

BUY

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ASX code | GUF

IPO price | \$0.20

Last | \$0.30

Fully diluted shares | 360M

Market cap | A\$108M

52 week hi/low | \$0.31 / \$0.18

12 month price target¹ | \$0.47

Valuation | \$0.47

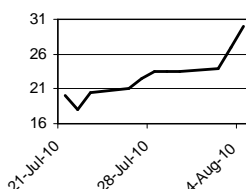
Valuation methodology | EV/TR

EV/Reserve | na

EV/Resource | na

EV/Target | 0.25

GUF | Share price performance



Guildford Coal Limited | GUF

AN EMERGING AND DIVERSIFIED COAL EXPLORER IN QUEENSLAND

Guildford Coal Limited (GUF) is a coal exploration company that has secured a diversified portfolio of assets across the Galilee, Bowen and Maryborough basins. The company has in excess of 21,000sqkm granted or under application.

We are initiating coverage on Guildford with a BUY recommendation and a price target of \$0.47 per share.

- **Multiple Coal Basin exposure:** GUF has a foothold on a number of assets across the Galilee, Bowen and Maryborough coal basins in Queensland. GUF is one of the largest tenement holders in the Galilee.
- **Diversified Exploration Targets:** GUF is well diversified in terms of its exploration targets ranging from hard coking, thermal and PCI coals for the domestic and export markets.
- **Successful start to drilling program:** Drilling has already started at the Hughenden project, in the Galilee Basin and looks positive from EPC 1394 where the first hole intersected coal. The Coal-bearing units were approximately 100m shallower than previously interpreted. Phase 1 drilling program will now target potentially shallower coal-bearing units to the north and north east of this block.
- **Global Demand on the Rise:** *Coal has been the world's fastest growing fuel over the past decade with demand growing at nearly twice the rate of natural gas and more than four times faster than global oil consumption.
- **Competitive Advantage:** Its projects are all within close proximity to rail giving it potential access to the ports at Townsville, Rockhampton and Gladstone.
- **Experience Board and Management:** We expect management will deliver an initial JORC Resource on two projects prior to end of calendar year 2010 and an additional two by the end of FY11.
- **We are confident in Guildford's portfolio and envisage the company will grow in profile and market cap as management delivers on proving up an initial JORC Resource over the coming 12 months. GUF has approximately \$29.4m in cash which will allow them to facilitate an exploration budget of approximately \$23.1m over the next 2 years spent mainly on drilling.**

Notes: 1. Price target is equivalent to 0.25c per targeted tonne of resource.

*Inside coal, issue#63, June 18, 2010.



Year end June 2010 2011 F 2112 F 2013 F
PROFIT & LOSS SUMMARY (A\$M)

Sales revenue	0.0	0.0	0.0	31.9
Other revenue	0.1	0.7	0.4	0.1
Operating Costs	0.0	0.0	0.0	(19.5)
Exploration Expense	0.0	(9.2)	(13.9)	(5.7)
Corporate & Admin	0.0	(3.2)	(3.0)	(1.7)
EBITDA	0.1	(11.7)	(16.6)	5.1
Depreciation	0.0	0.0	0.0	(4.8)
EBIT	0.1	(11.7)	(16.6)	0.3
Interest Expense	0.0	0.0	(3.2)	(6.7)
Pre-tax profit	0.1	(11.7)	(19.8)	(6.3)
Tax expense	0.0	0.0	0.0	0.0
Net income	0.1	(11.7)	(19.8)	(6.3)

BALANCE SHEET (A\$M)

