StoneBridge

Research Report

Tuesday, 21 June 2011

SECTOR: COAL

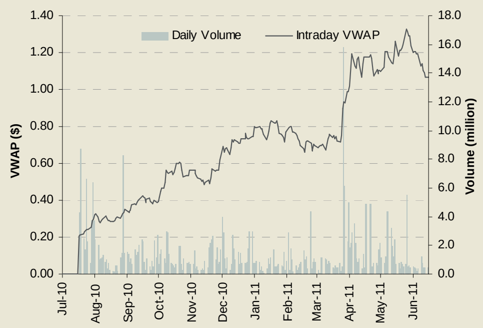
COMPANY UPDATE

Guildford Coal | GUF

BUY

Last Price	A$	1.03
52 week hi/low	A$	1.365/0.18
Market cap	A$m	417.66
Cash	A$m	35.4
Debt	A$m	0
Enterprise Value	A$m	382.27
Shares on issue (undiluted)	m	413.533
Options	m	0
Shares on issue (fully diluted)	m	413.533
Price Target	A$	1.62
Valuation(EV/Target Resource)	A$	0.55/t

Share price performance



Source: Bloomberg

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Progressing and expanding towards development

Guildford coal (**GUF**) is a coal exploration company that has secured a diversified portfolio of assets across Queensland's coal basins as well as establishing a strategic stake in additional assets in Mongolia.

Key Points

- **MOU signed for transport feasibility:** On 31st of May 2011 GUF announced plans for a joint feasibility study on the logistics of exporting coal through the port of Townsville.
- **Exclusive option secured:** GUF recently announced the acquisition of a 20% stake in Terra Energy LLC (**TE**) with the option to increase its shareholding to 70%. TE holds a 100% interest in 6 exploration licenses that are prospective for thermal and coking coal in the South Gobi and Middle Gobi regions in Mongolia. The South Gobi Project consists of 4 exploration licenses and the Middle Gobi Project consists of 2 exploration licenses.
- **Fast path to Production:** GUF believes that the Mongolian Project presents a tremendous opportunity to become a coal producer in a short time frame.
- **Significant Project potential in Queensland:** We believe the Hughenden Project could host a very large coal deposit with potential size in excess of 2bn tonnes of export quality thermal coal with an estimated calorific value of approximately 6,000 cal/kg.
- **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.

Investment View

- We see GUF as a quality investment opportunity that offers both Australia and Mongolia coal exposure. We are confident in GUF's portfolio and envisage the company will grow in profile and market cap as management delivers an initial JORC Resource over the coming 12 months. GUF has approximately ($35.4m in cash which will allow them to facilitate exploration budgets over the next 2 years.

Price Target

- **We maintain coverage on GUF with a BUY Recommendation and PT of $1.62 per share. Our PT is derived using EV/Resource metrics using an exploration target of 1.2Bt of Resource across four key projects. We have applied a discount to GUF's Mongolian assets of $0.30/t based on a current 20% ownership via TE. Additionally we have valued GUF's Queensland's assets at $0.55/t.**

Price Catalyst

- Initial JORC 2H 2011.
- TE – Option exercise based on drilling results 2H 2011.

Company Overview

Background

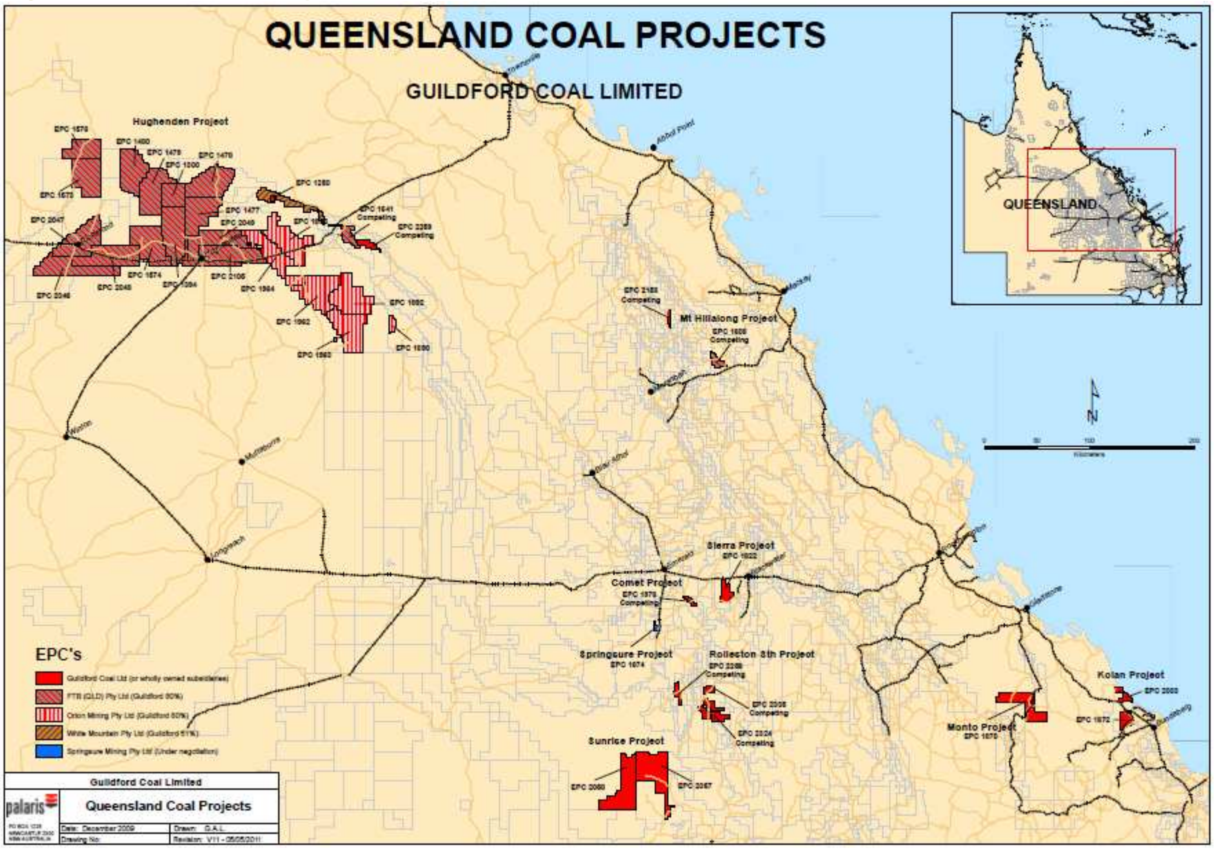
Guildford Coal (GUF) is a coal exploration company that has secured a diversified portfolio of assets across the Galilee, Bowen and Maryborough basins. The company has in excess of 20,000km^2 granted or under application.

