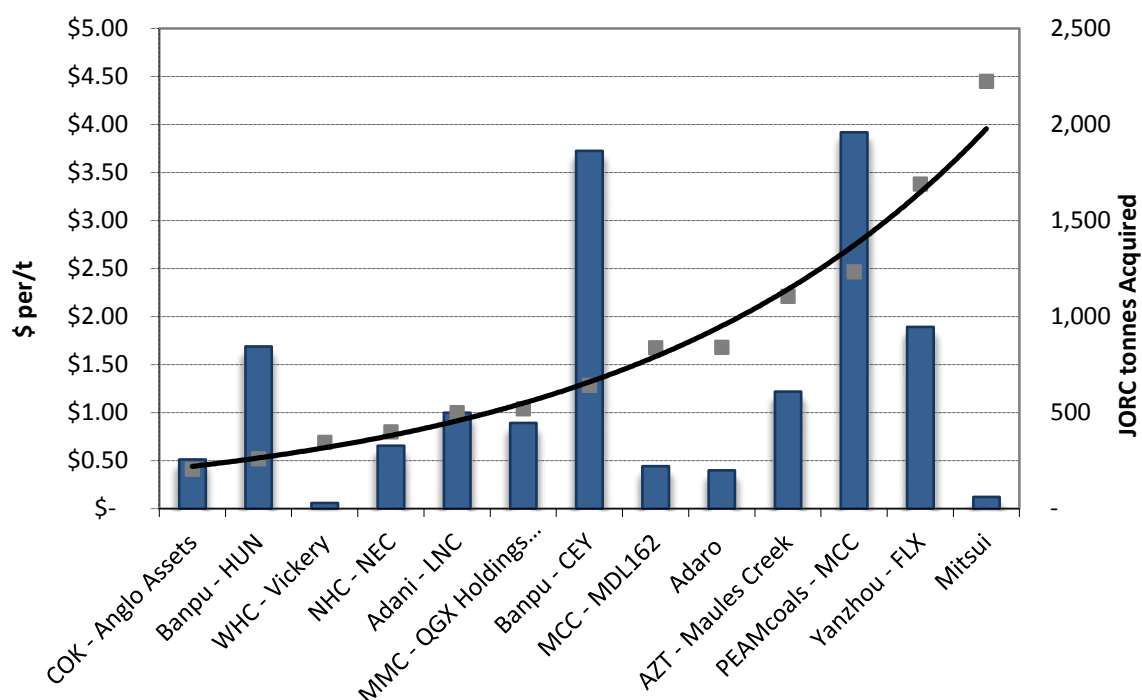
Source: FSB Research

COAL SECTOR M&A ACTIVITY

We view assets trading between \$0.20 - \$0.50/t as attractive M&A targets.

- We have seen a number of M&A deals across the coal sector in the last eighteen months as Asian suitors are turning their attention to coal assets in order to secure long term supply. Recent activity in the coal sector includes PEAMCoal's (Peabody & Arcelor Mittal's) \$4.83B bid for Macarthur Coal (MCC), Banpu's \$477m bid for Hunnu Coal, New Hope Coal's (NHC) acquisition of Northern Energy (NEC), Rio Tinto's (RIO) acquisition of Riversdale Mining (RIV), Adani's acquisition of Linc Energy's (LNC) Galilee basin assets, as well as the \$2.5B takeover bid for Centennial Coal (CEY) from Banpu, Thailand's biggest coal producer.
- In our view, companies that trade below an EV/Resource metric of A\$1.00/t, represent potential M&A Targets. We believe that the sweet spot for non-producing assets sits anywhere between \$0.20-\$0.50/t and offers juniors the incentive to rapidly prove up JORC Resources, invariably resulting in significant upside to their underlying share prices. We see GUF as a serious player in the coal space. It has a large asset base and is well diversified in terms of its product and port potential which in our view makes GUF an attractive takeover target. The current exploration target for GUF is approximately 7.2Bt, for which we are only valuing approximately 2.2Bt representing 30% of the total exploration target for GUF.
- Figure 20 shows recent coal M&A transactions. Most assets in this sector have recently been acquired anywhere between \$0.41/t to approximately \$4.50/t. Conservatively we estimate non producing assets where at least 50% of Resource is at the Measured or Indicated level can be valued at approximately +\$1.00/t, while JORC inferred resources can range between \$0.40 - \$0.70/t.