Cash	29.4	20.2	6.3	3.3
Receivables	0.0	0.0	0.0	0.0
Inventories	0.0	0.0	0.0	0.0
Other current assets	0.2	0.2	0.2	0.2
Total current assets	29.6	20.4	6.5	3.5
Property, Plant & Equip.	0.0	0.0	0.0	0.0
Expl, eval & development	48.7	93.6	142.6	185.7
Other non-current assets	0.0	0.0	0.0	0.0
Total non-current assets	48.7	93.6	142.6	185.7
Total assets	78.4	114.1	149.1	189.2
Payables	0.0	0.0	0.0	0.0
Short-term debt	0.0	0.0	0.0	0.0
Other current liabilities	0.0	0.0	0.0	0.0
Total current liabilities	0.0	0.0	0.0	0.0
Long-term debt	0.0	40.0	83.2	109.9
Other non-current liabilities	0.0	0.0	0.0	0.0
Non-current liabilities	0.0	40.0	83.2	109.9
Total liabilities	0.0	40.0	83.2	109.9
NET ASSETS	78.4	74.1	65.9	79.4
Contributed equity	70.53	77.89	77.89	77.89
Retained profits	-0.38	-12.04	-20.20	-6.73
Minority interests	8.22	8.22	8.22	8.22
EQUITY	78.4	74.1	65.9	79.4
Shares Outstanding				
Basic M	360	360	360	360
Other M	0	0	0	0
Fully diluted M	360	360	360	360
Valuation metrics				
Market cap M	106.2			
Net debt (cash) \$M	(29.5)			
Options \$M	0.0			
Enterprise value \$M	76.7			

BOARD OF DIRECTORS

Mr. Craig Ransley	Non-Executive Chairman
Mr. Michael Avery	Managing Director
Mr. Michael Chester	Non-Executive Director

SUBSTANTIAL SHAREHOLDERS

Shareholder	Shares (M)	(%)
Chairmen 1 Pty Ltd	200.0	55.6%
Credit Suisse Holdings Australia Ltd	35.496	9.86%
Top 20 Shareholders	309.7	86.03%

RESERVES AND RESOURCES

JORC Reserves or Resources.

* Currently GUF have No JORC Reserves or Resources.

Target Resources Only

Project	Mt*	Date
Maryborough	75	Dec 2010
Hughenden	400	Dec 2010
Sierra	80	June 2011
Sunrise	0	April 2012
Monto	0	July 2012
Comet	0	TBA
Total		

COMMODITY PRICE ASSUMPTIONS

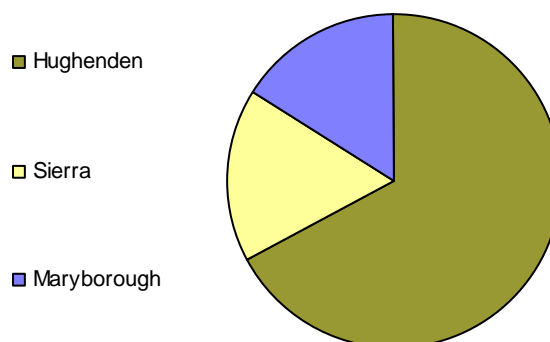
Year end June	2009A	2010F	2011F	2012F	Long-term
Hard Coking Coal (US\$/t)	261.0	200.0	190.0	150.0	120.0
Semi-Hard Coking Coal (US\$/t)	216.0	117.0	117.0	110.0	100.0
Export Thermal Coal (US\$/t)	115.0	90.0	85.0	85.0	80.0
FX (US\$/A\$)	0.75	0.90	0.90	0.85	0.80

VALUATION

Value by project	(A\$M)	A\$/share
Hughenden	100.0	0.28
Sierra	25.5	0.07
Maryborough	24	0.07
Corporate (NPV)	(11.1)	(0.03)
Options	0.0	0.00
Cash	29.4	0.08
GUF Valuation	167.8	0.47

NPV BY PROJECT

Project	NPV (A\$M)	NPV (A\$/share)
Hughenden	100	67%
Sierra	26	17%
Maryborough	24	16%





1 Investment case and valuation

INVESTMENT CASE

We see GUF as a quality investment opportunity to get exposure to the coal market for the following reasons:

- It has an extensive foothold on a number of assets across the Galilee, Bowen and Maryborough basins in QLD.
- The company is well diversified in terms of its exploration targets ranging from hard coking, thermal and PCI for the domestic and export markets.
- Its projects are all within close proximity to rail giving it potential access to the ports at Gladstone, Townsville and Rockhampton.
- We are confident management will deliver initial JORC resources on two projects prior to end of calendar year 2010 and an additional two by FY 2011.