Product – 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.

Strategy – GUF has started its exploration program and is targeting specific exploration permits in the Galilee, Bowen and Maryborough basins.

Over the first 24 months GUF will be focused on delineating initial JORC resources across three projects in Queensland. In total they have five 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 Location of Project



*Springsure project no longer included
Source: Company website

Mongolian Acquisition Update

On 31 March 2011, GUF announced the acquisition of Mongolian assets to the ASX, with summary of key terms outlined below:

- GUF via wholly owned subsidiary Guildford Coal (Mongolia) Pty Ltd reached a binding agreement to acquire 20% of Terra Energy LLC (TE), a newly established Mongolian coal company that owns the exploration licences that make up two coal projects, namely the South Gobi and Middle Gobi projects in Mongolia. Additionally, GUF has the option to increase its ownership in TE to 70% upon successful verification of defined coal targets.

- The Guildford South Gobi Project contains 4 exploration licences with 1 additional licence being negotiated by TE. It is located approximately 50 km east of two operating mines and one large coal project which have a total coal resource estimated to be approximately 750Mt. The Middle Gobi Project has 2 exploration licences located in the Dundgovi Province which is approximately 300km south of Ulan Bator and approximately 220km west of the Mongolian railway grid.

Terms of the Deal

The total consideration for the acquisition of the 70% Mongolian asset included:

- An initial upfront payment of A$7m (paid as $6m cash and $1m scrip) to give GUF an initial 20% stake in TE. The acquisition of the 20% stake was completed on 5 April 2011.
- Additionally, GUF entered into a Call Option that gives GUF the right, but not the obligation to, exercise at any time within 6 months from commencement of drilling and following exploration and verification that the prospects contain in excess of 150Mt of JORC Indicated resource.
- The Call Option payment is A$10m for which a further 50% stake in TE is issued to GUF taking its overall shareholding to 70%.
- The acquisition value has been calculated at approximately $0.16 per tonne for 150Mt of JORC indicated Resource, based on a 70% eventual ownership interest by GUF.
- GUF has the immediate right to have 3 directors on the TE Board with the remaining director coming from the Mongolian Founders.

Additional Funding Arrangement with Och-Ziff

Following GUF's acquisition, GUF entered into a call option with one of GUF's substantial shareholders Och-Ziff Capital Management Group LLC (Och-Ziff) with respect to Terra Energy LLC (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.
- 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.

Summary of Projects

The Company has several exploration projects including:

Hughenden Project – (Galilee/Eromanga Basin)

This is GUF's flagship asset, located in the northern end of the Galilee basin. GUF are targeting an initial JORC resource by 2H 2011.

We believe this could be a very large coal deposit with potential size in excess of 2bn tonnes of export quality thermal coal with a calorific value of approximately 6,000 cal/kg.
We have upgraded our initial target for the Hughenden project from 400Mt of 815Mt from this project based on our initial exploration target of 400Mt plus GUF's 51% interest in the White Mountain Project (EPC1260), which has an exploration target of 815Mt.

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)

The Kolan project is located approximately 20km north-west of Bundaberg and 160km south of Gladstone, the project covers approximately 237Km^2.

We believe there could be 100Mt of Hard Coking coal in 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%. The initial target of JORC is estimated for 2H 2011.

Sierra Project - (Bowen Basin)

The Sierra project is targeting Hard Coking Coal in the Fair Hill, Burngrove and Crocker Formations in the Bowen Basin with potential CSN values of +5-8 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 Rockhampton port.

We believe there could be in excess of 200Mt in this project. We have assumed an initial target of 80Mt from this tenement based on a yield of 40%. 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 are targeting initial JORC resource by June 2012.

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

GUF have two exploration projects in Mongolia, via its equity interest in Terra Energy. 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. GUF has an exploration target of up to 460Mt for the South Gobi Project and is targeting an inital Exploration Target for the Middle Gobi Project plus a maiden JORC resource for both South and Middle Gobi Projects in 2H 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.

Hughenden Project – (Galilee/Eromanga Basins)