Figure 20: Coal Sector M&A Deals



Source: FSB Research, Company Announcements

- In our view there is a number of potential strategic buyers for global and regional coal assets, as the growing demand for energy in China's and India's industrial sector continues. As a result, we expect coal fired power plants to continue to account for at least 65% of total energy use globally, in line with Energy Information Administration (EIA) forecasts for 2011. Although both thermal coal and coking coal are traded internationally, most of the global trade is in thermal coal, which represents approximately 70% of world coal trade today. In 2010, approximately 58% of the world's exported thermal coal was imported by Asian countries, and their share of the total is forecast to increase to 72% by 2035 according to the EIA.
- This presents a significant opportunity for asian countries to secure supply via acquisitions across Australia and Mongolian assets. Potential strategic buyers recently include Peabody, ArcelorMittal, Banpu, Xstrata, BUMI Resources, Noble, Vale, Yanzhou, CICC, Adani, NMDC and others as highlighted in Figure 21 below.

Figure 21: Coal Sector M&A Transactions 2009-2011

Target	Acquirer	Type	Size\$(m)	(\$)/EV/t
SouthGobi Resources	China Investment Corp	Thermal/Coking	500	6.12
Felix Resources	Yanzhou Coal Mining	PCI/ Thermal/SH	3,540	3.38
Trinity Coal Corp	Essar Group	Coking	600	3.00
Bayan Resources	Korea Electric Power Corp	Thermal	515	2.56
MacArthur Coal	PEAM-Peabody & ArcelorMittal	PCI	4,833	2.47
Fajar Bumi Sakti	Bumi Resources	Thermal	226	2.26
Jacobs Ranch mine	Arch Coal	Thermal	764	2.26
Aston Resources (Maules Creek)	IPO	Thermal/ SS	443	2.21
MDL 162 coal project	MacArthur Coal	PCI/ SH Coking	334	1.68
Maruwai Coal Project	Adaro Energy	Coking	335	1.68
Centennial Coal	Banpu	Thermal/Coking	2,449	1.28
Mamahak Coal Project	Kangaroo Resources	Coking	12	1.21
Maules Creek Coal Project	Aston Resources	Thermal/ SS	437	1.10
Rocklands Richfield	Jindal Steel & Power	Coking	187	1.09
Rocklands Richfield	Meijin Energy Group Co	Coking	184	1.08
QGX Holdings (Baruun Naran)	MMC (975 HK)	Coking	465	1.04
Coal of Africa	ArcelorMittal	Thermal/PCI/ SS	45	1.00
Northern Energy	New Hope Coal	Thermal/Coking	261	0.80
Anvil Hill	Xstrata	Thermal	375	0.72
Vickery Coal Project (CNA)	Whitehaven Coal	Thermal	29	0.69
Middlemount Coal	Gloucester Coal	PCI/ SH Coking	51	0.68
Donaldson Coal	Gloucester Coal	Thermal/ SS	585	0.66
Terra Energy	Guildford Coal	Thermal/Coking	17	0.59
Hunnu Coal	Banpu	Thermal/Coking	478	0.52
MultiAssets (Surat & Sydney Basin)	Cockatoo Coal	Thermal/Coking	105	0.41
Coal tenements/Galilee Basin	Adani Enterprises	Thermal	2,000	0.26
Zambeze Coal Project	Wuhan Iron & Steel	Thermal/Coking	800	0.22
Monash	Gloucester Coal	Thermal/ SS	30	0.10

Source: FSB Research, Company Announcements * GUF acquisition was calculated on the minimum exploration target of 29Mt.

