

Guildford Coal Ltd (GUF.ASX)

On track for first production mid 2012 in Mongolia

Event:

- Quarterly update
- Mining licence approved – South Gobi and JORC upgrade.

Investment Thesis:

- Moving to producer status in 2012:** GUF in its short period since listing is well on its way to producer status after the granting of a mining licence in South Gobi. GUF will now move towards completion of a scoping study with the expectation of a mining contractor being selected and securing an offtake partner by the end of 1QCY12. Management have initially flagged that mining will commence by the end of first half CY2012 targeting 2-4Mtpa.
- JORC now achieved on multiple projects:** Over the last three months, GUF has delivered a JORC Resource on multiple projects including South Gobi (70.4Mt), Hughenden (1.036Bt) and Middle Gobi (221.4Mt). GUF will now move to define an **open pit resource from its White Mountain project** by end of Q1 CY12.
- South Gobi alone underwrites GUF's Market Cap:** Our valuation on South Gobi ~\$450m or \$1.02/Sh, underwrites GUF's current Market Cap and we expect the stock should re-rate upon favourable scoping study results including the selection of an offtake partner and mining contractor as well as the commencement of mining in the 2QCY12. Separately, our valuation for Hughenden is equivalent to \$1.33/sh derived using EV/Resource multiple of \$0.30/t using an existing JORC of 1.036Bt and additional exploration upside of ~1Bt.
- Infrastructure advantage in the Galilee:** GUF has a significant advantage in the Galilee with potential access to market via an existing rail and port corridor. Management has existing MoU's in place with ARG and POTL and is moving towards a HoA upon completion of a pre-feasibility study to potentially access the existing rail and port infrastructure (~320km) via the Port of Townsville (POTL).

Catalysts

- South Gobi Scoping Study results – (including mining contractor and offtake) 1QCY12.
- White Mountain open pit JORC Resource 2QCY12.
- Commencement of mining South Gobi Project 2QCY12.

Recommendation:

- We maintain our BUY recommendation and revise our price target to A\$2.20/sh (previously \$1.90/sh), which represents >160% upside to the current share price.**
- The major change in our valuation is driven by a DCF on South Gobi given the recent JORC and granting of a mining licence and the recognition of corporate success fee at Hughenden.
- Our PT for Hughenden is derived using EV/Resource metrics using an existing JORC of 1.036Bt and additional exploration upside of ~1Bt (equivalent to 30% of independent geologists target).
- Catalysts for the stock over the next 12mths include commencement of a pre-feasibility study on the Hughenden project as well as production in Mongolia and corporate appeal for a major looking to secure longer term supply.

Rating	BUY
Previous	BUY
Price Target (A\$)	\$2.20
Previous (A\$)	\$1.90

Share Price (A\$)	\$0.83
52 week low - high (A\$)	0.62 - 1.36
Valuation (A\$/share)	\$2.20
Methodology	DCF/Sum of Parts
Risk	High

Capital Structure	
Shares on Issue (m)	439.6
Market Cap (A\$m)	362.7
Net Debt/(Cash) (A\$m)	-14.8
EV (A\$m)	347.9
Options on issue (m)	0.0
12mth Av Daily Volume ('000)	911

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	45.5%
Och-Ziff Capital Management	11.5%
Regal Funds Management	11.0%
Credit Suisse	4.97%

Key Milestones	
Scoping Study results	Q1 CY12
White Mountain open pit JORC Resource	Q1 CY12
Commencement of Mining South Gobi Project	Q2 CY12

Key Metrics				
Year to June	2011a	2012e	2013e	2014e
Revenue (A\$m)	2.1	0.0	51.9	74.8
EBITDA (A\$m)	-3.8	-6.1	19.5	30.1
NPAT (A\$m)	-4.8	-16.2	9.0	16.2
EPS (c)	-0.01	-0.04	0.02	0.04
Op Cashflow (A\$m)	-3.0	-6.1	19.8	26.7
Capex (A\$m)	-0.3	-14.8	-11.7	-26.3
FCF (A\$m)	-3.3	-20.9	8.1	0.3

Share Price Graph



Analyst	
Craig Brown	+612 9993 8163 craig.brown@fostock.com.au

Guildford Coal Ltd (GUF.ASX)

Full Year Ended 30 Jun

Profit & Loss (A\$m)	2011a	2012e	2013e	2014e
Revenue	0.0	0.0	51.9	74.8
Other Revenue	2.1	0.0	0.0	0.0
Revenue	2.1	0.0	51.9	74.8
Operating costs	0.0	0.0	23.3	32.3
Exploration	0.0	3.0	4.5	6.0
Corporate costs	5.9	3.1	4.7	6.4
EBITDA	-3.8	-6.1	19.5	30.1
EBITDA margin (%)	nm	nm	37.5	40.3
D & A	0.0	10.2	10.2	9.7
EBIT	-3.8	-16.2	9.3	20.5
EBIT margin (%)	nm	nm	17.8	27.4
Net Interest (exp) / income	0.0	0.0	0.3	0.4
Associates	0.0	0.0	0.0	0.0
Profit before tax	-3.8	-16.2	9.0	20.1
Tax (exp) / benefit	1.0	0.0	0.0	3.9
NPAT pre minorities	-4.8	-16.2	9.0	16.2
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	-4.8	-16.2	9.0	16.2
Significant items	0.0	0.0	0.0	0.0
NPAT reported	-4.8	-16.2	9.0	16.2
NPAT adjusted *	-4.8	-16.2	9.0	16.2
WA # Shares Diluted (m)	439.6	439.6	439.6	439.6
EPS adj ¢/ps	-0.01	-0.04	0.02	0.04

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (A\$m)	2011a	2012e	2013e	2014e
EBITDA	-3.8	-6.1	19.5	30.1
Net Interest (exp) / income	0.0	0.0	0.3	0.4
Tax	1.0	0.0	0.0	3.9
Other	0.0	0.0	0.0	0.0
Operating Cashflow	-3.0	-6.1	19.8	26.7
Capex	-0.3	-14.8	-11.7	-26.3
Net Acquisitions	-16.5	0.0	0.0	0.0
Asset Sales	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	-16.8	-14.8	-11.7	-26.3
Equity proceeds	57.0	0.0	0.0	0.0
Debt proceeds / (repayment)	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Financing Cashflow	57.0	0.0	0.0	0.0
Net Cashflow	37.2	-20.9	8.1	0.3
Free Cashflow	-3.3	-20.9	8.1	0.3