Introduction

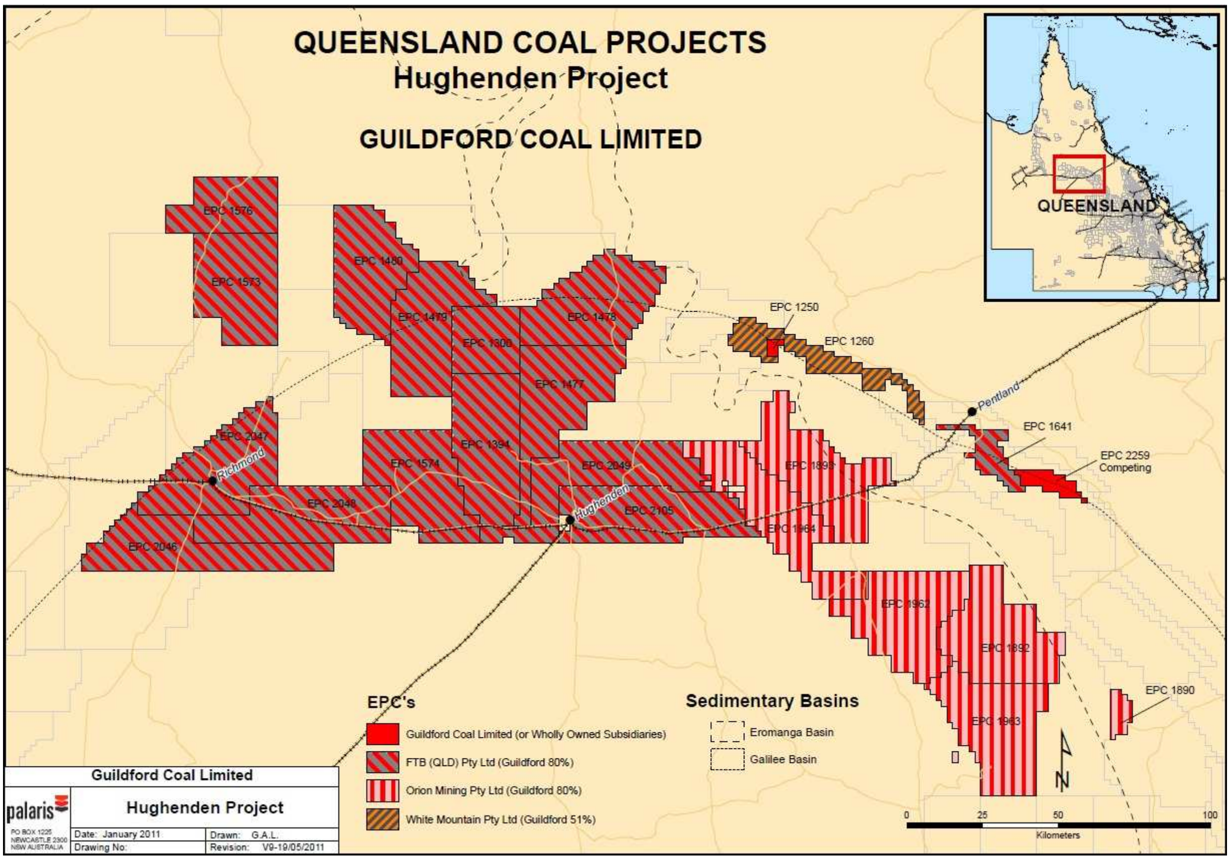
The Hughenden Project is GUF's prime asset which is located in the northern end of the Galilee Basin. Hughenden covers approximately 16,500km^2 running approximately 100km north and south of the Galilee basin and approximately 300km east to west. To date approximately 11,500km^2 has been granted.

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 399km^2 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 & EPC1260) is approximately 420km^2 representing approximately 2.5% of the total tenement area within the Hughenden project.

Figure 2 Location of Project



Source: Company website.

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.

Once current exploration results have been independently verified and incorporated into the geological model for the Hughenden Project, these exploration results will be released together with an updated Exploration Target.

Resources and Reserves

Currently GUF has no JORC Resources or Reserves. We believe that Hughenden could host very large coal deposits with potential total size in excess of 2bn tonnes of export quality thermal coal. An Initial JORC target is expected in 2H 2011.

White Mountain Project - EPC 1260 has a potential exploration target of 0 to 745Mt. Additionally, 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 & EPC1260) is approximately 420km^2 representing approximately 2.5% of the total tenement area within the Hughenden project.

Table 1: Exploration Target

Hughenden Project	JORC (Mt)	Exploration Target (Mt)	Area (km^2)	Area of Exploration focus (%)
EPC 1260 – White Mountain Project	0	0 - 745	399	2.4%
EPC 1250	0	40-70	21	0.1%
Remaining Unexplored EPC's in Hughenden	0	400	16,479	97.5%

Source: Company presentation

Development Scenario

A detailed project schedule has been developed for Stage 1 of the Hughenden project with an aim to deliver first coal by the end of 2013 assuming a successful exploration program and feasibility studies. GUF over the last six months has successfully entered into Memorandum of Understandings (**MOU**) for both rail and port facilities.

Rail – The current Mt Isa to Townsville rail line runs across several 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. Potential rail capacity is 3-4Mt within the next three years.

On the 11th of November 2010, GUF entered into a 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.

Port – On the 31st of May 2011, GUF executed a MoU with 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.

A Scoping Study is 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.

Outlook – 2011

Field activities have commenced, GUF has a proposed two year programme of exploration with a proposed overall 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.

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.

Two drills are operating on EPC1477, EPC1478 and EPC1300 to complete a pattern of holes to give a maiden underground JORC resource and then commence drilling to define shallower open cut targets to the north on the Galilee Basin edge.

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. Thicker intersections of the Eromanga Blantyre coal seams have been reported historically on GUF's managed tenements.

The third drilling rig has been commissioned to specifically target the potentially thicker extensions and coking coal potential of the Eromanga Basin Blantyre coal sequence in parallel to the two drill rigs proving Galilee Basin Permian Betts Creek coal sequence.

The fourth drilling 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.

Kolan Project - (Maryborough Basin)