COMPANY VALUATION AND PRICE TARGET

Risked EV/Resource - \$782m, \$1.87/share

Price Target - \$1.90/share

- We initiate coverage on GUF with a BUY recommendation and a price target of A\$1.90/share, in line with our valuation of \$1.87/share.
- Our PT is derived using EV/Resource metric exploration target of 2.2Bt, made up of 1.6Bt of resource across its Hughenden project (approximately 30% of independent geologists target), an exploration target of 300Mt from its other QLD projects and an exploration target of 365Mt at its Mongolia projects (approximately 50% of independent geologists target). We have adjusted GUF's Mongolian assets based on a current 70% ownership via Terra Energy. Additionally we have valued GUF's assets at \$0.35/t, which is in line with current peer valuations.

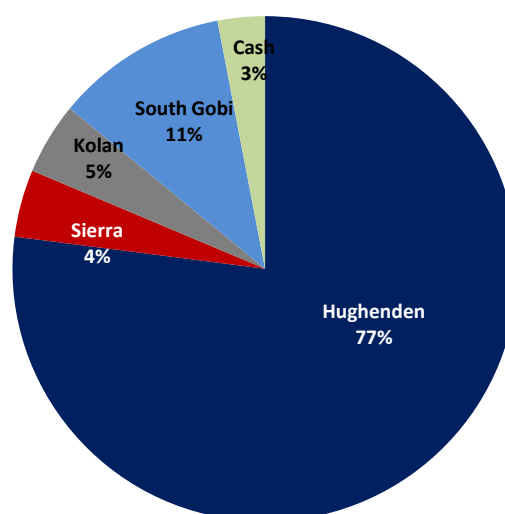
Figure 22: Valuation Summary

Valuation Summary	A\$m	P/NPV	\$/share
Hughenden	562	1.00	\$1.35
Sierra	70	1.00	\$0.17
Kolan	35	1.00	\$0.08
South Gobi	90	1.00	\$0.21
Other Exploration	20	1.00	\$0.05
Corporate	-15	1.00	-\$0.04
Net cash/(debt)	20	1.00	\$0.04
Total	782		\$1.87
Price Target			\$1.90
Current Share Price			\$1.12
Upside			70%

Our initial price target of \$1.90 represents a 70% premium to current share price.

Source: FSB Research

Figure 23: Valuation Split



Source: FSB Research.

RECOMMENDATION

- **We initiate on GUF with a BUY recommendation and a price target of A\$1.90, which represents approximately 70% upside to the current share price.**
- We see GUF as a quality investment opportunity that offers both Australia and Mongolia coal exposure. We envisage the company will grow in profile and market cap as management delivers an initial JORC Resource over the coming months. GUF has approximately (\$20m in cash which will allow them to facilitate exploration budgets over the next 12 months).
- Our PT is derived using EV/Resource metrics using an exploration target of 1.6Bt of resource across its Hughenden project (approximately 30% of independent geologists target), an exploration target of 300Mt from its other QLD projects and an exploration target of 365Mt at its Mongolia projects (approximately 50% of independent geologists target). Additionally we have valued GUF's assets at \$0.35/t, which is in line with current peer valuations.
- Catalysts for the stock over the next 12mths include, delineation of a JORC resource across QLD and Mongolia, commencement of a pre-feasibility study on the Hughenden project as well as potential production in Mongolia.

BOARD AND KEY MANAGEMENT PERSONNEL

Mr. Craig Ransley (Non Executive Chairman)

- Mr Ransley has substantial experience in the Labour Hire industry through founding the TESA Group in 2000 and later co-founding ResCo Services, a privately owned coal mining services provider employing some 1,000 miners. In December 2010, Mr Ransley merged ResCo Services with ASX listed Humanis Limited (HUM) and became the current Chairman of HUM.
- Mr Ransley put together the management team required to complete the back door listing of NuCoal Resources NL (NCR) in 2009. Following on from NCR, Mr Ransley and his team formed The Chairmen1 Pty Ltd (TheChairmen1), which acquired and pegged around 20,000km's of coal exploration tenements in Queensland. The Chairmen1 vended the assets into GUF which listed on ASX in July 2010.

