

## COAL INITIATING COVERAGE

## GUILDFORD COAL LTD | GUF

### BUY Low cost production from South Gobi in 2013

Analyst | Craig Brown  
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ASX code | GUF

Last price | \$0.25

Fully diluted shares | 635M

Market cap | A\$160M

52 week hi/low | \$0.73/ \$0.235

12 month price target | \$0.90

Valuation | \$1.09

Valuation methodology | DCF

EV/Reserve | na

EV/Resource | A\$0.05/t

#### Key Catalysts|

Coal product confirmation Q313

Production Mongolia Q313

Offtake agreement Q313

MLA – Clyde Project Q413

Guildford, in a period of less than 3 years has advanced from explorer to developer and is on the cusp of production from its 100% owned Mongolian asset in South Gobi. The South Gobi project has a number of outstanding attributes including upside to its existing resource base, potential replication of additional pits including North, East, Central and West, the lowest quartile operating costs for coal mines (sub \$35/t LOM) and close proximity to the Chinese border (<60km) with developing infrastructure nearby. These attributes will play a significant role in the coming months as South Gobi moves towards production in CY13. We are initiating coverage with a BUY recommendation and price target of \$0.90/share, which is 0.8x our base case DCF methodology of 3.6Mtpa over 10 years.

- **Lowest quartile operating cost, a substantial buffer in current coal market:** GUF are targeting a low cost production model from the North pit and East pit. This will allow GUF to take advantage of favorable labor rates through a truck and shovel operation from surface to allow for a low strip ratio and a low cost production model estimated at ~\$35/t LOM.
- **Base case estimates:** Our base case model includes the indicated resource in the North Pit ~39.7Mt at an average production rate of 3.6Mtpa over 10 years.
- **Developing infrastructure within close proximity to China:** GUF's Mongolian strategy is simple and within close proximity to end users in China ~ 60km from the Chinese boarder at Ceke. The current focus is to build a road that will enable GUF to transport its coal to the Chinese boarder, which will then be sold into the Chinese market.
- **Financing in place provides greater flexibility during ramp up phase:** GUF recently entered into a convertible bond facility of up to \$40m, with OCP Asia that materially extends the existing debt maturity for GUF out to eighteen months (Sep 2014), and gives the company flexibility during this pivotal start-up phase at South Gobi. We see this as an important factor in moving GUF from developer to producer status and believe there should be a significant rerating once production and sales are achieved anticipated over the next six months.
- **New Management in place to transition smoothly into Production:** The hiring of Peter Westerhuis ex CEO of the Ensham Joint Venture who led the development and expansion of Ensham from a small open cut mine to a world class 9Mtpa operation will enable GUF to smoothly transition from developer to producer.

We are initiating coverage of Guildford Coal (GUF) with a BUY recommendation and price target of \$0.90/share based on a conservative 3.6Mtpa DCF methodology. GUF is our preferred coal pick due to its near term low cost asset base with upside potential as pits get developed.

#### Share price performance | GUF



#### Key Metrics

Year to June	2012a	2013e	2014e	2015e	2016e
Revenue (A\$m)	0.0	0.0	73.7	232.8	263.1
EBITDA (A\$m)	-23.4	-13.8	20.9	89.3	102.2
NPAT (A\$m)	-24.6	-14.9	-1.2	57.0	57.2
EPS (¢)	-0.1	0.0	0.0	0.1	0.1
FCF (A\$m)	-15.5	-36.1	3.8	65.0	74.6
EV/EBITDA	N/A	N/A	8.8	2.0	1.8
P/E	N/A	13.6	N/A	3.1	3.1

Source : CR Estimates



## Guildford Coal Ltd (GUF.ASX)

Full Year Ended 30 Jun

Profit & Loss (A\$m)	2012a	2013e	2014e	2015e	2016e
Revenue	0.0	0.0	73.7	232.8	263.1
Other Revenue	0.0	0.0	0.0	0.0	0.0
Revenue	0.0	0.0	73.7	232.8	263.1
Operating costs	0.0	0.0	40.5	131.0	148.2
Exploration	0.0	3.0	4.0	4.0	4.0
Corporate costs	23.4	10.8	8.3	8.5	8.7
EBITDA	-23.4	-13.8	20.9	89.3	102.2
EBITDA margin (%)	nm	nm	28.3	38.4	38.9
D & A	-0.2	0.0	16.9	17.8	18.7
EBIT	-23.2	-13.8	4.0	71.5	83.5
EBIT margin (%)	nm	nm	5.4	30.7	31.7
Net Interest (exp) / income	0.9	1.1	5.2	3.5	1.9
Associates	0.0	0.0	0.0	0.0	0.0
Profit before tax	-24.1	-14.9	-1.2	68.0	81.7
Tax (exp) / benefit	0.5	0.0	0.0	11.0	24.5
NPAT pre minorities	-24.6	-14.9	-1.2	57.0	57.2
Minority Interests	0.0	0.0	0.0	0.0	0.0
NPAT pre sig items	-24.6	-14.9	-1.2	57.0	57.2
Significant items	-0.7	-28.0	0.0	0.0	0.0
NPAT reported	-24.6	-14.9	-1.2	57.0	57.2
NPAT adjusted *	-23.9	13.1	-1.2	57.0	57.2
WA # Shares Diluted (m)	413.5	635.0	635.0	635.0	635.0
EPS adj ¢/ps	-0.06	0.02	0.00	0.09	0.09