Balance Sheet (A\$m)	2011a	2012e	2013e	2014e
Cash	33.8	4.3	13.9	18.0
Receivables	0.8	0.8	5.3	8.5
Inventories	0.0	0.0	0.0	0.0
PPE	0.2	10.2	14.9	35.5
Exploration & Development	88.8	80.3	72.7	62.7
Other	0.5	0.5	0.5	0.5
Total Assets	124.0	96.1	107.3	125.3
Payables	12.0	0.3	2.5	4.2
Tax liabilities	0.0	0.0	0.0	0.0
Debt	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total Liabilities	12.1	0.4	2.5	4.3
Reserves and capital	96.2	96.2	96.2	96.2
Retained earnings	-4.8	-21.0	-12.0	4.3
Minorities	20.5	20.5	20.5	20.5
Total Equity	112.0	95.8	104.8	121.0

Recommendation: BUY

Price Target

\$2.20

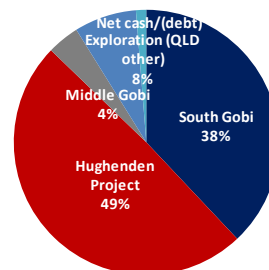
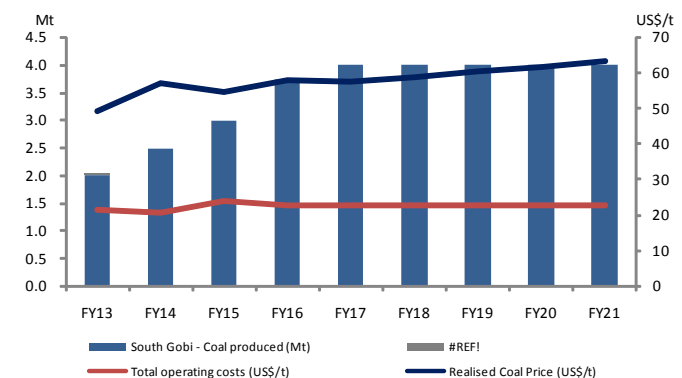
Capital Structure	
Shares on Issue (m)	439.6
Shares on Issue diluted (m)	439.6
Market Cap (A\$m)	362.7
Net Debt/(Cash) (A\$m)	-14.8
EV (A\$m)	347.9

Key Assumptions	2012e	2013e	2014e	LT
Coal - Thermal US\$/t	116	123	133	110
Mongolia coal (Mine Gate) US\$/t	45	48	50	50
AUD/USD	1.00	1.00	0.90	0.85

Production Summary	2011a	2012e	2013e	2014e
Production profile (t) - South Gobi	N/A	2.0	2.5	3.0
Operating costs (US\$/t)	N/A	21	21	24

Resource (100% Basis)	Type	Indicated	Inferred	Mt
Hughenden Project	JORC		1,036	1,036
South Gobi	JORC	40	31	70
Middle Gobi	JORC	32	189	221

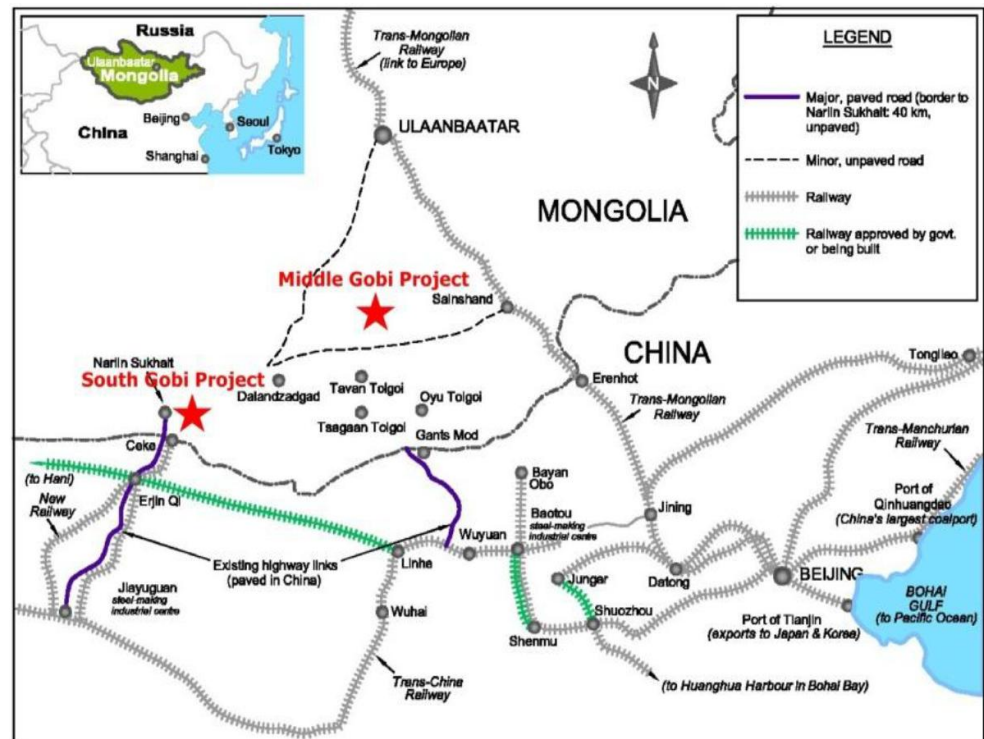
Valuation Summary	A\$m	P/NPV	\$/share
South Gobi	450	0.53	\$1.02
Hughenden Project	583	0.80	\$1.33
Middle Gobi	46	0.70	\$0.11
Exploration (QLD other)	90	1.00	\$0.20
Corporate	-217	1.00	-\$0.49
Net cash/(debt)	15	1.00	\$0.03
Total	967		\$2.20

Valuation Split (%)

Production (Mt) and Cost Profile (100% Basis)


MONGOLIA – OVERVIEW

- The Mongolian assets were introduced to GUF via a 20% equity placement in Terra Energy LLC ('Terra') for an initial cash payment of \$7m in May 2011.
- Following successful due diligence and initial groundwork, GUF exercised its right to acquire a further 50% interest in Mongolia via Terra, for a total consideration of \$10m, taking GUF's investment in Terra to \$17m for 70%.
- Terra and its subsidiaries control seven tenements located within the South and Middle Gobi projects in Mongolia. Figure 1 highlights the location of Terra's South and Middle Gobi projects with Terra's South Gobi project located within 60km of the Chinese boarder at Ceke.
- Following GUF's acquisition of Terra, GUF entered into a call option with Och-Ziff Capital Management Group LLC (Och-Ziff) with respect to Terra. Under this arrangement Och-Ziff have the option to acquire a 25% stake in Terra for A\$25m in cash, that will ultimately reduce GUF's stake in Terra to 52.5%.GUF continues to control the board with 3 out of 4 board members.