Mr. Tony Bellas (Non Executive Deputy Chairman)

- Mr Bellas is an experienced company director with substantial experience in infrastructure and energy. He has held previous directorships with Watpac Limited, and is a consultant with Queensland Infrastructure Partners.
- Previously, Tony had been Chief Executive of Ergon Energy and CS Energy, which he joined in December 2001 after a long career with Queensland Treasury, reaching the position of Deputy Under Treasurer.

Mr. Michael Avery (Managing Director)

- Mr Avery has significant experience in the coal mining industry throughout Australia and overseas. A mining engineer by training with a Masters in Business Administration and a NSW Open Cut Coal Mine Managers Certificate, he is ideally experienced to manage a rapidly developing coal mining company.
- Mr Avery has held senior management positions with major mining companies including BHP Billiton and Rio Tinto having worked at a number of coal mines within Australia.

Mr. Michael Chester (Non Executive Director)

- Mr Chester has significant experience in investment banking at County NatWest/Salomon Smith Barney and as a mining analyst.
- Mr Chester is also currently a director of Axiom Advisory Pty Ltd, an independent corporate advisory firm specialising in capital raisings, IPOs, and seed capital transactions.

Hon. Alan Griffiths (Non Executive Director)

- The Hon. Alan Griffiths was the principal of the highly awarded Quantm Ltd in 2001, a global category leader in optimised road and rail corridor and route alignment selection for road and rail.
- The Hon. Alan Griffiths has served five terms in the Australian House of Representatives and held various Ministerial and Cabinet positions in the Australian Government (including as Minister responsible for the resources and energy sector).

Ms. Norah St.George (Executive Director)

- Norah has approximately 14 years experience in senior financial and commercial positions in the Coal industry including roles with Peabody Resources, BHPB, BMA, Thiess and Peabody Energy Australia.

RISKS

The primary risks include:

Received Price

- We see the longer-term pricing for Hard Coking, Thermal and PCI post 2013 a risk for GUF. Any substantial decline in the prices of coal or changes in industry factors such as supply and demand may affect the economic viability of GUF's projects. Risks also relevant to received price include higher transport rates for both rail and port.

Development and Funding

- Future financing may be required by GUF to support potential development plans. There can be no assurance that such funding will be available on satisfactory terms or at all.

Asset Acquisitions

- GUF has recently exercised its interest in Terra Energy LLC which has reduced its cash balance to \$19.5m.

Exploration/operational

- We see this as the most pertinent risk factor for GUF. No assurance can be given that the company's exploration plans will result in significant minable coal reserves.

Key Personnel

- The directors and senior managers' ability to successfully manage the Company's performance and to expand and exploit the opportunities identified in this report will directly affect the success of the GUF. GUF may be adversely affected if any of the directors or senior management leaves GUF.

Success Fee

- GUF will pay Chairmen 1 Pty Ltd a fee of \$20m for each 100Mt of Indicated Resource of coal in connection with one or more of the relevant projects outlined in this report (excluding Mongolia assets). Chairmen 1 Pty Ltd will be entitled to this for a period of five years commencing July 1 2010. The cap on this fee is \$100m or 500Mt of Indicated Resource. Payment can be made in cash or shares. We expect once GUF get to an Indicated Resource of 500Mt the stock should achieve a EV of at least \$0.75 per tonne.

Sovereign

- Mining in Australia has generally been viewed as a safe environment for mining companies. The introduction of the Mining Resource Rent Tax (MRRT), a carbon tax, an increase in mining royalties or change in legislation in relation to greenhouse gas emissions, may impact coal companies going forward.

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