VALUATION

We value GUF using an enterprise value / targeted resource for an explorer. Our \$0.47 price target is based on our initial targeted resource of 555mt for its three core projects, namely **Hughenden, Sierra and Maryborough**. We are currently attributing zero value to the potential of its other projects being Comet, Sunrise and Monto.

We have compared GUF to a number of its peers including recent IPO's such as Endocoal (EOC) and Stanmore Coal (SMR) which are operating in the QLD basins. The market is valuing GUF's peers between \$0.14/t to \$0.50/t currently for explorers with an average price of \$0.25 per targeted tonne of resource. We have taken a conservative approach in our initial targeted estimates for GUF and will reassess these estimates once the company has JORC compliant resources.

PEER GROUP ANALYSIS

Code	Market Cap	Cash	EV	(P)/(E)	Indicated	Inferred	Target	EV/ Res
MCC	3,238	394	2,844	P	382	971	1,815	2.10
NHC	3,824	1450	2,374	P	468	154	874	3.82
WHC	2,360	131	2,228	P	430	459	1,190	2.51
CEY	2,500	56.8	2,443	P	1700	163	2,349	1.31
RIV	1,941	163	1,778	P	1,654	5,932	8,000	0.23
GCL	961	5	956	P	57	240	297	3.22
PRC	295	74	221	P	19	40	59	3.76
COK	367	10	357	P	158	543	849	0.51
NCR	136	10	126	E		420	697	0.30
CPL	232	1	232	E	279	93	906	0.62
NEC	152	4	147	P	125	312	540	0.34
CCD	116	14	102	P	190	420	748	0.17
BND	226	22.6	203	E	115	1,194	1,669	0.16
GUF	108	29.4	78.6	E			555	0.14
SMR	75	4.7	70	E		208	668	0.34
EOC	47	18	29	E			50	0.58
MTE	35	9	27	E		292	2,500	0.09

Market cap (Projected)	168.15
Price Target (360m shares)	0.47

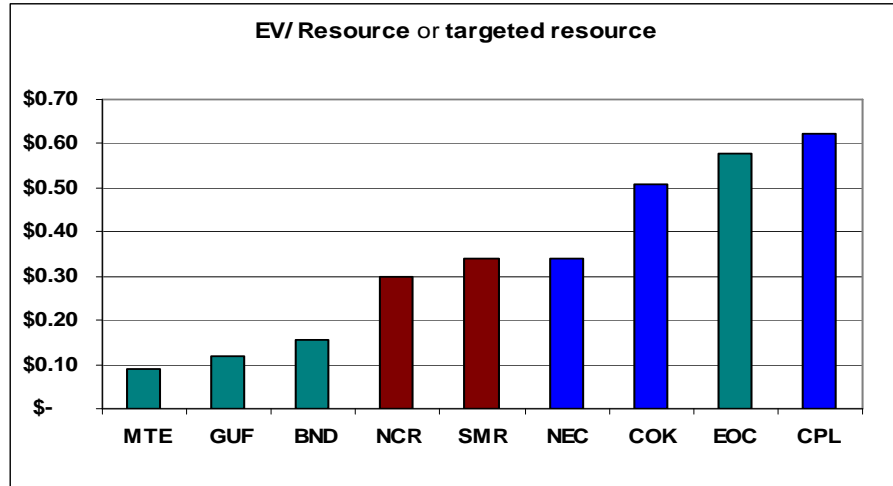
Producer Average	1.96
Explorer Average	0.25

GUF's peer group consists of a number of ASX listed explorers, developers and producers. Currently all the peers listed below are at the explorer level with COK & CCD the exceptions. We believe that at current levels with an initial targeted resource of 555mt, Guildford offers exceptional value to shareholders at 14c per tonne of targeted resource.



The market average is 25c per tonne of targeted resource for an explorer and using this as a benchmark for GUF with an initial target resource of 555mt values the company at \$0.47/share.