\* NPAT adjusted for significant items and amortisation of intangibles

\*WA #shares (FY 13 & 14) adjusted for success fee shares

Cash Flow (A\$m)	2012a	2013e	2014e	2015e	2016e
EBITDA	-23.4	-13.8	20.9	89.3	102.2
Net Interest (exp) / income	0.9	1.1	5.2	3.5	1.9
Tax	0.5	0.0	0.0	11.0	24.5
Other	0.0	0.0	0.0	0.0	0.0
Operating Cashflow	-14.9	-5.0	19.8	73.5	83.4
Capex	-0.6	-31.1	-16.1	-8.5	-8.7
Net Acquisitions	-1.4	0.0	0.0	0.0	0.0
Asset Sales	0.0	0.0	0.0	0.0	0.0
Other	-35.7	0.0	0.0	0.0	0.0
Investing Cashflow	-37.7	-31.1	-16.1	-8.5	-8.7
Equity proceeds	33.3	0.0	0.0	0.0	0.0
Debt proceeds / (repayment)	0.0	37.5	4.5	-10.0	-10.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	1.0
Financing Cashflow	33.3	37.5	4.5	-10.0	-9.0
Net Cashflow	-19.3	1.4	8.3	55.0	65.6
Free Cashflow	-15.5	-36.1	3.8	65.0	74.6

Balance Sheet (A\$m)	2012a	2013e	2014e	2015e	2016e
Cash	14.5	32.5	31.5	86.5	149.6
Receivables	0.3	0.3	7.8	21.6	22.2
Inventories	0.0	0.0	0.0	0.0	0.0
PPE	0.6	23.1	28.7	26.6	24.4
Exploration & Development	121.6	111.9	101.4	90.3	78.5
Other	1.1	2.8	8.7	7.3	7.0
Total Assets	138.2	170.6	178.2	232.3	281.6
Payables	3.7	0.8	5.1	12.2	14.4
Tax liabilities	0.0	0.0	0.0	0.0	0.0
Debt	0.0	37.5	42.0	32.0	22.0
Other	0.1	0.0	0.0	0.0	0.0
Total Liabilities	3.8	38.4	47.2	44.3	36.5
Reserves and capital	150.1	150.1	150.1	150.1	150.1
Retained earnings	-26.7	-29.0	-30.1	26.9	84.0
Minorities	11.0	11.0	11.0	11.0	11.0
Total Equity	134.4	132.1	131.0	188.0	245.2

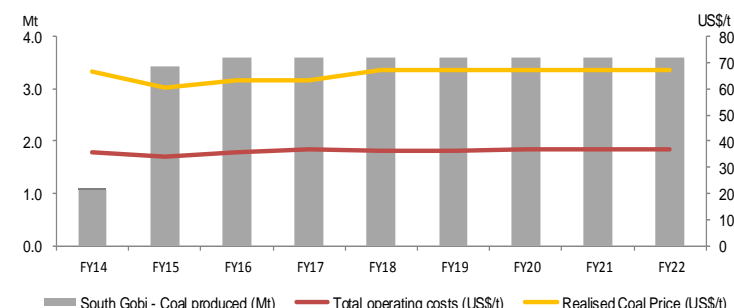
## Recommendation: BUY

Price Target \$0.90

Capital Structure	
Shares on Issue (m)	635.0
Shares on Issue diluted (m)	635.0
Market Cap (A\$m)	177.8
Net Debt/(Cash) (A\$m)	5.0
EV (A\$m)	182.8

Key Assumptions	2013e	2014e	2015e	LT
Coal - ThermalUS\$/t	90	85	80	80
Semi-soft coking coalUS\$/t	135	145	140	120
Hard coking coalUS\$/t	110	190	220	180
Mongolia 1/3 coking coal price (Coke Port)US\$/t	67	66	62	67
AUD/USD	1.02	1.00	0.95	0.90

Production Summary (100% basis)	2013e	2014e	2015e	LT
Production profile (t)	0.0	1.1	3.4	3.6
Operating costs (US\$/t)	0.0	36	34	36



Resource (100% Basis)	Type	Indicated	Inferred	Mt
Hughenden Project	JORC	133	1,076	1,209
South Gobi	JORC	40	72	112
Springsure Project	JORC		253	253
Clyde Park Project	JORC	51	677	728
Middle Gobi	JORC	32	189	221
Total		255	2,267	2,522

Valuation Summary	A\$m	P/NPV	\$/share
South Gobi	646	1.00	\$1.02
Hughenden Project	60	1.00	\$0.10
Clyde Park Project	47	0.64	\$0.07
Springsure Project	13	0.51	\$0.02
Corporate	-77	1.00	-\$0.12
Net cash/(debt)	-5	1.00	-\$0.01
Total	684		\$1.08