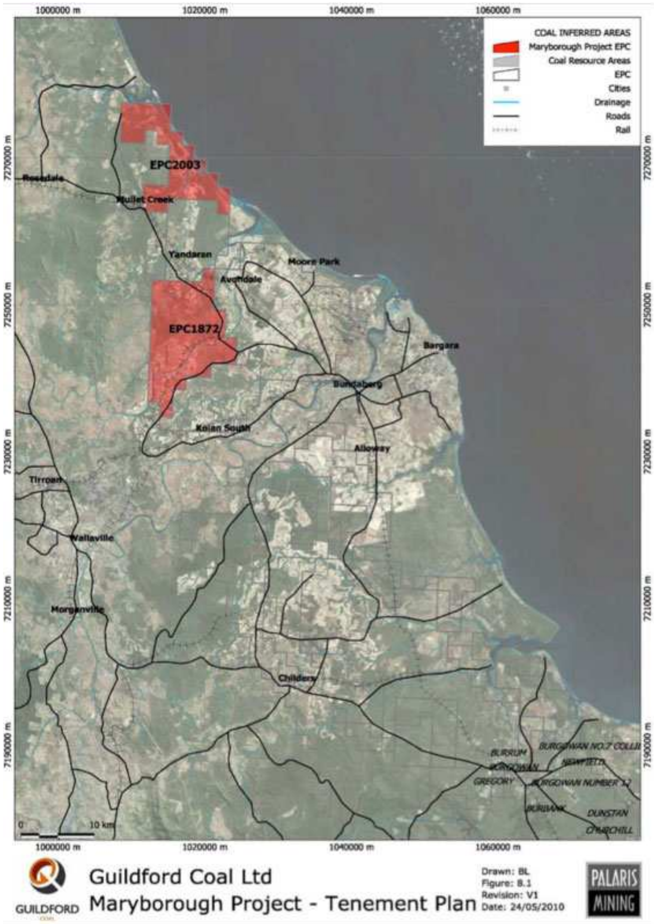
Introduction

The Kolan project covers approximately 237km^2 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 approxiamately 164km2.. A total of 25 sub-blocks (85.7km^2) 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**). The location of the project is outlined in Figure 3 below.

Figure 3 Location of Project



Source: Company website.

Geology

GUF is targeting the Tiaro coal measures 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:

Table 2: Washability Results for floats at fluid density of 1.4g/cc.

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	0.60	8	300
53.1	54.2	1.1	20	6.5	29.2	0.78	8	800

Source: Company announcements (currently not in GUF's tenements but within surrounding area).

Resources and Reserves

We have identified an exploration target of 100Mt of Hard Coking Coal from this project. We have assumed an initial target of 75Mt from this tenement based on a yield of 75% with an Initial JORC target expected by Dec 2011.

Table 3: Exploration Target

Kolan Project	JORC (Mt)	Exploration Target (Mt)	Area (km^2)	Area of Exploration focus (%)
EPC 1872 & 2003	0	0-100	399	2.4%

Outlook – 2011

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 - (Bowen Basin)

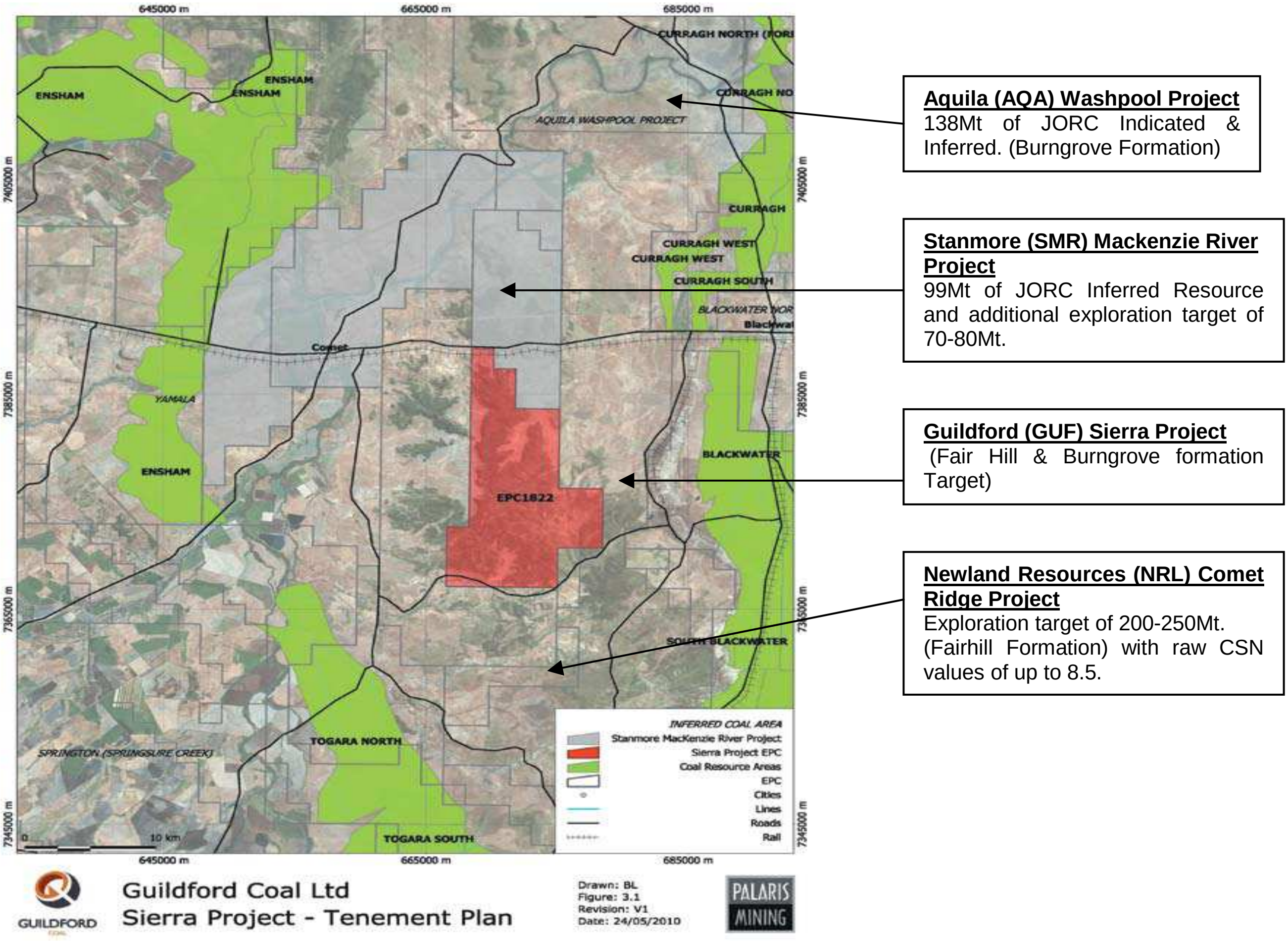
Introduction

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**) Mackenzie River project which has 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, the Blackwater Rail Link runs adjacent to the property with potential access to the Rockhampton Port. Figure 4 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.

Both the Burngrove and Fair hill seam formations are considered a highly banded coal 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).