Figure 1: Map of Mongolia



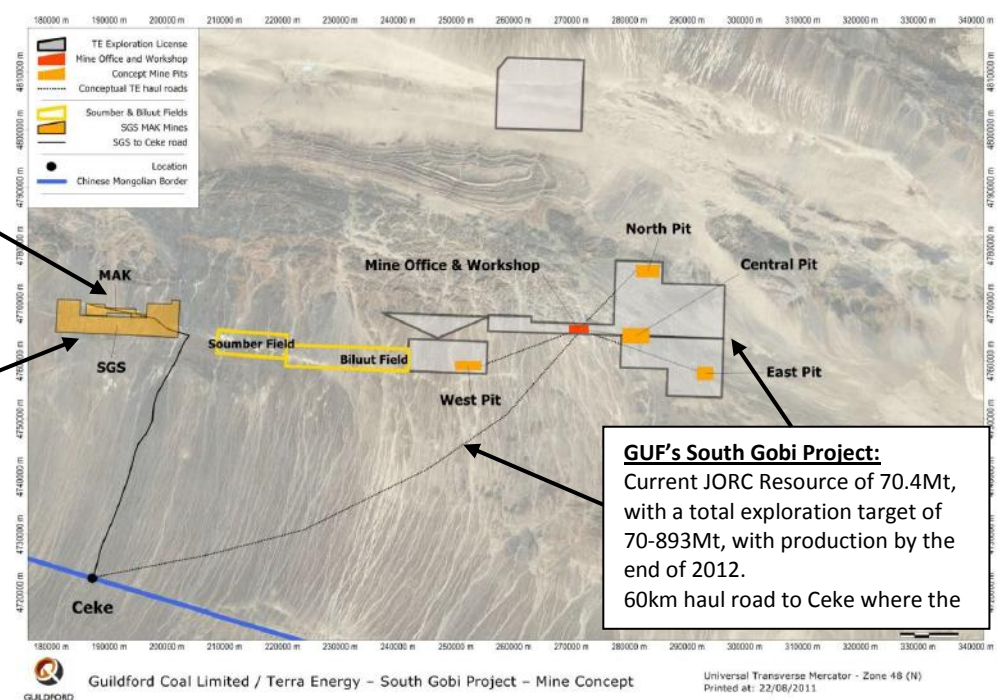
Source: Guildford Coal Ltd

SOUTH 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 (figure 2) 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 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 and operated by SouthGobi Energy Resources (SGS: 1878 HK) which is listed on the Hong Kong Stock Exchange.

Figure 2: Initial plans at the South Gobi project



Mak-Qin Hua: MAK Mine
Currently in production 1-2mtpa with a 750Mt JORC .

South Gobi Resources : SGQ(CN) (1878 HK)- Ovoot Tolgoi project
Currently one of the largest coal producers in Mongolia with three projects and one in production (Ovoot Tolgoi) with in excess of 4mtpa, 536Mt JORC and a \$1.1B valuation.

GUF's South Gobi Project:
Current JORC Resource of 70.4Mt, with a total exploration target of 70-893Mt, with production by the end of 2012.
60km haul road to Ceke where the

Source: Guildford Coal Ltd

- The South Gobi project has recently been granted its first mining licence and a Pre-utilisation agreement (Mineral Development Licence). The mining licence provides GUF with a clear path to for production from the middle of 2012.

Resource & Reserves

Independent Geologists have identified an exploration target of 70Mt - 892Mt from this project.

- Terra recently announced a JORC Resource of 70.4Mt for the South Gobi project. In total the South Gobi project has an exploration target of 70Mt to 892Mt as highlighted in figure 3 below.
- The 70.4Mt Resource is located from the proposed North pit consisting of a semi-soft coking coal with Kcal range of 5,830-6,844 and FSI range 3.3-5.5.
- We note independent geologists have recently upgraded the exploration target for South Gobi to be between 70Mt – 892Mt of coal from all four pits (North, Central, East and West) with the majority of the remaining pits likely to consist of a secondary thermal product.

Figure 3: JORC Resource & Exploration Target

South Gobi	JORC (Mt)	Ownership	Net to GUF	Exploration Target (Mt)
Indicated	39.7	70%	27.8	70-892
Inferred	30.7		21.5	
Total	70.4		49.3	70-892

Source: Guildford Coal Ltd

Operations

- A mining licence has now been granted that will enable a truck and shovel operation to be established for an open pit resource by the middle of 2012. We expect a completed Scoping Study in 1QCY12 outlining the economics of a base case scenario of 2Mtpa and potentially 4Mtpa being developed.
- Target customers are Chinese traders with the coal to be sold ROM unwashed at the mine gate. Selling prices for unwashed ROM coal are estimated to be US\$45-55/t with an expected cash cost of US\$20-25/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 the close proximity to the Chinese boarder at Ceke and to take advantage of favourable labour rates to allow for a low cost production model.
- The less reliance on rail infrastructure in this region is attractive for many companies, eliminatin the requirement for 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 is well advanced on discussions with potential offtake partners and mining contractors and will now review independent scoping studies with a view to awarding a mining contractor and offtake partner by the end of 1QCY12.

A mining licence has now been granted with a view that a truck and shovel operation could be established for an open pit resource by the middle of 2012.

FSB PROJECT VALUATION - SOUTH GOBI

- In terms of our valuation for GUF, we have modelled first production at South Gobi from 2012 based on an initial 15 year mine life at an average rate of 3.5Mtpa, providing a NPV10 valuation of US\$450m or US\$1.02/sh assuming a 52.5% interest for GUF. Figure 4 highlights the operational and financial assumptions used in our NPV valuation.

Figure 4: South Gobi Project Snapshot

Location	South Gobi, Mongolia
*Ownership	70%
Status	Mining Licence Granted
Current Resource	70.4Mt
First Production	FY2013
Production Profile	2-4Mtpa
Mine life	15+ years
Capex	US\$26.5m
Opex	US\$20-25/t
FSB Assumptions	US\$45-55/t AUD/USD 0.85
FSB NPV (after tax) @ 10%	US\$450m
Tax rate	10%
Royalties	5%
IRR	185%
Payback (months)	6

Source: FSB Research *current ownership is 70% but we have modelled GUF with a 52.5% interest post option ex.

- We expect the annual free cash flow generated by South Gobi will be used to develop the Hughenden project in QLD and or help fund other Mongolian or QLD project acquisitions.