Key Metrics	2013e	2014e	2015e	LT
DPS (A\$)	0	0	0	0
Dividend Yield (%)	N/A	N/A	N/A	N/A
EPS (A\$)	0.02	0.00	0.09	0.09
FCF (A\$m)	-36.1	3.8	65.0	74.6
EV/EBITDA	N/A	8.8	2.0	1.8
P/E	N/A	N/A	3.1	3.1
Price/NPV	0.26			
EV/Resource (A\$/t)	0.09			
EV/Reserve (A\$/t)	N/A			
Net Profit Margin (%)	N/A	-2%	24%	22%
ROA (%)	N/A	N/A	24.5%	20.3%
ROE (%)	N/A	N/A	30.3%	23.3%
Gearing (%)	0%	28%	32%	17%



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# 1 Investment case and valuation

## INVESTMENT CASE

We view Guildford Coal (GUF) as near term coal producer with the South Gobi Project moving from development to production over the next six months. The following key points form a compelling investment case:

- A large and growing resource base of 70Mt of coal at South Gobi. We estimate this could grow by approximately 3-4x with the potential replication of additional pits from the South Gobi project including North, East, Central and West pits, which in total have an exploration target of 892Mt of coal.
- Low capital intensity options in Mongolia (<\$20m capex) within close proximity to the Chinese boarder provides the lowest quartile operating cost position (<\$35/t LOM) giving GUF a substantial buffer against the current coal price environment.
- Potential large scale acreage in Queensland – Longer term GUF's Queensland assets have the potential to utilise the existing rail and port system between Pentland and Townsville.
- The combination of former CEO of the Ensham Joint Venture, Peter Westerhuis alongside existing Mongolian management team at South Gobi gives a level of confidence that GUF will deliver achieving commercial production in 2013.

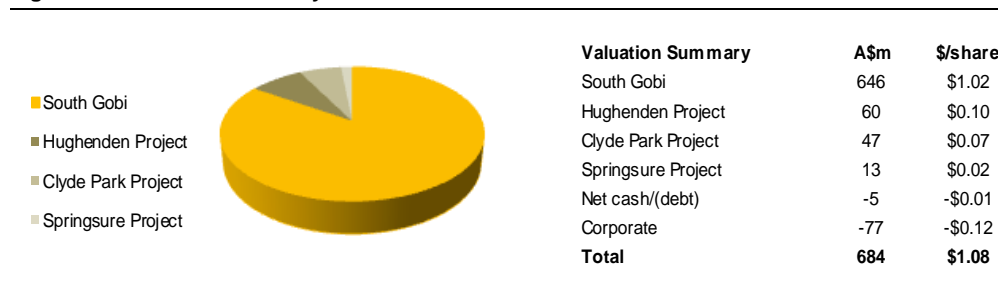
## VALUATION

We value GUF using a combination of discounted cash flow and sum of the parts including a base case scenario at South Gobi's North pit of 3.6Mtpa over 10 years. Our \$0.90/share price target is 0.8x our base case DCF valuation for South Gobi and includes a market valuation for the existing JORC Resource GUF has delineated across its other projects based on a current industry average of \$0.08/t.

### BASE CASE

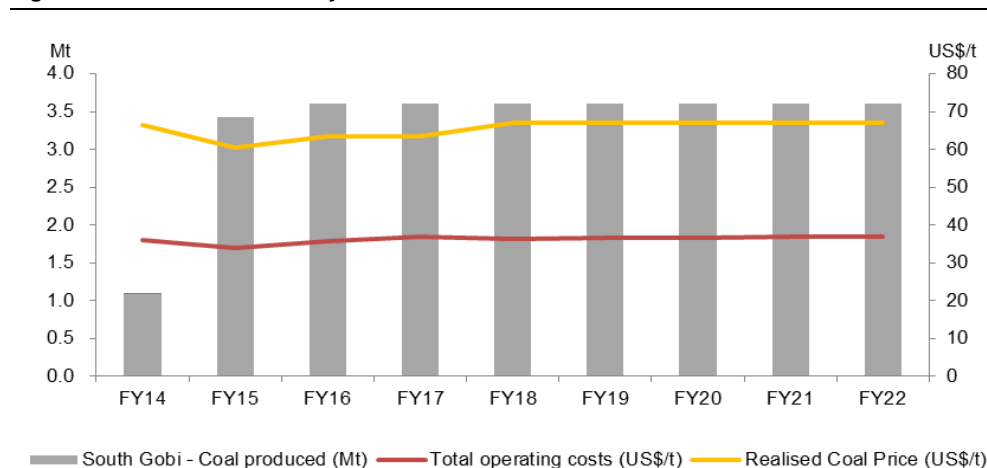
**Initiating coverage with a BUY recommendation and a \$0.90/share price target**