Sierra Project (EPC 1822) - Sub-cropping exists on this project which occurs along strike to the North of EPC 1822. The benefits of this permit include a potential low strip ratio and low mining costs given formations have been identified close to surface.

Figure 4 Location of Sierra project and surrounding explorers



Source: Company presentation.

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. Both the Burngrove and Fair hill seams are considered a dirty coal with 30-40% ash, and require beneficiation to produce a saleable product.

Resources and Reserves

We have an initial exploration target of 200Mt and is targeting a maiden JORC Resource by June 2012. We have assumed an initial target of 80Mt from this tenement based on a yield of 40%.

Table 4: Exploration Target

Sierra Project	JORC (Mt)	Exploration Target (Mt)	Area (Km^2)	Area of Exploration focus (%)
EPC 1822	0	0 - 200	399	2.4%

GUF is currently awaiting the granting of this tenement and is expected to schedule the commencement of drilling in the September Quarter 2011.

Mongolia Projects - (South Gobi and Middle Gobi)

Introduction

GUF currently has a 20% ownership in two Mongolian projects through its equity interest in Terra Energy LLC (**TE**). Under the arrangement, GUF via wholly owned subsidiary Guildford Coal (Mongolia) Pty Ltd reached a binding agreement to acquire 20% of TE, a newly established Mongolian coal company that owns the exploration licences comprising the South Gobi and Middle Gobi projects in Mongolia.

Additionally, GUF has the option to increase its ownership in TE to 70% upon successful verification of defined coal targets.

The South Gobi Project

The South Gobi Project is located in the South Gobi Basin approximately 50 km east of two operating mines and one large coal project which have a total coal resource estimated to be 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.

SGS is also developing a new deposit called Soumber which is approximately 20 km east of their current operation. The production from both mines currently produce in excess of 5 Mtpa of high volatile bituminous coals which are marketed as a mixture of both thermal and coking coal products. The coal is currently sold run-of-mine (**ROM**) (unwashed) at mine gate to Chinese traders who transport the coal by truck to the Chinese border and stockpile it at Ceke. The target customers are the Chinese markets including the Gansu province, Inner Mongolia and Shanxi province.

The Middle Gobi Project

The Middle Gobi Project has 2 exploration licences located in the Dundgovi Province which is approximately 300km south of Ulan Bator and approximately 220km west of the Mongolian railway grid.

The project potential from the Middle Gobi project includes a large shallow, open pit thermal target to potentially feed demand to Mongolian and Chinese electricity generators. Figure 5 below, highlights the location of the two projects.

Figure 5 Location of Project

Source: Company website.

Geology

GUF with mining consultants Palaris conducted a field trip to the Mongolian area in December 2010 (an experienced coal mining group). During this site visit, Palaris inspected available historical data and observed evidence of coal seam outcropping through the deposit.

Overall comment from Palaris:

"The project area is dominated by a broadly east-west trending thrust fault known as the Nariin Sukhait fault which is inclined to the south. The Permian strata in the project area have a regional dip of 30-45 degrees to the south which is associated with the thrust faulting. The Nariin Sukhait fault has displaced Permian coal bearing sequences northward towards the surface producing an east-west trending target zone which is prospective for low ratio coal. Two operating mines producing both thermal and coking coal products exist along strike approximately 50 kilometres west of the project area."

Resources and Reserves

Palaris has estimated conceptual exploration target ranges based the following factors including:

- field trip observations;
- available geological data; and
- available exploration reports.

The cumulative exploration target for the licences contained in the Terra Energy South Gobi Project has a range of 0 to 880Mt. We have assumed an initial target of 92Mt from this tenement based on a 20% interest in the first 4 licences. Table 4 outlines the current exploration target for the South Gobi project. The Middle Gobi project is too early stage to determine an exploration target, hence we have assumed a zero target at this stage.

Table 5: Exploration Target

South Gobi Project	JORC (Mt)	Exploration Target (Mt)	Area (km^2)	Area of Exploration focus (%) Mongolia
1	0	0 - 160	252	45.5%
2	0	0-300	75	13.5%
3	0	N/A	36	6.5%
4	0	N/A	191	34.5%
Total	**0**	**0-460**	**554**	**100%**

Source: Company announcements.

References to Exploration Targets are in accordance with the guidelines of the JORC Code (2004). As such it is important to note that in relation to reported Exploration Targets any references to quality and quantity are conceptual in nature. Exploration carried out to date is insufficient to be able to estimate and report coal resources in accordance with the JORC Code (2004). It is uncertain if further exploration will result in the determination of a Coal Resource.
Tenement being negotiated by TE.

Outlook – 2011

Field activities has commenced at the South Gobi project with three drill rigs currently on site to delineate a JORC Resource. GUF have a call option that can be exercised anytime within six months from the commencement of drilling and following verification of 150Mt of JORC Indicated Resource.

The nature of the geology allows for a low-cost production mine, with low stripping ratios and an average ROM cash costs estimated at below US$20/t. Selling prices for (unwashed) ROM coal are estimated at US$40/t, representing a 60% discount to benchmark international coal prices because the coal is sold at the mine gate to traders and there are no processing/washing costs.

Corporate Structure

Table 9 Capital and Shareholder Structure

Type	No. (M)
Ordinary Shares – tradeable	213.53
Ordinary Shares – subject to escrow	200
Options	0
Total issued ordinary share (fully diluted)	413.53

Source: Company announcements

Table 101 Substantial Shareholders

Shareholder	No shares held	% held*
The Chairmen1 Pty Ltd	200,000,000	48.36%
Och-Ziff Capital Management	52,083,334	12.59%
UBS AG	30,618,307	7.40%
Credit Suisse AG	25,284,005	6.11%