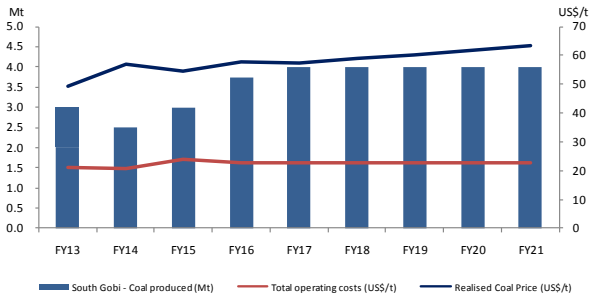
Figure 5: South Gobi Project Financial Summary

<i>Year Ending 30 June</i>	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Mongolian Minegate (US\$/t)	0.00	45.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
AUD/USD (\$)	\$0.00	\$1.00	\$1.00	\$0.90	\$0.90	\$0.85	\$0.85	\$0.85	\$0.85	\$0.85
South Gobi - Coal produced (Mt)	0.0	2.0	2.5	3.0	3.8	4.0	4.0	4.0	4.0	4.0
Realised Coal Price (US\$/t)	0	49	57	55	58	57	59	60	62	63
Total operating costs (US\$/t)	0	21	21	24	23	23	23	23	23	23
Total Revenue (A\$m)*	0.0	51.9	74.8	95.7	126.6	142.0	145.5	149.1	152.9	156.7
Operating Costs (A\$m)	0.0	23.3	32.3	45.8	58.9	64.6	66.3	68.1	69.9	71.8
EBITDA (A\$m)	-6.1	19.5	30.1	37.7	56.4	65.8	67.4	69.0	70.6	72.2
Depreciation (A\$m)	10.2	10.2	9.7	19.7	31.4	31.4	31.4	19.5	16.4	16.5
EBIT (A\$m)	-16.2	9.3	20.5	18.0	25.1	34.5	36.0	49.4	54.1	55.7
Tax (A\$m)	0.0	0.0	3.9	5.3	7.4	10.2	10.7	14.8	16.2	16.7
Capex (A\$m)	14.8	11.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Free Cash Flow (A\$m)	-20.8	7.8	26.3	32.4	49.0	55.6	56.7	54.1	54.3	55.5
NPAT (A\$m)	-16.2	9.3	16.6	12.7	17.7	24.2	25.3	34.6	37.9	39.0
Minority interests (A\$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Free Cash Flow (A\$m)	-20.8	7.8	26.3	58.7	107.7	163.3	220.0	274.1	328.4	383.9

Source: FSB Research * assumes 52.5% interest in coal produced

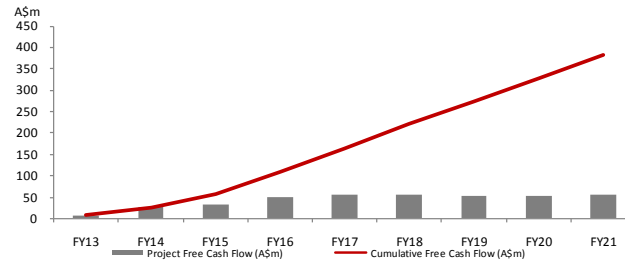
- We forecast cumulative free cash flows to grow from approximately \$0m in FY13 to approximately \$380m by 2021 in line with our production forecasts.
- This will give GUF the option to continue mining South Gobi or potentially commercialise the asset that will enable GUF to focus on its projects in Queensland over the longer term.

Figure 6: South Gobi Production and Opex



Source: FSB Research

Figure 7: South Gobi Project Free Cash Flow



Source: FSB Research

PEER COMPARISON - MONGOLIA

- We have compared GUF's Mongolian assets to a number of HK listed producers.
- A Key observation in the GUF story is the minimal understanding by the market of GUF's Mongolian assets, which are currently being undervalued on an EV/Resource basis.
- If we compare GUF to its HK listed peers, we can see the most direct comparable (figure 8) would be South Gobi Resources (1878 HK), which has a current JORC Resource of 536Mt and production of circa ~4Mtpa. The stock is dually listed in Canada and Hong Kong with a current Market cap ~\$1.1bn, approximately 3X GUF's current Market Cap.
- GUF's South Gobi project is in close proximity (~50km) to South Gobi Resources existing coal projects including Ovoot Tolgoi making it a direct comparable with GUF as they will be mining a similar seam sequence.

Figure 8: EV/Resource

Stock	2011 Production (Mt)	Coal Type	Sale Price & Estimates Costs	Mkt Cap (A\$m)	EV (A\$m)	JORC Resource (Mt)	EV/Resource
South Gobi Resources (SGQ CN,1878 HK)	4.02	Semi-soft and Thermal	Sale: \$US50-55/t Cost: US\$22-26/t (mine gate)	\$1,100	\$826	536	\$1.54
Mongolian Mining Corporation (975 HK)	3.80	Coking	Sale: \$US95-155/t (washed) Cost: US\$38-62/t (mine gate/FOB)	\$2,900	\$2,900	975	\$4.99
Mongolian Energy Corporation (276 HK)	0.5	Coking	Sale: \$US60-147/t (un/washed) Cost: US\$20-60/t (mine gate/FOB)	\$570	\$836	149	\$5.62
GUF ** (South & Middle Gobi only)	2.0-4.0	Semi-soft and Thermal	Sale: \$45-50 Cost: \$20-25/t(mine gate)	\$355	\$340	294.1	\$1.16

Source: FSB Research, Company Announcements.

- Given the short lead time, low capex, availability of mining contractors and numerous off-take parties, we are confident GUF will achieve producer status in CY12, and as a result we would expect the stock to significantly re-rate in market value.
- We also highlight the recent acquisition of Hunnu Coal's (HUN) non-producing Mongolian assets by Banpu for total consideration of ~\$477m which included a total JORC Resource of 844Mt across Thermal and Coking projects. HUN were targeting production of 1.5-2.0Mtpa.
- Banpu's all cash offer bid for HUN, equated to an EV/Resource valuation of \$0.57/t, or approximately \$2.85/t on its near term producing asset (Tsant Uul) which had a JORC Resource of 167Mt.
- Figure 9 highlights the key Mongolian and Hong Kong listed and unlisted peers for GUF ranked by Market cap. In our view, GUF will be the next to market as a producer in this space and has the advantage of being in close proximity (within 60km) to the chinese boarder at Ceke.