Figure 1: Valuation Summary – Base Case Scenario



Source: Capital Resource

Figure 2: Production Summary – Base Case Scenario



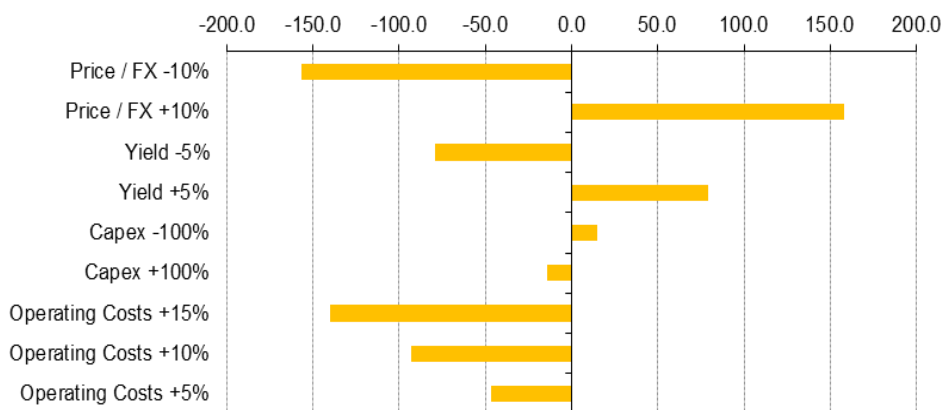
Source: Capital Resource



## SENSITIVITY

The South Gobi project and GUF valuation is sensitive to changes in coal pricing, exchange rates as well as changes in capex and operating costs. We have modeled the South Gobi project based on a base case scenario of 3.6Mtpa over a 10 year period with sensitivities charted below.

**Figure 3: Sensitivity – Changes in NPV (A\$m)**



Source: Capital Resource

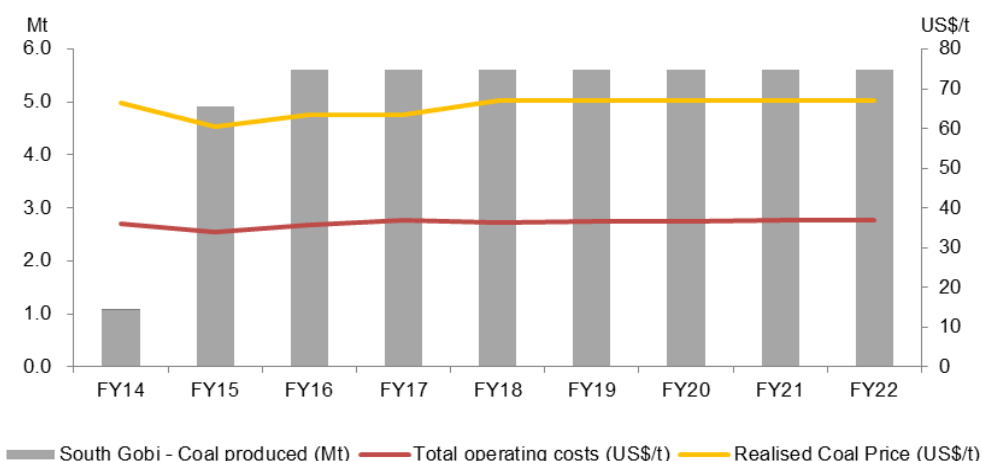
Pricing, FX and operating costs appear to have the most significant impact on GUF's earnings and NPV potential. For every 1% change in coal pricing, affects GUF's NPV by approximately \$15.5m. Likewise, every 1% increase in operating costs will reduce GUF's NPV by approximately \$9.6m.

We have modeled an upside case scenario at South Gobi where the east pit is mined at a rate of 2Mtpa concurrently with the North Pit at 3.6Mtpa. This would add significant value to GUF's South Gobi project with our estimates of ~+\$0.56/ per share to our valuation increasing it to \$1.04bn or \$1.65/share.

## UPSIDE CASE

**Our upside scenario is based on a production rate of 5.5Mtpa and increases our valuation to \$1.90/sh**

**Figure 4: Project summary production profile – upside case**



Source: Capital Resource

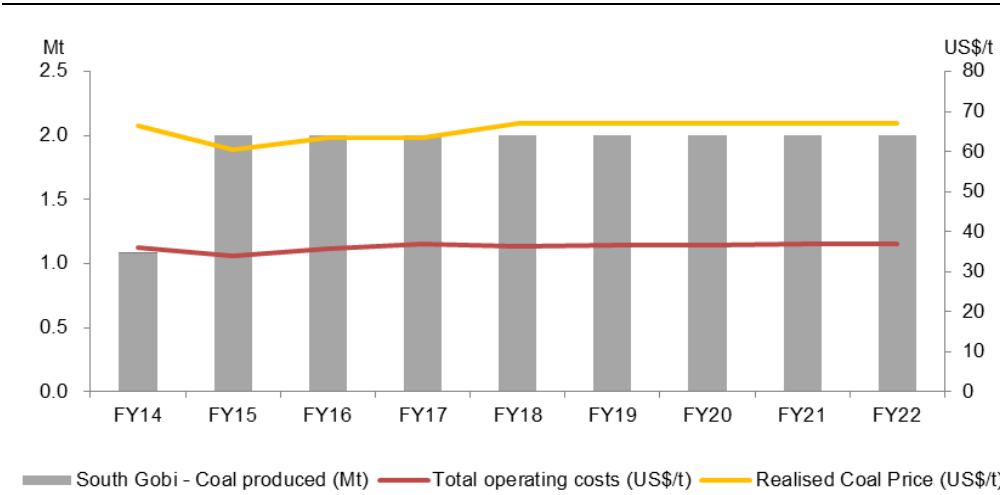


We have also modeled a downside case based on a production rate of 2Mtpa from the South Gobi project. This would reduce our valuation to \$431m, or \$0.65/sh which is still significantly higher than the current share price of \$0.28/sh.