Source: Company announcements

Table 11 Board and Management

Board	% Interest	Brief Description
Mr. Craig Ransley, Non Executive Chairman	7.43%	▪ Mr Ransley has extensive experience in the Labour Hire industry. He founded TESA Group Pty Limited (TESA) in 2000. He then proceeded to build TESA over a five year period into one of Australia's top 5 blue collar labour hire companies, with 17 offices across Australia and over 3000 employees. TESA was the premier supplier to the coal mining industry in NSW and QLD. TESA was acquired by Skilled Group Limited in 2006 for approx $62M. ▪ Mr.Ransley then co-founded ResCo Services, which was an acquisitive play in Mining Services in Black Coal on the Eastern Seaboard, acquiring and integrating 8 companies over an eighteen month period. The culmination was the only true Pit to Port privately owned mining services provider in Black Coal, employing some 1000 miners. ▪ Mr Ransley also put together the management team required to complete the back door listing of NuCoal Resources NL (NCR). ▪ Following on from NCR, Mr Ransley and his team formed a company called The Chairmen1 Pty Ltd (TheChairmen1), which acquired and pegged around 20,000km's of coal exploration tenements in Queensland across the Bowen, Maryborough, Galilee and Surat basins. The Chairmen1 then vended its assets into a wholly owned subsidiary, Guildford Coal Limited (Guildford) which listed on ASX in July 2010 with a market capitalisation of approximately $72 million with a listing price of $0.20. Guildford's price tripled over the first two months of trading and has been listed in the Australian Financial Review as one of Australia's 2010 best performing initial public offerings. ▪ In December 2010 ResCo Services merged with Humanis Limited, resulting in a truly International Services/Labour hire provider with a combined turnover in excess of $300M.

		▪ Mr Ransley is also currently the Chairman of TheChairmen1 and Chairman of Humanis Group Ltd.
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, a listed construction and civil and mining company, and is a consultant with Queensland Infrastructure Partners. ▪ Tony currently serves as Chairman of CTM Travel Limited and is a Non-Executive Director of ERM Power Limited and Australian Water (Qld) Pty Ltd. ▪ Previously, Tony had been Chief Executive of Ergon Energy, a Top 100 Australian company involved in electricity distribution and retailing, with assets of over $9 Billion. ▪ Prior to joining Ergon Energy, Mr Bellas was Chief Executive of CS Energy, Queensland's largest power generator, 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	2.97%	▪ 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.
Mr. Michael Chester, Non Executive Director	1.01%	▪ 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 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.
Hon. Alan Griffiths, Non Executive Director		▪ The Hon. Alan Griffiths was the principal of the highly awarded Quantm Ltd in 2001, now the global category leader in optimised road and rail corridor and route alignment selection for road and rail. ▪ Quantm has successfully identified optimal route and alignment outcomes for the many of the largest infrastructure projects across the globe, including for High Speed Rail, High speed and conventional Freight Rail, many iron ore and coal haul railways in Australia and internationally, and major Freeway and Tollways systems. The company was sold to Trimble Corporate of the USA in 2006. ▪ 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.

Source: Company website

Industry view

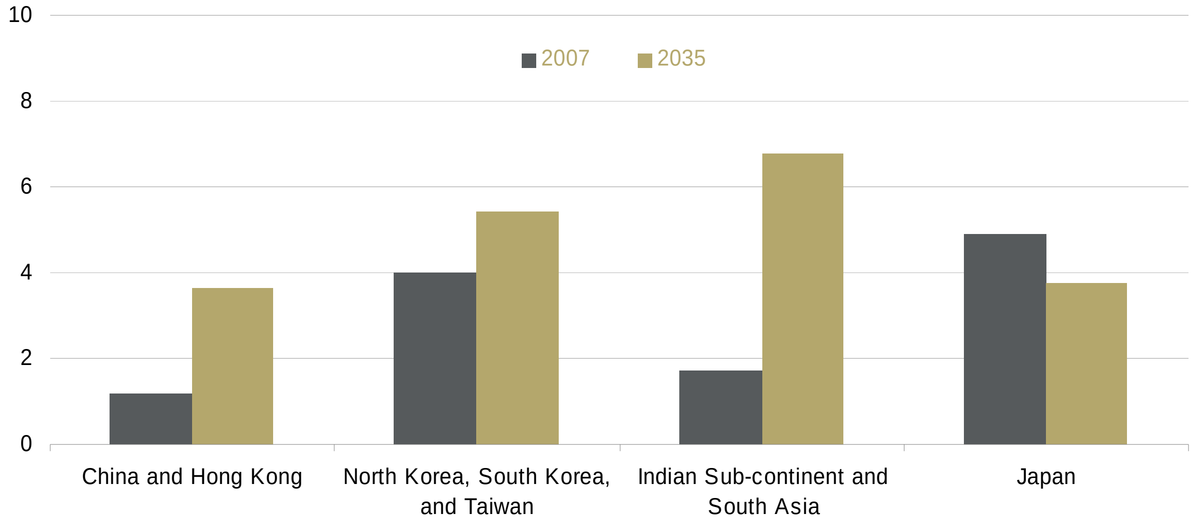
Supply & demand factors

Pricing

We remain bullish on the price of both thermal and metallurgical (coking) coal. The rationale for this view is that emerging economies are continuing to experience a substantial rise in electricity and metallurgical demand.

Coal remains the leading source of energy for China's and India's industrial sector, with coal fired power plants accounting for approximately 60% and 65% respectively of total energy use in 2007 according to the Energy Information Administration (EIA). 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 2008, 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. Figure 6 highlights the forecasted demand for coal imports by Asian region to 2035.

Figure 6: Coal Imports to Asia by importing region, 2007 to 2035F (quadrillion Btu)



Source: EIA, & SSY Consultancy and Research.

Additionally, in 2007, approximately 49% of China's coal use was used for the production of steel and pig iron. Chinas current capacity for coking coal is approximately 450-470Mt according to the EIA, with current demand of approximately 300Mt. Australia accounts for approximately 125Mt of exports in 2009 and as a result become China's largest trading partner. Australia is currently the largest supplier of coking coal in the world accounting for 54% of world exports.

As a result, we expect pricing to remain strong over the long-term, with a view that demand will outstrip supply over the next 20-30 years.

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 as well as two projects in Mongolia.
- 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 2011 and an additional two by FY 2012.