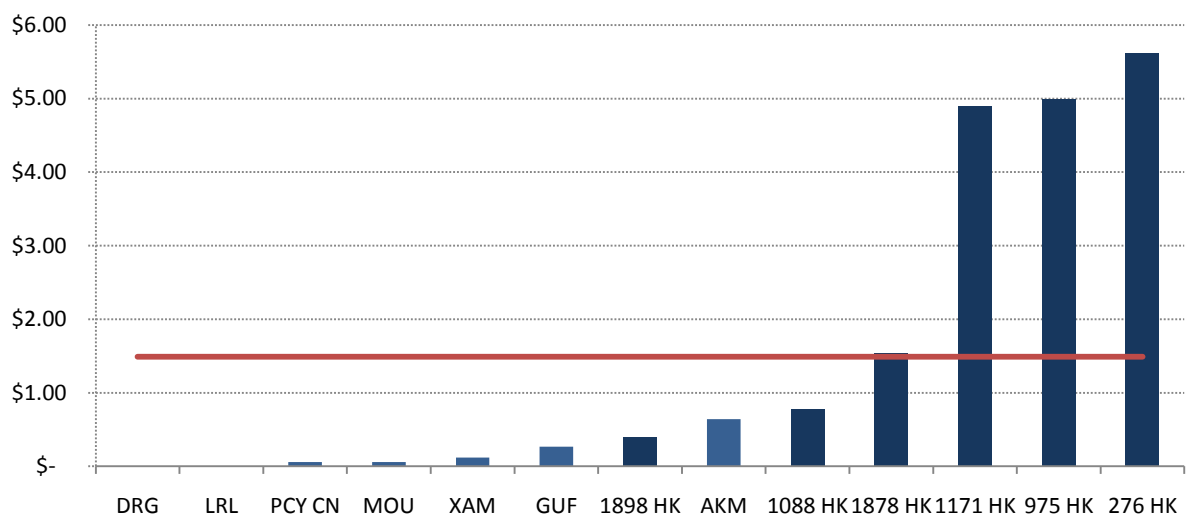
Figure 9: Mongolian & Hong Kong peers

Company	Stock Code	Market Cap (A\$m)	Resource (Mt)	EV/t	Project type & Location	Status	Distance to Rail links (Kms)	Current Production (Mt)
China Shenhua Energy Co-H	1088 HK	15,306	17,996	0.78	Thermal + Coking (China, NSW)	Production	N/A	250.0
China Coal Energy Co-H	1898 HK	5,212	9,460	0.39	Coking (China)	Production	N/A	102.0-105.0
Yanzhou Coal Mining Co-H	1171 HK	4,643	1,375	4.90	Thermal + Coking (China, QLD & WA)	Production	N/A	55.0
Mongolian Mining Corp	975 HK	2,955	581	4.99	Coking (Mongolia)	Production	240 (China)	3.9-8.0
Southgobi Resources Ltd	1878 HK	1,072	536	1.54	Thermal + Coking (South Gobi - Mongolia)	Production	45 (China)	4.0-5.0
Mongolia Energy Corp Ltd	276 HK	578	149	5.62	Coking (Western Mongolia)	Developer	311 (China)	0.5 (2012)
Guildford Coal Ltd	GUF	360	1,242	0.27	Thermal + SS-Coking (QLD & Mongolia)	Exploration/Developer	60 (China)	2.0-4.0 (2012)
Aspire Mining Limited	AKM	224	331	0.65	Hard Coking (Northern Mongolia)	Exploration/Developer	552 (TMR)	N/A (2018)
Baganuur	BAN MO	141	567	0.24	Thermal (Mongolia)	Production	140 (TMR)	3.0
Prophecy Coal	PCY CN	90	1,434	0.06	Thermal (Northern Mongolia)	Production	120 (TMR)	0.8-1.5
Xanadu Mines Limited	XAM	61	327	0.15	Thermal + Coking (Northern Mongolia)	Exploration/Developer	22(China) 300(TMR)	N/A (2014-2016)
Sharyn Gol JSC	SHG MO	58	374	0.13	Thermal (Mongolia)	Production	0 (TMR)	0.5
Draig Resources Limited	DRG	27	-	N/A	Thermal (Mongolia Ogni River Basin)	Exploration	80-500 (China)	N/A
Leyshon Resources Limited	LRL	45	-	N/A	Thermal + Coking (South- Mongolia)	Exploration	35-100 (China)	N/A
Modun Resources Limited	MOU	31	489	0.06	Thermal (Northern Mongolia)	Exploration	500 (China), 6 (TMR)	N/A
MAK Group	Private	N/A	400	N/A	SS-Coking (South Gobi - Mongolia)	Production	21 -100 (China)	5.1-6.0
Tavern Tolgi JSC	TTL MO	N/A	40	N/A	Hard Coking (South Gobi- Mongolia)	Production	250 (China)	5.0
Tavan Tolgi East (Gov)	Erdenes	N/A	*6,500	N/A	Hard Coking (South Gobi- Mongolia)	Developer	250 (China)	N/A
Tavern Tolgi West	Private	N/A	*6,500	N/A	Hard Coking (South Gobi- Mongolia)	Developer	250 (China)	N/A
Gobi Coal	Private	N/A	415	N/A	SS-Coking - (South Gobi- Mongolia)	Developer	50-100 (China)	N/A

Source: FSB Research, Company Announcements. *Coal field total.

- GUF is well located within its peer group within the South Gobi region, the major coal producing region in Mongolia. We see GUF as being the **next to market** in terms of coal deliveries to China which should warrant a valuation increase closer to the \$1.50/t level as highlighted by our EV/Resource analysis in Figure 10.

Figure 10: EV/Resource – Mongolian Peer Group



Source: FSB Research, Company Announcements.

MIDDLE GOBI PROJECT, MONGOLIA (Ongi Gol Basin)

- The Middle Gobi Project is located in the Dundgovi Province which is approximately 300km south of Ulaanbaatar and approximately 220km west of the Mongolian railway grid.
- The project has two exploration licences targeting a large shallow, open pit thermal deposit to feed demand from Mongolian and Chinese electricity generators.

Resource & Reserves

- Independent geologists Moultrie Database and Modelling Pty Ltd (MDM) have identified an initial JORC resource of 221.4Mt at Middle Gobi as highlighted in figure 11. In total, MDM have identified an overall exploration target of 165Mt to 830Mt from the Middle Gobi project.

Independent Geologists MDM has identified an exploration target of 165Mt to 830Mt from this asset.

Figure 11: JORC Resource & Exploration Target

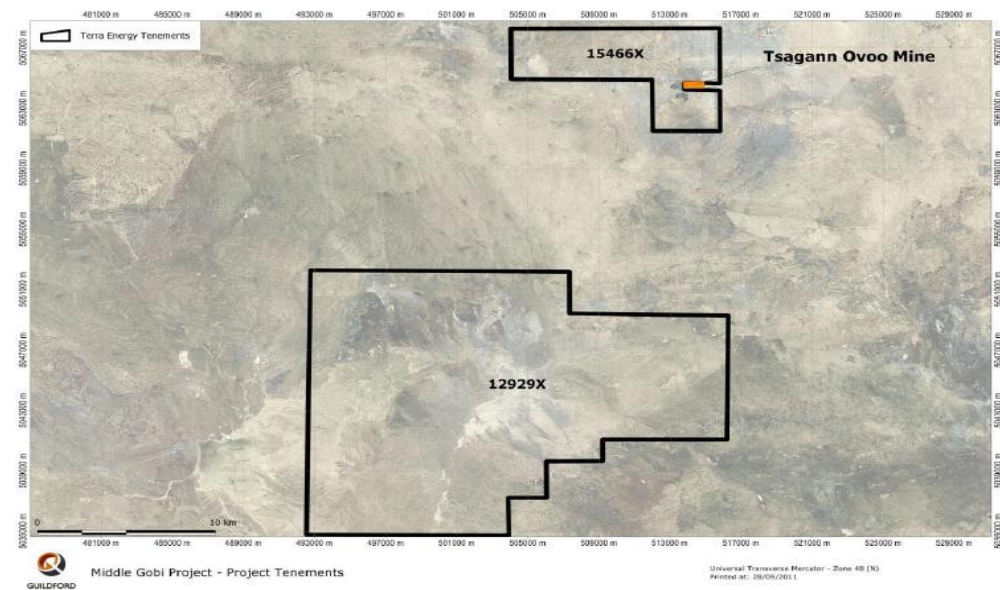
Middle Gobi	JORC (Mt)	Ownership	Net to GUF	Exploration Target (Mt)
Indicated	32.3	70%	22.6	165-830
Inferred	189.1		132.4	
Total	221.4		155	165-830