Enterprise value per tonne of Resource or Targeted Resource

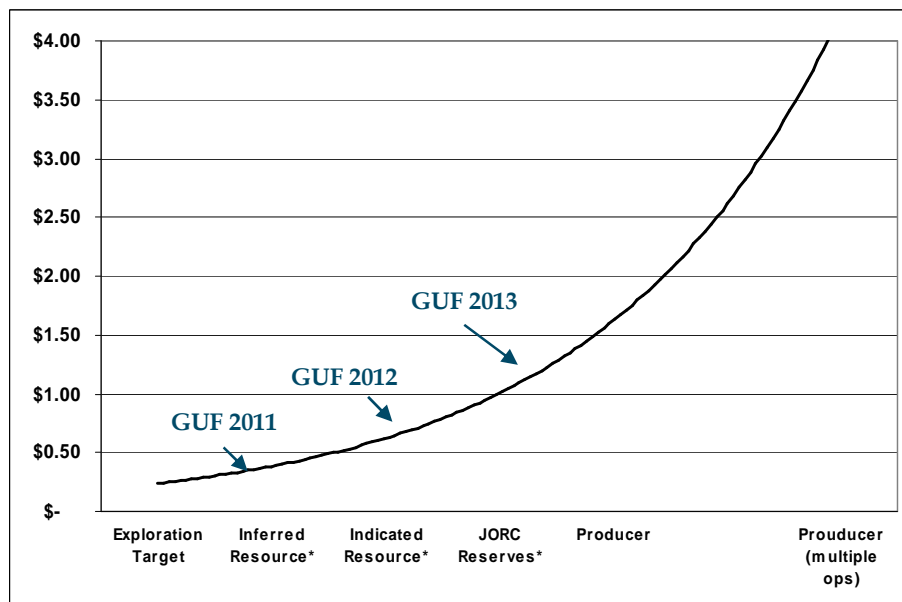


EV/Resource (Indicated)	\$	0.49
EV/Resource (Inferred)	\$	0.32
EV/Resource (Target)	\$	0.25

Source: Stonebridge estimates

GUF has had a successful start to its drilling program at the Hughenden project and is targeting specific exploration permits in the Maryborough basin. We have set out below a time line for GUF moving from targeted resource to JORC compliant Resource and believe as the company moves from Inferred to Indicated and into a producer significant value could be added to GUF's EV.

Coal Enterprise Valuation to resource curve



* Non Producing

Source: Stonebridge estimates



RISKS

- **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.
- **Coal Price** - we see the longer-term pricing for hard coking, Thermal and PCI post 2012 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.
- **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.
- **Finance**- 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. Inability to obtain funding could adversely affect the GUF and result in a default in tenement obligations which, if not remedied, could result in forfeiture of permits or licences.
- **Success Fee**- GUF will pay Chairmen 1 Pty Ltd a fee of \$20m for each 100m tonnes of Indicated Resource of coal in connection with one or more of the relevant projects outlined in this report. 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 approximately \$0.50 per tonne, hence the Market capitalisation should be approximately \$250m.



SUMMARY OF PROJECTS

Hughenden Project – (Galilee/Eromanga Basin)

Thermal Cal/kg Val – estimate 6,200.

- Guildford's prime asset which is located in the northern end of the Galilee basin. Targeting initial JORC resource by Dec 2010.
- GUF believe this could be a very large coal deposit with potential size in excess of 2bn tonnes of quality export thermal coal. ***Stonebridge in our analysis are giving GUF an initial target of 400mt from this Asset.***
- Drilling has commenced at Hughenden from EPC 1394 where the first hole intersected coal. The Coal-bearing units were approximately 100m shallower than previously interpreted. Phase 1 drilling program will now target potentially shallower coal-bearing units to the north and north east of this block.

Sierra Project - (Bowen Basin)

Hard Coking +7 CSN Value post beneficiation.