**DOWNSIDE CASE**

Our upside scenario is based on a production rate of 5.5Mtpa and increases our valuation to \$1.90/sh

Figure 5: Project summary production profile – downside case



Source: Capital Resource

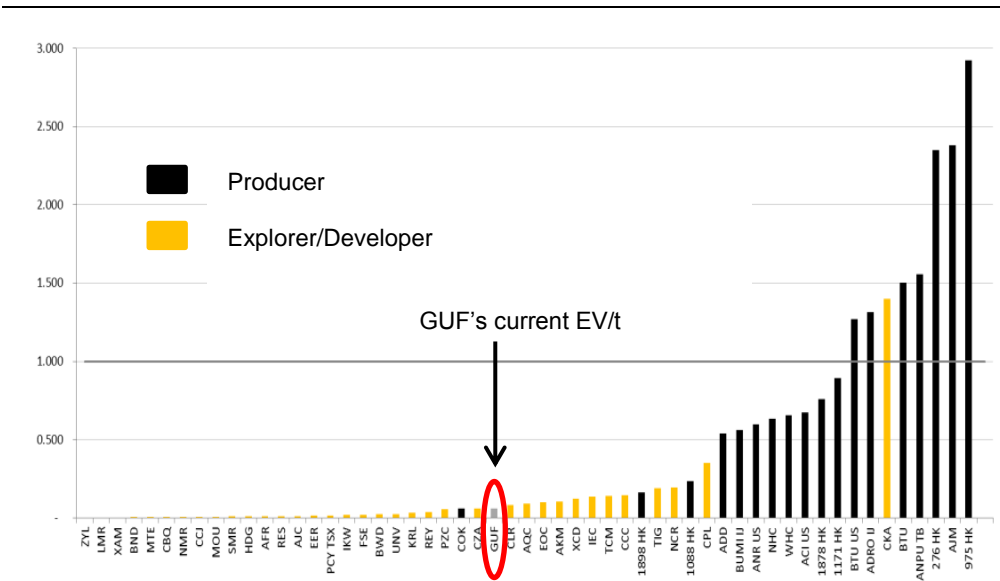
**PEER ANALYSIS**

We have compared GUF to a number of listed coal peers using EV/Resource comparison.

The average EV/t for a producer is currently ~\$1/t, with most ASX listed peers trading at ~\$0.55/t (WHC, NHC).

We see GUF as being the next to market in terms of coal deliveries to China which should warrant a valuation increase upon moving to producer status over the next quarter. We expect GUF to trade closer to the average for producers as highlighted by our EV/resource analysis in Figure 6 below. If we take the current peer average of \$1.00/t just based on GUF's Mongolian assets, this implies an equity valuation for GUF of ~\$340m or \$0.54/sh based on Mongolia alone.

Figure 6: EV/Resource - Peer Comparison



Source: Capital Resource



## RISKS

### 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 Mongolian Mine gate sales at the Ceke boarder, currently priced at 450 Yuan \$67/t and higher transport rates out of QLD longer term for both rail and port.

### Coal quality

Although Coal quality has been tested in Mongolia, we expect a more detailed analysis in the coming months will provide additional clarity of the coal available for sale in Mongolia.

### Development and Funding

Future financing may be required by GUF to support potential development plans. Given GUF have just implemented at \$40m financing facility with OCP Asia, we see the risk for Mongolian production as low in the immediate term.

### Asset Acquisitions/Divestments

GUF from time to time may choose to participate or look at asset acquisitions or divestments in Australia or offshore. Any change, acquisition or divestment will be assessed on its merits and may impact on our valuation of GUF.

### Exploration/operational

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

### Sovereign

In Mongolia there is vast untapped mineral wealth, which overtime will likely turn Mongolia into one of the world's fastest growing economies over the next decade. That being said, the government has recently worried foreign investors with the threat of re-negotiating on Rio Tinto's Oyu Tolgoi copper project where over \$600m has been spent to date.

The new coalition government needs to send signals that it is in favour of foreign investors and does not intend to renegotiate key contracts or pass legislation to limit foreign ownership of mineral deposits.

GUF has recently restructured its Mongolian subsidiary Terra Energy LLC with GUF head stock to align its Mongolian partner's interests with existing shareholders which should be beneficial to GUF over the long term.

In Australia, mining 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.





## 2 Company overview

### BACKGROUND

Guildford Coal (GUF) is an emerging coal company that has a diversified portfolio of assets across Mongolia and Queensland. GUF is targeting a variety of coal products from their assets including thermal, coking and PCI coals. This will provide diversification of product that could potentially be sold into the export market.

GUF in November 2012 announced a restructuring of their Mongolian subsidiary Terra Energy to become a wholly owned subsidiary of GUF. Terra Energy Limited, its sister company Guildford Coal (Mongolia) Pty Ltd and their Mongolian subsidiaries control six exploration licences across two coal projects, namely the South Gobi and Middle Gobi projects.