Source: Guildford Coal Ltd

Operations

- Additional drilling will continue at Middle Gobi after the Mongolian winter with a view to increase the size of the current JORC Resource in the 2H of 2012.
- Figure 12 highlights GUF’s exploration licences within the Middle Gobi region. The Tsagann Ovoo Mine, adjacent to GUF’s 15466X exploration licence currently provides feedstock for the domestic energy market.

Figure 12: Middle Gobi project



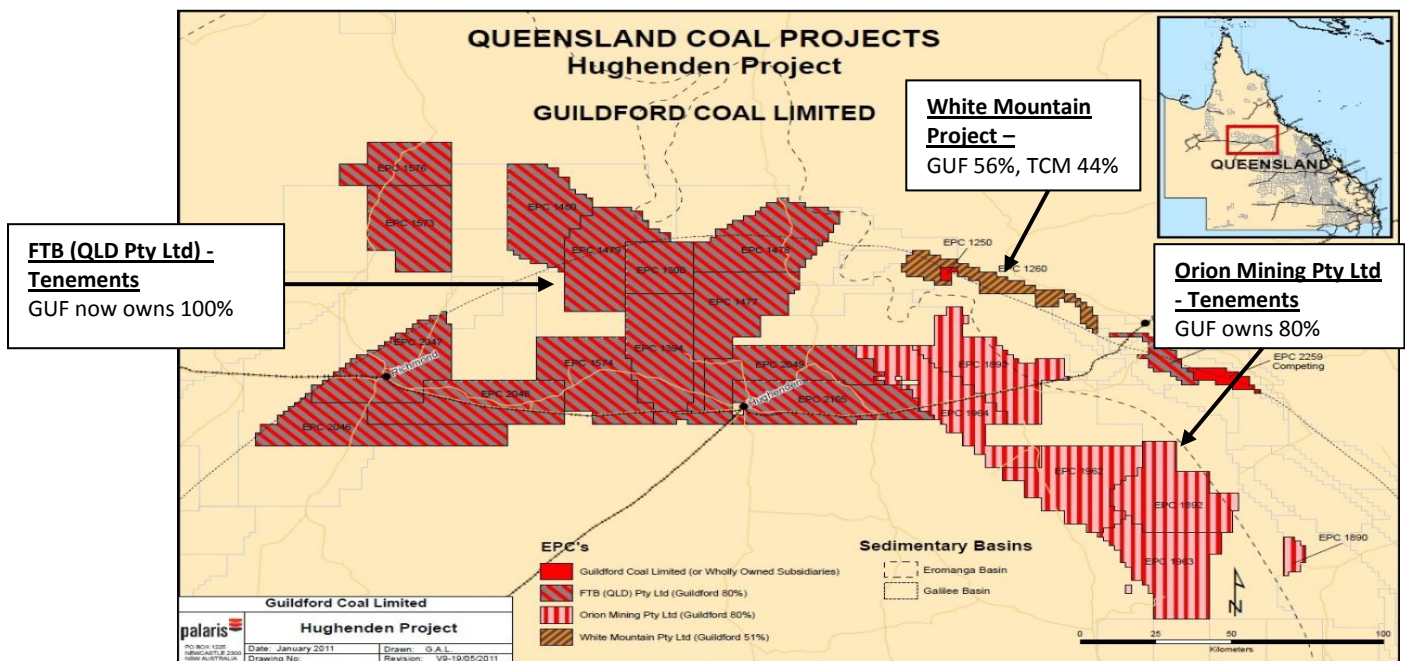
Source: Guildford Coal Ltd

HUGHENDEN UPDATE, QUEENSLAND (Galilee Basin)

The Hughenden project runs approximately 100km north and south of the Galilee basin and approximately 300km from east to west, covering some 16,000Km²

- The Hughenden Project progressed well over the December quarter, including the milestone achieved of a maiden JORC Inferred Resource of 1.036Bt of Thermal coal. GUF will now move to delineate an open cut Resource from the White Mountain project which has an exploration target of 40Mt-815Mt.
- A detailed project schedule has been developed for Stage 1 of the Hughenden project with the aim to deliver first coal by 2014 commencing with open pit operations at White Mountain, assuming a successful exploration program and feasibility studies. Figure 13 highlights the Hughenden project area which also includes GUF's 56% owned White Mountain project.

Figure 13: Hughenden Project Location



Source: Guildford Coal Ltd

Resource & Reserves

- The current JORC Resource at GUF's Hughenden project is 1.036Bt. In total, Independent geologists 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, while Palaris has identified an initial exploration target of 40-815Mt from GUF's White Mountain project.

Figure 14: Hughenden Project JORC Resource

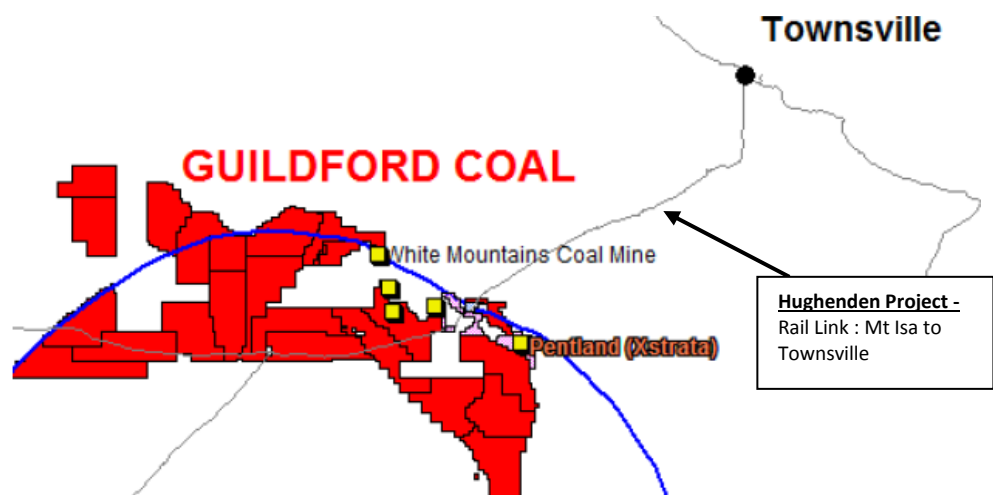
Hughenden Project	Ownership	JORC (Mt)	Net to GUF	Exploration Target (Mt)
White Mountain	56%			40-815
Remaining EPC's	80-100%	1,036	1,036	580-5,720
Total		1,036	1,036	620-6,535