- Targeting initial JORC resource by June 2011
- Open pit mining, located in the middle of the Bowen basin with good rail link adjacent to the property with potential access to the Rockhampton port.
- Both the Burngrove and Fair hill seam formations are considered a dirty coal with 30-40% ash, and require beneficiation to produce a saleable product.
- GUF believe there could be in excess of 200m/tonnes of Hard coking coal in this project. ***Stonebridge in our analysis are giving GUF an initial target of 80mt from this tenement based on a yield of 40%.***

Maryborough Project – (Maryborough Basin)

- Located approximately 20km north-west of Bundaberg and 160km south of Gladstone, the project covers approximately 237sqkm.
- Targeting initial JORC resource by Dec 2010
- GUF believe there could be 100m/tonnes of Hard Coking coal in this project. ***Stonebridge in our analysis are giving GUF an initial target of 75mt from this tenement based on a yield of 75%.***

Sunrise Project – (Surat / Bowen Basin)

- Targeting initial JORC resource by Apr 2012 -

Monto Project – (Nagoorin Graben)

- Targeting initial JORC resource by Jul 2012 –

Comet Project – (Bowen Basin)

- Targeting initial JORC TBA –



OPERATIONS

- Guildford has a proposed two year programme of exploration with a proposed expenditure of \$23.1 million over the next two years.

Exploration Costs	FY11 (A\$m)	FY12 (A\$m)	Total (A\$m)
Hughenden	5.8	8.9	14.7
Sierra	0.3	0.5	0.8
Maryborough	1.2	2.5	3.7
Sunrise	0.1	0.8	0.9
Monto	0.0	0.1	0.1
Comet	0.0	0.2	0.2
Other Operating Expenses	1.8	0.9	2.7
Total	9.3	13.9	23.1

PROJECTED PLAN

GUILDFORD COAL - PROJECT PLAN - Estimated Targeted JORC										
Project	2010		2011				2012			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Hughenden		Dec			Aug		Jan		Jul	Dec
Maryborough		Dec			Aug		Jan			
Sierra				Jun		Dec		Jun		Dec
Monto									Jul	Dec
Sunrise								April	Jul	
		Wet Season - Dec-Mar				Wet Season - Dec-Mar				Wet Season

RESERVES AND RESOURCES

* Currently GUF have no JORC Reserves or Resources.

Project	JORC target Dates
Maryborough (Hard Coking)	Dec 2010
Hughenden (Thermal)	Dec 2010
Sierra (Hard Coking)	June 2011
Sunrise	April 2012
Monto	July 2012
Comet	TBA



CAPITAL AND SHAREHOLDER STRUCTURE

Guildford has a simple capital structure with a total 360m shares on issue. Chairmen1 Pty Ltd holds 200m shares which are escrowed for 2 years.

Ordinary Shares on Issue	360m
Options on Issue (ex prices)	0m
Fully Diluted	360m

Strong management team with significant track record in growing a mining focused business.

BOARD AND MANAGEMENT

Mr. Craig Ransley, Chairman and Non Executive Director

- Mr Ransley has been instrumental in the coal mining services industry within Australia for a number of years. In 1999, he founded TESA Group, which became one of Australia's leading suppliers of skilled labour to the mining, manufacturing and utility sectors, prior to being acquired by Skilled Group in 2006.
- Subsequently Mr Ransley founded Resco Services Pty Limited (Resco) and is currently Executive Chairman. ResCo provides skilled labour, operational and other management services to a number of mines within Australia.
- Mr Ransley was also responsible for conceiving the concept and commencing the development in 2006 of Australia's first training coal mine at Jerry's Plains in NSW.
- Equity interest post offering (direct & indirect) : 38.08m shares, 10.6%

Mr. Michael Avery, Managing Director

- Mr Avery has worked in the coal industry for over 25 years 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 in operations management at a number of coal mines within Australia.
- Equity Interest post offering: 15.48mn shares, 4.3%

Mr. Michael Chester, Non Executive Director

- Mr Chester is an investment manager with the Lowell Resources Fund, based in Melbourne, Australia and 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 boutique corporate advisory firm specialising in capital raisings, corporate advisory, IPOs, investor relations and seed capital transactions for small to medium sized companies in the industrial and natural resources sectors.
- Equity Interest post offering: 6.56mn shares, 1.82%