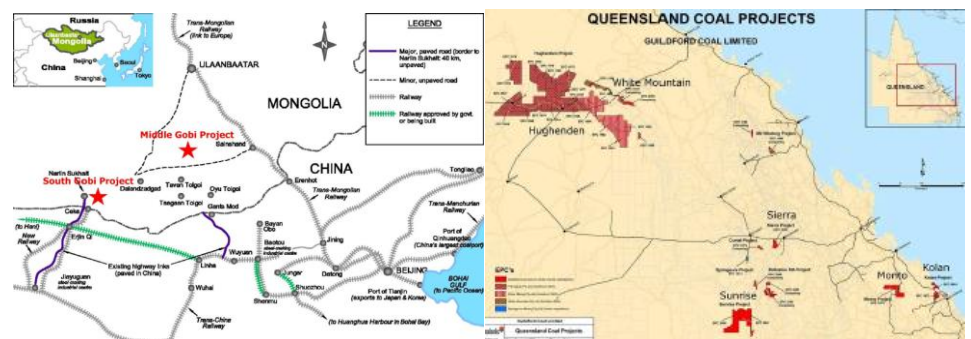
GUF's key focus is to create shareholder value through Identifying and securing potential assets, with the aim of exploring and developing coal deposits ultimately leading to production.

### SUMMARY OF PROJECTS

GUF has a number of projects and prospects at various stages. The principal focus is on the South Gobi Project located in the South Gobi Province (Umnigovi Aimag) of Mongolia Figure 7(a).

In addition GUF has a number of assets in Queensland covering an estimated 22,000km<sup>2</sup> across the Bowen, Galilee and Maryborough Basins. The tenements are strategically positioned close to existing rail and port infrastructure highlighted in figure 7(b) below.

**Figure 7: Project Locations (a) Mongolia, (b) Queensland**



Source: Guildford coal

### GUF's projects of significance.

GUF's key projects in order of priority are highlighted in Figure 8 below.

**Figure 8: Key Projects**

Project	Location	Highlight
South Gobi Project (75%)	South Gobi, Mongolia	Low Cost production targeting 3.6Mtpa with possible expansion.
Clyde Park Project (64.4%)	Galilee Basin, QLD	MLA (10369) lodged Dec 2012, (Open cut and UG) Well located to utilise existing rail and port capacity
Springsure Project (51%)	Bowen Basin, QLD	Recent JORC, PCI potential, thick seams.
Hughenden Project (100%)	Galilee Basin, QLD	Bulk tonnage, Large Resource

Source: Capital Resource





## RESOURCES & RESERVES

GUF has identified approximately 2.5Bt of JORC Resources across various projects in Mongolia and Queensland. The total across Queensland is ~2.2Bt, with the remaining 300Mt in Mongolia. Figure 9 highlights the total JORC on 100% basis for GUF.

**Figure 9: JORC Resources**

<b>Resource (100% Basis)</b>				
	<b>Type</b>	<b>Indicated</b>	<b>Inferred</b>	<b>M</b>
Hughenden Project	JORC	133	1,076	1,209
South Gobi	JORC	40	72	112
Springsure Project	JORC		253	253
Clyde Park Project	JORC	51	677	728
Middle Gobi	JORC	32	189	221
<b>Total</b>		<b>255</b>	<b>2,267</b>	<b>2,522</b>

Source: Capital Resource

## CAPITAL AND SHAREHOLDER STRUCTURE

**Figure 10: Capital Structure**

<b>Capital Structure</b>	
Shares on Issue (m)	635.0
* Potential Warrants on Issue (ex prices 0.45 – 0.75)	53.3 – 88.9
Fully Diluted	688.3 – 723.9

Source: Capital Resource \*based on floor and cap range for conversion

**Figure 11: Shareholder Structure**

<b>Major Shareholders</b>	
TheChairmen1 Pty Ltd	45.6%
Och-Ziff Capital Management	8.1%
Terra Holdings Limited	6.3%
Brispot Nominees Pty Ltd	5.3%

Source: Capital Resource

simple capital structure with  
small potential dilution



## BOARD AND MANAGEMENT

### Hon. Peter Lindsay (Independent Chairman)

- The Hon. Peter Lindsay is an experienced company director with substantial experience as a Federal Member of parliament.
- As a Federal member, Mr Lindsay served as one of Australia's Defence Ministers and as Deputy Speaker of the House of Representatives. He chaired the Presiding Officers Information Technology Advisory Group and the Joint Standing Committee on Electoral Matters. He was also a member of various other Standing Committees and Policy Committees.

### Mr. Peter Westerhuis (Group Managing Director)

- Mr Westerhuis has significant experience in the coal mining industry throughout Australia. Prior to joining Guildford, Mr Westerhuis was an Executive Director with Idemitsu Resources Australia and the CEO of the Ensham Joint Venture.
- Mr Westerhuis led the development and expansion of Ensham from a small open cut mine to a world class 9Mtpa open cut and underground mining complex employing up to 1,000 people and producing 10 different energy products for export to customers worldwide.
- In addition to his technical capabilities, Mr Westerhuis has strong experience in the key areas of strategy, business development, government & stakeholder relations. He is particularly passionate about health & safety, people relations, operational effectiveness, aggressive business improvement and project delivery.