Valuation

In determining an appropriate valuation methodology to use for GUF we have considered the following factors:

- long lead time to production estimated for 2013;
- insufficient CAPEX and OPEX data; and
- non-JORC with only exploration target.

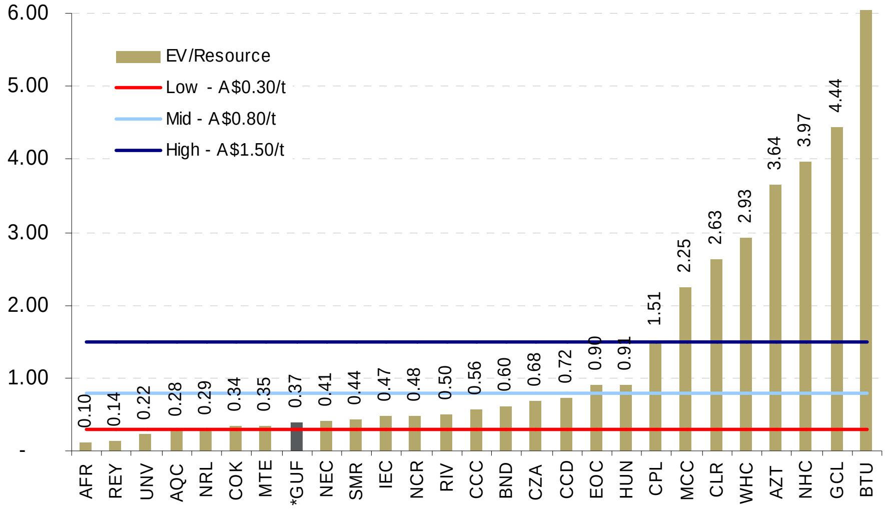
As a result, we have valued GUF using EV/Resource market multiples. Our $1.62 price target is based on the following:

- We have applied a conservative exploration target of approximately 1.2Bt across four key projects, namely **Hughenden, Kolan, Sierra** and **South Gobi**. We are currently attributing zero value to the potential of its other projects being Comet, Sunrise Monto and its Middle Gobi project in Mongolia. The initial 1.2Bt target is based on our initial exploration target for GUF and covers less than 5% of the total acreage GUF currently has under application.
- We have compared GUF to a number of its peers including explorers, developers and producers. The market is valuing GUF's peers between $0.14/t to $1.51/t currently for explorers with an average price of $0.55/t. 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.
- We believe at current levels with an exploration target of 1.2Bt, Guildford offers exceptional value to shareholders at $0.37/t of targeted resource. The market average is $0.55/t for a JORC Resource and using this as a benchmark for GUF with an initial exploration of 1.2Bt values the company at $1.62 per share.
- GUF's closest peer comparable in our view would be Bandanna Energy (BND) and Hunnu Coal (HUN), who 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 an exploration target of 800Mt – 1Bt with a current JORC Resource of 414Mt. Both companies are trading on a current EV of $0.58 and $0.68 respectively and we see this as potential value uplift for GUF as the company delineates a resource and begins to advance its suite of projects.

Peer Analysis

A peer comparison for GUF is highlighted in figure 7 below.

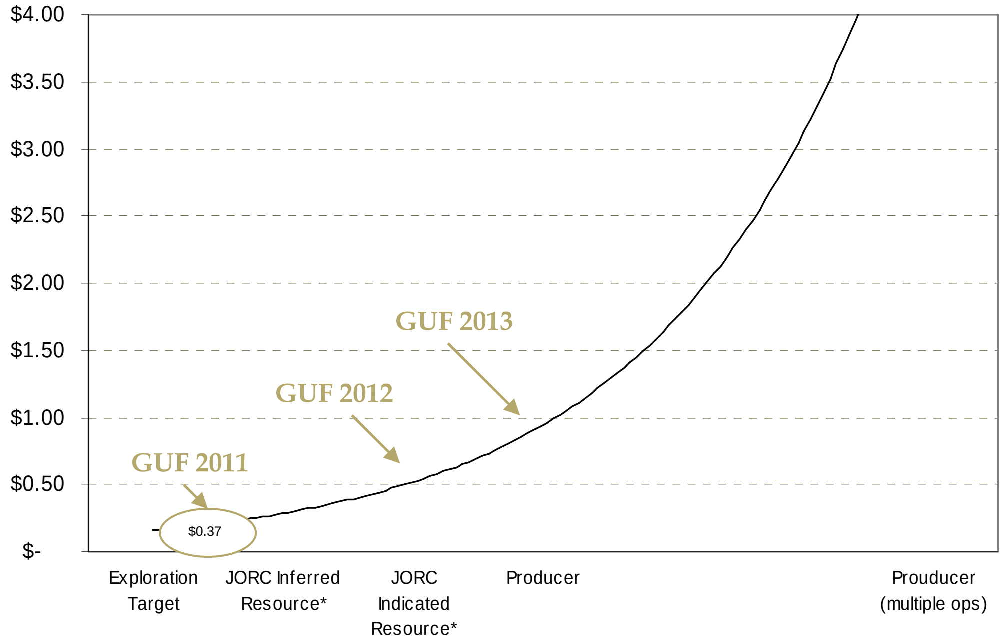
Figure 7: EV/Resource



Source: Stonebridge Estimates * we have an exploration Target of 1.2Bt of coal for GUF across 4 key projects.

Additionally, the coal enterprise value to resource curve (figure 8) highlights the upside potential for junior coal companies as they progress from exploration to development and into production. We see significant value uplift for a number of explorers as projects start to de-risk and production potential becomes more likely. GUF is currently trading on an EV/ Targeted resource of $0.37/t.