3 Hughenden Project - (Galilee / Eromanga Basins)

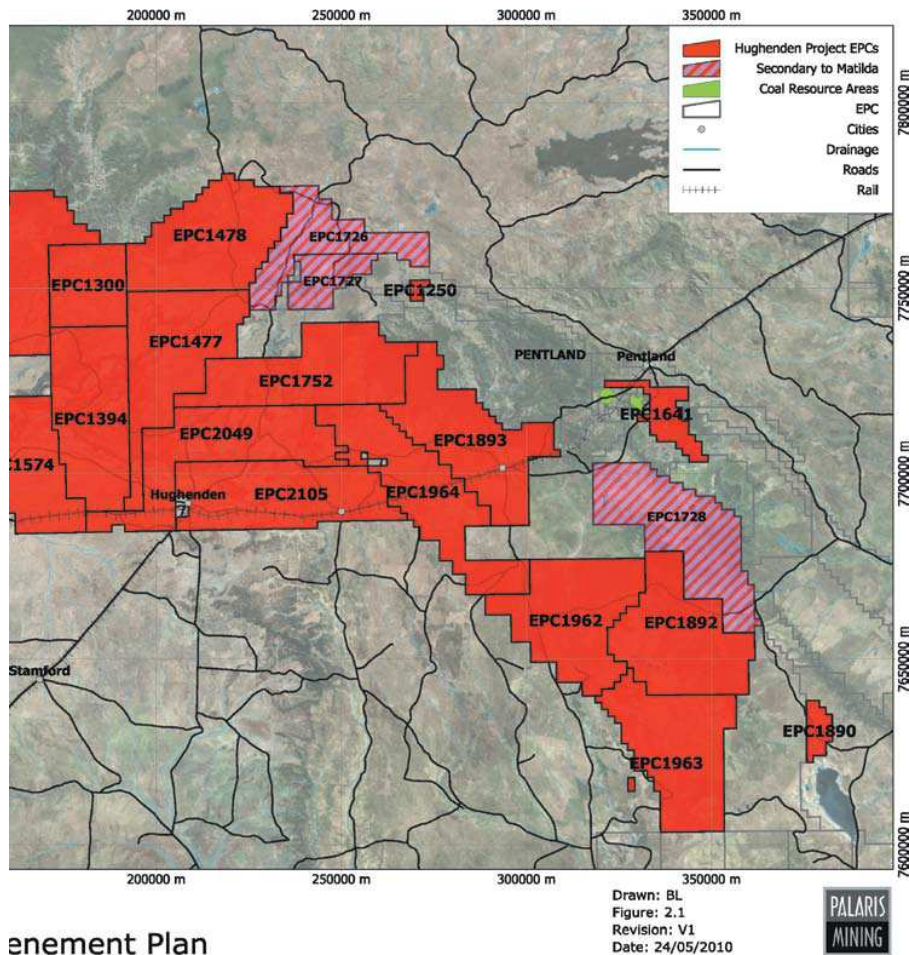
BACKGROUND

Thermal Cal/kg Val – estimate 6,200.

- This is Guildford’s prime asset which is located in the northern end of the Galilee basin. Hughenden covers 17,000 sqkm of open pit and shallow underground mining running approximately 100km north and south of the Galilee basin and approximately 300km east to west.

PROJECT OVERVIEW

- There is a known sub-crop line along the north-eastern edge of **(EP 1250 & 1641)** with an estimated 60mt of high quality thermal coal visible from surface. **These EPC’S are highly prospective and will be given highest priority for exploration activities.**
- **Coal bearing seams** – Targeting the Permian aged Betts Creek Beds (Galilee Basin) & Jurassic aged Blantyre Beds (injure creek group) (Eromanga Basin).
- The Betts Creek Beds have been proven to be of economic significance at the nearby Pentland Project (Linc Energy).
- **Cash costs** – \$60-65 USD/tn
- 3-4 cored holes drilled.



RESERVES AND RESOURCES

- Targeting JORC Nov/Dec 2010
- GUF believe this could be a very large coal deposit with potential size in excess of 1bn tonnes of quality export thermal coal. **Stonebridge in our analysis are giving GUF an initial target of 400mt from this Asset.**



DEVELOPMENT SCENARIO –

- **Infrastructure –** Strategy here is to fast track its 2-3 year time frame with the possibility of mining first outcropping and sending by freight on the Mt Isa to Townsville rail line where spare capacity currently is in the order of 1 mtpa.
- The rail line runs through the southern edge of the Project and there is an expectation that there will be significant upgrades to infrastructure in this region over the next three years. Potential rail capacity is 3-4mt within the next three years..
- **Port –** Townsville port facility current capacity is 10mtpa and has a master plan which highlights a potential increase by an additional 20mt within the next 10 years.