1<sup>st</sup> class board with proven operating experience in coal production.

### 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).

### Tsogt Togoo (Non-Executive Director)

- Mr Tsogt has substantial experience in the Mongolian public sector working in senior management and commercial positions including Mongolian National Oil company.
- Mr Tsogt also worked as the head of the Privatisation Division of the State Property Committee and has played extensive roles in the privatisation of Mongolia's most valuable state-owned companies.

### Craig Ransley (Non-Executive Director) (on temporary leave of absence)

- 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 over 1,000 miners. In December 2010, Mr Ransley merged ResCo Services with ASX listed Humanis Limited (HUM) now called Bluestone Global Limited (BUE).
- 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. Michael Chester (Non-Executive Director) (on temporary leave of absence)

- Mr Chester has previous experience in investment banking at County NatWest/Salomon Smith Barney 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.



### 3 South Gobi Project

#### BACKGROUND

The South Gobi Project consists of five (5) tenements located in the South Gobi Province (Umnigovi Aimag) of Mongolia approximately 1,000km south-west of the Mongolian capital of Ulaanbaatar and approximately 60km from the Chinese border station of Ceke.

The South Gobi Project is forecast to start producing coal by mid-2013 targeting a production rate in excess of 3Mtpa from an open-cut operation on the North pit with first coal sales expected in October 2013.

The aim is to progressively expand operations by developing additional pits conceptually identified on the project that would be supported by the centrally established infrastructure.

A second development plan is being established on the East Pit, which has the potential to deliver an additional 2 Mtpa from an open cut operation.

#### PROJECT OVERVIEW

The South Gobi project is 50km East of two operating mines that historically produced in excess of 5Mtpa and one large coal project which has a total coal resource of approximately 750Mt.

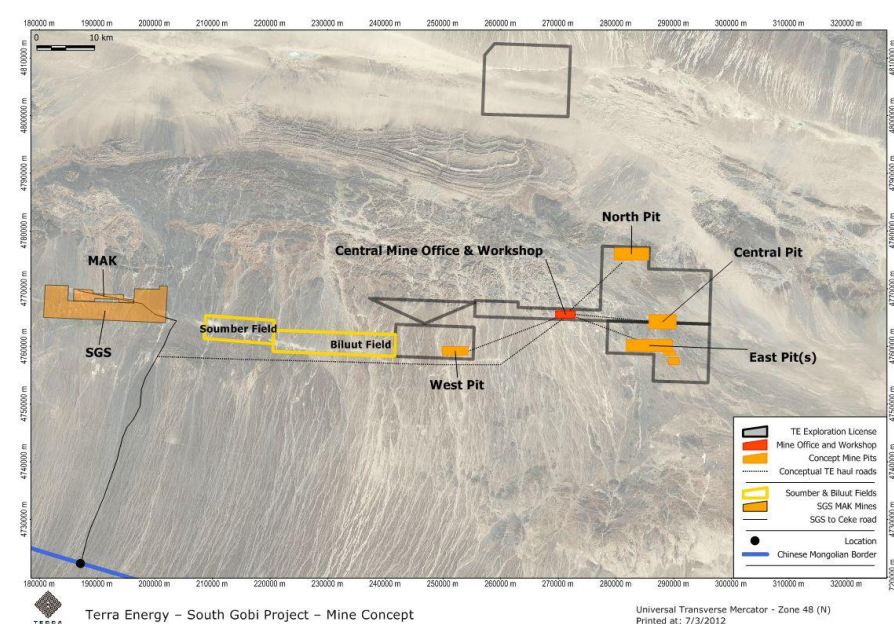
The first is the Nariin Sukait Mine, which is owned and operated by MAK-Qin Hua (a Mongolian and Chinese Joint Venture) otherwise known as MAK Mine.

The second is the Ovoot Tolgoi mine, which is located adjacent to the south of the MAK Mine and is owned by SouthGobi Energy Resources (SGS: 1878 HK) which is listed on the Hong Kong Stock Exchange and currently producing at a rate of 3.2Mtpa following a recent delay at Ovoot Tolgoi.

GUF will need to build a 95km road access that will enable trucks to transport coal down to the boarder at Ceke. The site is located on a plateau roughly 910–1,520 metres above sea level, with annual rainfall averaging 194mm.

Figure 12: GUF's South Gobi project

**The benefits of the South Gobi project includes low capital costs and lowest quartile mining costs.**



Source: Guildford Coal



The majority of production from the Gobi comes from South Gobi Resources (1878 HK) which is located within 50km of GUF's South Gobi project.

We anticipate additional coal quality in the coming months will provide additional clarity of the coal available for sale in Mongolia over the first six months of operation.

## RESOURCES AND RESERVES

The Resources at South Gobi were last updated in January 2012. To date Independent geologists Moultrine Database and Modeling (MDM) has identified a JORC indicated resource of 40Mt across the North pit and an additional 72Mt of Inferred Resource across the North and East pit. The total exploration target from MDM is 893Mt.