Source: Guildford Coal Ltd

Infrastructure

- In our view, infrastructure remains one of the primary risks for bulk commodity projects getting off the ground. One of the main reasons we favor GUF's Galilee assets is due to the Townsville to Mt Isa rail line traversing the Hughenden project. Current capacity is ~5Mtpa and the rail connects directly to the port of Townsville, located ~320kms away. Upgrades to both port and rail for the region is planned for capacity increases of an additional 10Mtpa for Rail and up to 30Mtpa from the Port of Townsville.
- GUF has successfully entered into Memorandum of Understandings (MoU) for both rail and port facilities and is progressing to a HoA for access to the Mt Isa to Townsville rail line with ARG, and similarly with the Port of Townsville Limited (POTL) to jointly conduct a feasibility study on the logistics of exporting coal through the port. GUF are targeting a signed HoA for both port and rail post the announcement of open pit resources at White Mountain which is due 1HCY12.
- Delineation of an open-cut resource and a signed HoA could enable start-up production of 2Mtpa in 2014 ramping up to 10Mtpa by 2017 inline with the infrastructure capacity upgrades.
- Figure 15 highlights the current rail link which transcends the Hughenden project.

Figure 15: Mt Isa to Townsville Rail Solution



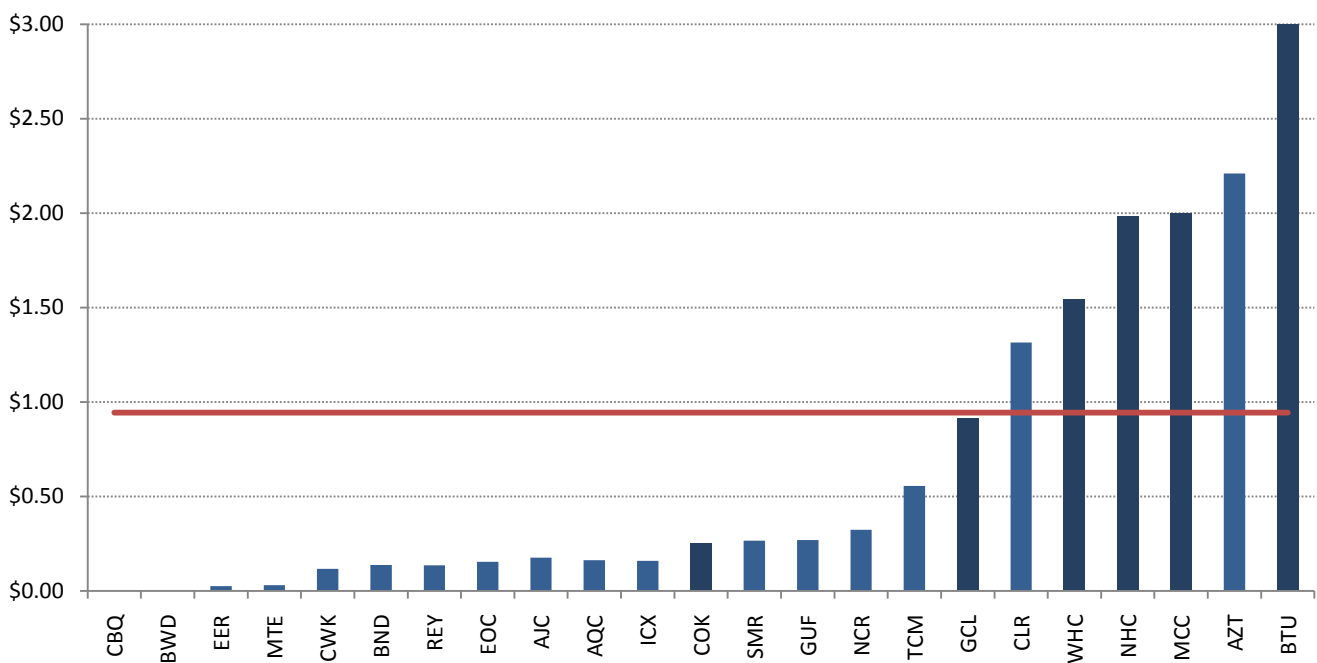
Source: Guildford Coal Ltd

- We view the port and rail solution to be a viable option for GUF given its close proximity to the Hughenden project. In our view there is a far greater likelihood of a Heads of Agreement being reached on:
 1. a completed pre-feasibility study for coal transport and shipping.
 2. The delineation of an open pit JORC Resource at GUF's White Mountain expected by the end of Q1 2012.

PEER COMPARISON

- We have compared GUF to a number ASX listed peers including explorers, developers and producers. GUF’s total EV/Resource is currently ~\$0.27/t while the average for an explorer is ~\$0.45/t, and the average producer is ~\$1.50/t.
- GUF’s Hughenden tenement has access to existing infrastructure including rail and port, which we expect upon signing a HoA with ARG and POTL, will position GUF to potentially have a large scale Thermal project in the region of Townsville.
- We view a number of near term catalysts are likely to re-rate the share price:
 1. Delineation of an open-cut resource and a signed HoA for port and rail (1HCY12);
 2. Positive Prefeasibility Study for Hughenden Project (2HCY12)
 3. Appointment of mining contractor, offtake partner at South Gobi (1HCY12); and
 4. First production at South Gobi (2HCY12).

Figure 16: EV/Resource



Source: FSB Research, Company Announcements.

- **The Coal M&A thematic continues** across the sector with over \$15bn in deals secured/proposed in Australia over the last 12-18 months resulting in many of the large-cap ASX-listed producers disappearing including:
 1. Macarthur Coal (Peabody) A\$4.9bn
 2. Riversdale (RIO) A\$3.9bn
 3. Centennial Coal (Banpu) A\$2.5bn

- **Additionally we are seeing more consolidation in the space as majors and or existing corporate and producers move to shore up longer term access to coal with the following deals pending financial close:**
 1. Whitehaven/Aston merger \$4-5bn
 2. Reverse takeover of Gloucester by Yanzhou Coal \$8bn
 3. New Hope sale process with a \$5b+ price tag
- This activity has culminated in attention switching to the sub \$500m market cap aspiring coal explorers, developers and producers that remain relatively independent. Figure 17 highlights GUF position ranked by market cap and we expect GUF could move up the ranks as the stock begins to hit investors radars.