OFF-TAKE AGREEMENT -

- To date no off-take agreements have been signed.

OPERATIONS

- Guildford has a proposed two year programme of exploration with a proposed expenditure of \$23.1 million over FY11 & 12.
- Given Hughenden is their prime asset, we believe GUF will spend approximately 14.7m out of the \$23.1m on this project over the next two years.



4 Sierra Project - (Bowen Basin)

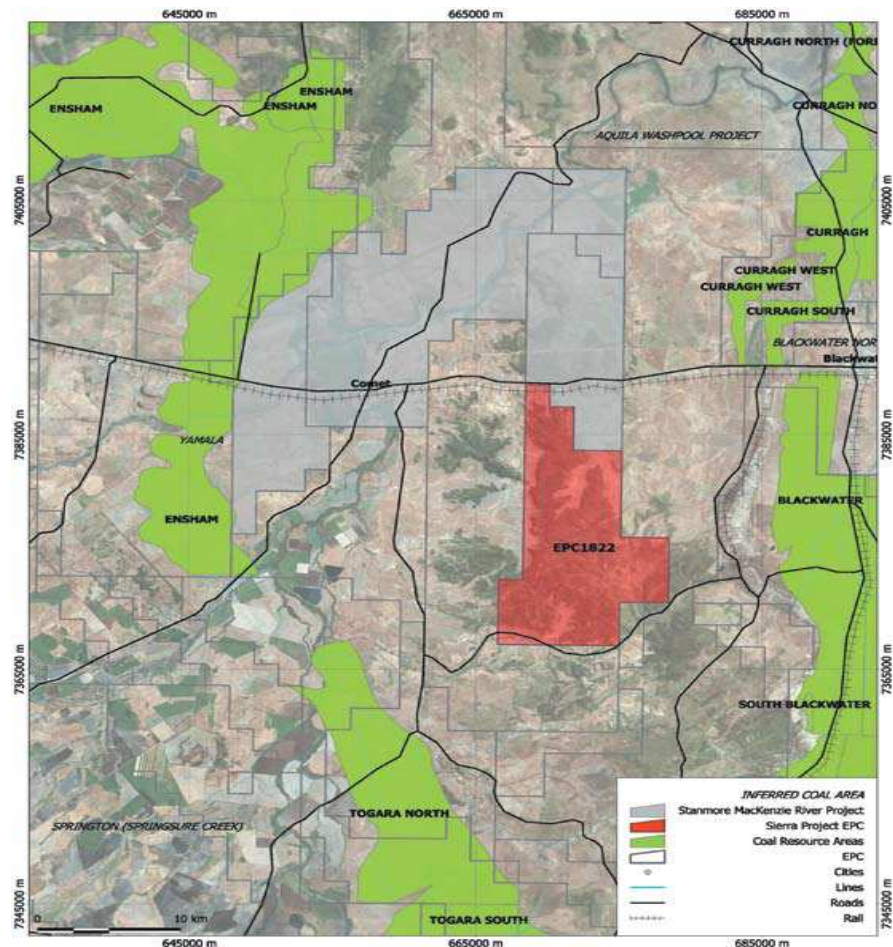
BACKGROUND –

Hard Coking +7 CSN Value post beneficiation

- Open pit mining
- Located in the middle of the Bowen basin with good rail link adjacent to the property with access to the Rockhampton port.
- **Coal bearing seams** – Targeting the Burngrove Formations and the Fair Hill Formations (Bowen Basin). Initial boreholes in these formations indicate a highly banded seam 60-80% coal, 20-40% stone). Both the Burngrove and Fair hill seams are considered a dirty coal with 30-40% ash, and require beneficiation to produce a saleable product. (Both Stanmore coal's Mackenzie River project and Aquila's washpool project is based in this area targeting the same seams). Stanmore's is adjacent to the northern boundary of EP 1822.
- The washability yield in these formations has been identified in a concept study by Aquila's washpool project. The equivalent yield of these formations is approximately 41%(Burngrove) and possibly 51% for (Fair Hill).