**Figure 13: Resource and Reserves**

South Gobi Project	JORC Resources (Mt)			Exploration Target (Mt)
	Measured	Indicated	Inferred	Lower-Upper
North Pit		40	31	14-73
Central Pit				56-279
East Pit			41	0-241
West Pit				0-300
<b>Total</b>		<b>40</b>	<b>72</b>	<b>70-893</b>

Source: Capital Resource

## DEVELOPMENT SCENARIO

GUF are in the development stage at the South Gobi project in Mongolia and will move to production by mid-2013 with first coal sales expected from Q3 2013.

GUF has been granted a mining licence by the Mineral Resources Authority of Mongolia (MRAM), which will allow facilities to be developed and brought into production.

The expected capex required for the North-pit is between \$15-30m, including access roads to the South Gobi project. GUF is pushing ahead with a planned start up schedule for mining targeting an average production rate of 3.6Mtpa over ten years under a base case scenario.

Additional work is ongoing with potential off-take partners at the South Gobi project.

### low cost production model

GUF South Gobi asset is positioned to take advantage of close proximity China and favorable labor rates to allow for a low cost production model.

We have modeled margins of ~\$35-45/t targeting production from mid-2013. The current Mongolia 1/3 coking coal price at the Ceke boarder ~\$68/t with cash costs estimated to be ~\$30-35/t.

The initial operation will be via an initial box cut with an expected width of 1.3km x 0.7km. The expected strip ratio on the North pit is expected to average 4.7:1. Coal will be crushed and screened to sub 250mm and delivered raw to ROM stockpile ready for off-take partners.

There is potential for GUF to commence parallel work streams on the East pit, which has already been granted a mining licence over 5262X. This strategy would enable GUF the ability to ramp up production much quicker than initially anticipated than operating on the North pit alone.

Our assumptions to our valuation focus solely on the North pit and we would revisit this once production success is achieved on the North pit.



## 4 Clyde Park Project

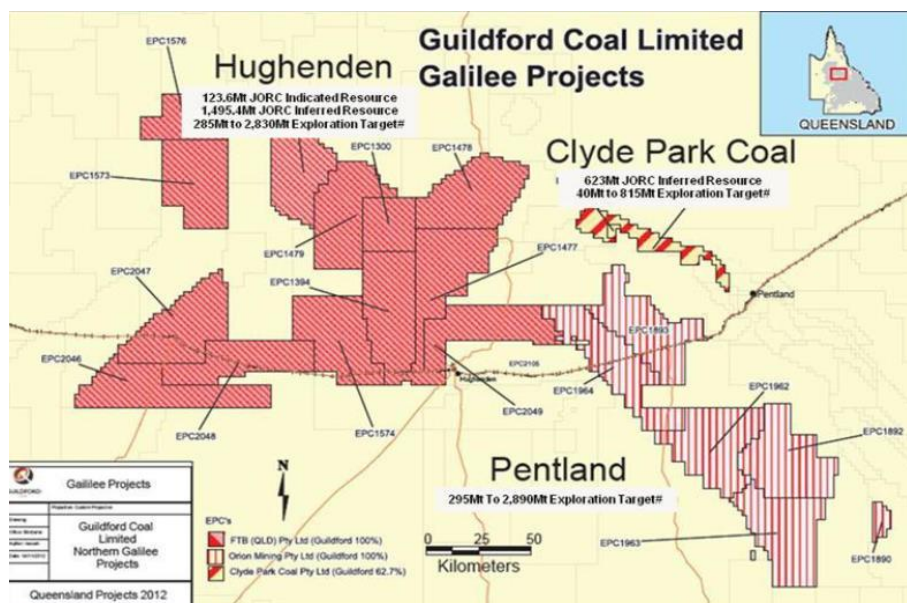
### BACKGROUND

The Clyde Park Coal Project is located on the north eastern edge of the Galilee Basin in Queensland approximately 245km from the port of Townsville and within 15km from a potential rail siding at Pentland.

Guildford holds a 64% stake in Clyde Park Coal Pty Ltd which owns 100% of the Clyde Park Coal Project comprising EPC1260 and EPC1250 shown in figure 14 below.

A mining lease application (MLA 10369), has been lodged with the Queensland government in December 2012, for a combination open cut mine and highwall entry longwall underground mine located within existing proximity to Mt Isa to Townsville railway.

Figure 14: GUF's – Galilee Assets



Source: Guildford coal

### RESOURCES AND RESERVES

The Clyde Park Project consists of 50.7Mt JORC Indicated Resource and 677Mt JORC Inferred Resource of thermal coal developed by Independent mining consultants Moultrie Database and Modeling (MDM). We expect these assets will be assessed over time with additional drilling in order to convert the current Resource into Reserves.

Figure 15: Resource and Reserves

Clyde Park Project	JORC Resources (Mt)			Exploration Target (Mt)
	Measured	Indicated	Inferred	Lower-Upper
Clyde Park		50.7	677	40-745
<b>Total</b>		<b>50.7</b>	<b>677</b>	<b>40-745</b>

Source: Capital Resource





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