Figure 17: ASX-listed coal peers

Company	Stock Code	Market Cap (A\$m)	Resource (Mt)	Project type & Location	Status
New Hope Corporation Ltd	NHC	4,699.1	1,529	Thermal (QLD)	Production
Whitehaven Coal Ltd	WHC	2,803.2	1,750	Thermal + SS-Coking (NSW)	Production
Aston Resources Ltd	AZT	2,054.9	683	SS-Coking + Thermal (NSW)	Development
Gloucester Coal Ltd	GCL	1,721.7	1,802	Thermal + SS-Coking (NSW & QLD)	Production
Coalspur Mines Ltd	CPL	1,042.7	1,458	Thermal (Canada)	Development
Bathurst Resources Ltd	BTU	488.3	47	Hard Coking (NZ)	Production (small scale)
Guildford Coal Ltd	GUF	378.9	1,242	Thermal + Coking (QLD & Mongolia)	Exploration/Developer
Cockatoo Coal Limited	COK	396.3	1,508	Thermal + Coking (QLD & NSW)	Production
Bandanna Energy Ltd	BND	319.9	1,650	Thermal + PCI (QLD)	Exploration/Developer
Carabella Resources Ltd	CLR	163.2	95	Coking + PCI (QLD)	Exploration/Developer
Nucoal Resources NL	NCR	187.6	505	Thermal + SS-Coking (NSW)	Exploration/Developer
Stanmore Coal Limited	SMR	107.5	318	Thermal + Coking (QLD)	Exploration/Developer
Coalworks Limited	CWK	111.1	877	Thermal + SS-Coking (NSW)	Exploration/Developer
Metrocoal Limited	MTE	89.2	2,222	Thermal (QLD)	Exploration/Developer
Coalbank Limited	CBQ	51.6	-	Thermal (QLD)	Exploration
REY Resources Limited	REY	50.7	306	Thermal (WA)	Exploration/Developer
Acacia Coal Limited	AJC	40.2	150	Hard Coking (QLD)	Exploration/Developer
International Coal Limited	ICX	49.6	315	Thermal (QLD)	Exploration
East Energy Resources Ltd	EER	30.0	1,200	Thermal (QLD)	Exploration
Endocoal Limited	EOC	79.6	349	Thermal + PCI + Coking (QLD)	Exploration
Blackwood Corporation Ltd	BWD	42.5	-	Thermal (QLD)	Exploration
Australian Pacific Coal Ltd	AQC	22.5	107	Thermal + PCI + Coking (QLD)	Exploration
Tiaro Coal Limited	TCM	17.8	30	Thermal + PCI + Coking (QLD)	Exploration

Source: FSB Research, Company Announcements.

COMPANY VALUATION AND PRICE TARGET

Price Target - \$2.20/share

FSB Valuation for South Gobi

- We have revised our valuation on GUF with the inclusion of a DCF on South Gobi (previously EV/Resource) given the recent JORC and granting of a mining licence and the recognition of corporate success fee at Hughenden given an initial JORC of 1.036Bt has now been established.
- At South Gobi, we have modelled first production from 2012 based on an initial 15 year mine life at an average rate of 3.5Mtpa, providing a NPV¹⁰ valuation of US\$450m or US\$1.02/sh assuming a 52.5% interest for GUF.
- For Hughenden, we have used EV/Resource metrics (existing JORC + additional exploration upside which, in total is equivalent to approximately 30% of independent geologists target using \$0.30/t) which takes our valuation on Hughenden to \$1.33/sh.
- We have also included GUF's success fee in the corporate line, that will equate to \$100m upon the delineation of 500Mt of JORC Indicated resource from GUF's QLD projects.
- Our valuation for Hughenden is derived using EV/Resource metrics using an existing JORC of 1.036Bt and additional exploration upside of ~1Bt (equivalent to 30% of independent geologists target).

Figure 18: Valuation Summary

Valuation Summary	A\$m	P/NPV	\$/share
South Gobi	450	0.53	\$1.02
Hughenden Project	583	0.80	\$1.33
Middle Gobi	46	0.70	\$0.11
Exploration (QLD other)	90	1.00	\$0.20
Corporate	-217	1.00	-\$0.49
Net cash/(debt)	15	1.00	\$0.03
Total	967		\$2.20

Source: FSB Research

RECOMMENDATION

- **We maintain our BUY recommendation on GUF and revise our price target to A\$2.20/sh, (previously \$1.90/sh) which represents >160% upside to the current share price.**
- The major change in our valuation is driven by a DCF on South Gobi given the recent JORC and granting of a mining licence and the recognition of corporate success fee at Hughenden.
- Our PT for Hughenden is derived using EV/Resource metrics using an existing JORC of 1.036Bt and additional exploration upside of ~1Bt (equivalent to 30% of independent geologists target).
- Catalysts for the stock over the next 12mths include, commencement of a pre-feasibility study on the Hughenden project as well as production in Mongolia.
- We don't discount the early entry of a corporate and or major coming onto GUF's register to take a longer-term position in GUF given it remains relatively under developed and has its foot on a number of key assets.

FOSTER STOCKBROKING DIRECTORY

Name	Department	Phone	Email
Stuart Foster	Dealing	+61 2 9993 8131	stuart.foster@fostock.com.au
Kevin Massey	Dealing	+61 2 9993 8130	kevin.massey@fostock.com.au
Trenton Brown	Dealing	+61 2 9993 8161	trenton.brown@fostock.com.au
Alex Drysdale	Dealing	+61 2 9993 8167	alex.drysdale@fostock.com.au
Tolga Dokumcu	Trade Execution	+61 2 9993 8144	tolga.dokumcu@fostock.com.au
George Mourtzouhos	Trade Execution	+61 2 9993 8136	george.mourtzouhos@fostock.com.au
Martin Carolan	Equity Research Sales	+61 2 9993 8168	martin.carolan@fostock.com.au
Mark Hinsley	Equity Research Sales	+61 2 9993 8166	mark.hinsley@fostock.com.au
Craig Brown	Equities Research	+61 2 9993 8163	craig.brown@fostock.com.au
Haris Khaliqi	Equities Research	+61 2 9993 8152	haris.khaliqi@fostock.com.au

FOSTER STOCKBROKING Pty Limited A.B.N 15 088 747 148 FSR Licence No. 223687
 Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
 Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
 Email: contact@fostock.com.au
 PARTICIPANT OF ASX GROUP

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