Figure 8: EV/Resource Curve



Source: Stonebridge Estimates

M&A Transactions

In our view, companies that trade below an EV/Resource metric of A$1.00/t, represent potential M&A Targets. M&A activity has heated up across the coal sector in the last 18 months as Asian suitors are turning their attention to Australian assets in order to secure long term supply. Recent M&A activity in the coal sector includes New Hope Coal's (**NHC**) current takeover bid for Northern Energy (**NEC**), Rio Tinto's (**RIO**) current bid for Riversdale Mining (**RIV**), Macarthur Coal's (**MCC**) acquisition of mining tenement MDL162 located in the Bowen Basin, Adani Enterprises acquisition of Linc Energy's (**LNC**) Galilee basin assets, the Aston resources (**AZT**) float as well as the $2.5bn takeover bid for Centennial Coal (**CEY**) from Banpu, Thailand's biggest coal producer.

We believe that the price being paid for non-operating assets in the coal space offers juniors the incentive to rapidly prove up JORC Resources, invariably resulting in significant value add to the underlying share prices. Our view is GUF is currently positioning itself to be a serious player in the coal space. Its large asset base and diversification potential of product and port will make GUF attractive to a number of suitors in the years ahead. The current exploration target of 1.2 Bt for GUF represents less than 5% of the total acreage GUF currently has under application.

Table 6 shows recent coal M&A transactions. Conservatively we estimate valuation metrics of $0.50/t and up to $1.70/t where at least 50% of Resource is at the Measured or Indicated level and or Reserves have been delineated.

Table 6: Coal M&A Transactions

Target	Acquirer	Type	Tonnes (Mt)	Value ($m)	EV/Resource (US$/t)
South Gobi Resources	CIC	Thermal/Cok	81.6	500	6.12
Felix Resources	Yanzhou	PCI/ Thermal/ SH	1,047	3,540	3.38
Trinity Coal Corp	Essar Group	Coking	200	600	3.00
Bayan Resources	Korea Electric	Thermal	201	515	2.56
Fajar Bumi Sakti	Bumi Resources	Thermal	100	226	2.26
Jacobs Ranch mine	Arch Coal	Thermal	338	764	2.26
Aston Resources	IPO	Thermal/SS	610	400^	2.21
MDL 162 coal project	MacArthur	PCI/SH	221.7	334^	1.68
Maruwai Coal Project	Adaro	Coking	199	335	1.68
Centennial Coal	Banpu	Thermal/Cok	1,913	2,449	1.28
Mamahak Coal Project	Kangaroo	Coking	9.9	12	1.21
Rocklands Richfield	Meijin Energy	Coking	170	184	1.08
Coal of Africa	ArcelorMittal	Thermal/PCI	45	45	1.00
Galilee Coal tenements/	*Adani Enterprises	Thermal	7,800	500*	1.00
Anvil Hill	Xstrata	Thermal	520	375	0.72
Vickery Coal Project	Whitehaven	Thermal	42	29	0.69
Middlemount Coal	Gloucester	PCI/SH Coking	75	51	0.68
Multiple Assets (Surat & Syd Basin)	Cockatoo	Thermal/Cok	256	105	0.41
Zambeze Coal Project	Wuhan Iron & Steel	Thermal/Cok	9,090	800^	0.22

Source: Bloomberg & Stonebridge Estimates.

***For Adani, we have taken the view that the $500m payment was for the Indicated Resource of 500mt and the Inferred Resource of 7.3bt is the royalty of $2/t over 20 production years. ^ is represented as Investors share in the company, eg Zambeze project @ 40% interest from WISC, and IPO for AZT, 33% was raised for the company. MDL162 for a 90% interest.**

Sensitivities

We have valued GUF using an EV/Resource methodology for an explorer. Our $1.62 price target is based on our initial targeted resource of 1.2Bt for four core projects, namely **Hughenden, Kolan, Sierra and South Gobi**. We are currently attributing zero value to the potential of its other projects being Middle Gobi, Comet, Sunrise and Monto.

Table 7 shows a sensitivity analysis for a range of EV/Resource values of $0.30/t, $0.80/t and $1.50/t. This shows the notional value for GUF ranges from $0.54 per share to $7.36 per share.

Table 7: Key Assumptions: EV/Resource

Project	Targeted Resource (Mt)	$0.30/t Valuation per share	$0.80/t Valuation per share	$1.50/t Valuation per share
Low	600	$0.54	$1.26	$2.28
Mid	**1,200**	**$0.98**	**$2.42**	**$4.45**
High	2,000	$1.56	$3.97	$7.36

Source: Stonebridge Estimates

Table 8 shows a sensitivity analysis for a range of EV/Resource values of $0.30/t, $0.80/t and $1.50/t which is adjusted for the success fee which is payable to Chairmen1 Pty Ltd in the event GUF delineate its first 100Mt of Indicated JORC resource from the Hughenden project. This shows the notional value for GUF ranges from $0.30 per share to $7.11 per share.

Table 8: Key Assumptions: EV/Resource (success fee included)

Project	Targeted Resource (Mt)	$0.30/t Valuation per share	$0.80/t Valuation per share	$1.50/t Valuation per share
Low	600	$0.30	$1.03	$2.04
Mid	**1,200**	**$0.73**	**$2.18**	**$4.22**
High	2,000	$1.32	$3.73	$7.11

Source: Stonebridge Estimates

Opportunities and Risks

Opportunities

The primary opportunities include:

- **Diversification of product and ports –** GUF is well diversified in terms of its exploration targets ranging from Hard Coking, Thermal and PCI coal for the domestic and export markets. We also see a significant opportunity for the company to access multiple projects and ports simultaneously, and the additional potential to access the Mongolian market through there direct equity interest in TE.

- **Strong relationships in key markets –** GUF has over the past twelve months established key relationships with a number of stakeholders. This includes funding partners, both port and rail access MOU's as well as engaging Morgan Stanley as a corporate advisor is a vital step in the overall strategy for the firm.

- **Large Tenement area –** The current exploration targets for GUF, represent less than 5% of the total acreage GUF currently has under application. This provides GUF with a unique position and opportunity over the coming years.

Risks

The key risks include:

- **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.

- **Carbon Tax –** The introduction of a carbon tax or change in legislation in relation to greenhouse gas emissions, may impact coal companies going forward.

- **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.

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Analyst Certification

As at the time of writing this report, the author did not hold shares in **Guildford Coal Limited** (**GUF**).

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