PROJECT OVERVIEW –

- **EP 1822** - Sub-cropping exists on this project and is adjacent to Aquila's project which occurs along strike to the North of EP 1822. The benefits of this permit are low strip ratio and low mining costs given the formations are close to surface. Processing costs for beneficiation ranges from US \$5-7/tn. Ash content 30-40%, 41% Yield.
- **Cash costs** – \$65-72 USD/tn including processing.



Guildford Coal Ltd
Sierra Project - Tenement Plan

Drawn: BL
Figures: 3.1
Revision: V1
Date: 24/05/2010





RESERVES AND RESOURCES –

- Targeting JORC June 2011
- GUF believe this could be in excess of 190m/tonnes of Hard coking coal in this project. ***Stonebridge in our analysis are giving GUF an initial target of 75mt from this tenement based on a yield of 40%.***

DEVELOPMENT SCENARIO -

- **Infrastructure** – The Blackwater System rail line passes through the northern end of EP 1822. The central Queensland railway runs 7,000 tonne capacity rail cars approximately 320km to the port of Gladstone. Current capacity is between 64-68mtpa, but likely to be expanded to 75mtpa by 2013.
- **Port** – Barney Point – operated by Gladstone port authority – Export capacity 8 Mtpa. The RG Tanna Coal Terminal (Gladstone) 70mtpa capacity is also been upgraded. The proposed Wiggins Island coal terminal looks set to replace Barney pint and will provide additional 70mtpa capacity by 2014.



5 Maryborough - (Maryborough Basin)

BACKGROUND –

Hard Coking Coal - +7.5 CSN Value.

- The Maryborough project covers approximately 237sqm and is 20km North West of Bundaberg and approximately 160km south of Gladstone.
- **Coal bearing seams** – Guildford is targeting the Tiaro coal measures and the Burrum Coal measures which have been mined for over 100 years. (Currently XXL and Northern Energy (57mt) are drilling there and it is understood that the Northern Energy project requires beneficiation to produce a saleable product. Theoretical yields are in the order of 40-50%, however GUF believe they are targeting a much higher quality seam in the Maryborough basin.

PROJECT OVERVIEW –

- **EP 1872 & 2003** –comprises 48 sub-blocks equivalent to a surface area of approximately 164 sq.km. A total of 25 sub-blocks (85.7 sq.km) 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 tenements lie partially onshore and partially offshore with a hard coking coal capability of +7.5 CSN Value. Ash content 8-10%, 75-80% Yield.
- **Cash costs** – \$60-70 USD/tn



RESERVES AND RESOURCES –

- Targeting JORC Dec 2010
- GUF believe this could be 100m/tonnes of Hard Coking coal in this project. **Stonebridge in our analysis are giving GUF an initial target of 75mt from this tenement based on a yield of 75%.**

DEVELOPMENT SCENARIO -

- **Infrastructure** – The Maryborough project is connected to the port of Gladstone via the Maryborough rail system operated by Queensland rail.
- **Port** – Barney Point – operated by Gladstone port authority – Export capacity 8 Mtpa. The RG Tanna Coal Terminal (Gladstone) 70mtpa capacity is also being upgraded. The proposed Wiggins Island coal terminal looks set to replace Barney pint and will provide additional 70mtpa capacity by 2014.



Important Notice

Analyst Certification

At the time of writing this report, the author did not hold shares in GUF.

Provider of this publication

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Stonebridge's Interests

Stonebridge's has been engaged to provide corporate advisory services to Guildford in relation to the capital raising and will receive a fee for doing so. Total fees include a corporate management fee of 1% of the companies' market capital on IPO as well as a capital raising fee of 4% of the total amount raised for both pre-IPO investors and for the amount raised under the prospectus. Total amount raised by Guildford was \$32m AUD.

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