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Guildford Coal (GUF) - Mongolia it's on - BUY, PT 1.25/share

Event Impact - Materials Research



Guildford Coal (GUF) \$0.335

Recommendation: Buy

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Event

- The Mongolian government has granted the pre-mining agreement over the North Pit of the South Gobi project to Terra Energy. The pre-mining agreement is the federal approval for the mining license which is then ratified by the local government.
- GUF is a 75% shareholder of Terra Energy and the remaining 25% is owned by local Mongolian investors. A large fund manager has a convertible note which converts to 25% equity and it will dilute GUF and the local investors to 56% and 19% respectively.
- Under existing Mongolian Minerals Law, a mining license has a tenure of 30 years from date of grant with an option to extend for two additional 20 year periods.

Impact

- The granting of the pre-mining agreement validates a number of other agreements including a mining contract, offtake agreement and marketing agreement.
- The mining contractor employed is an experience Mongolian contractor, Grand Power Mining. A leadership team has also been employed to head the mining operations. This leadership team performed the same role for the startup of the Erdenes Tavan Tolgoi project for McMahon Holdings.
- A non-binding Heads of Agreement (HOA) has been reached with the Sojitz – Erdos JV that will form the basis of a binding offtake agreement. Sojitz is currently selling 1Mtpa of coal into China from Mongolia and aims to increase this significantly through the JV. The HOA provides for two elements with prices linked to seaborne metallurgical coal prices;
 1. Direct ROM sales at the mine gate (up to 1Mtpa)
 2. Transport and washing of additional coal on a toll basis at a wash plant in China at the Ceke boarder. The JV currently has a fully constructed, underutilized wash plant with a capacity of 4-5Mtpa.
- A marketing agency agreement has been signed with Noble Resources. This is for coal produced from the South Gobi project including coal toll washed at Ceke by the JV. A loan facility is provided by Noble Resources as part of the agreement to fund the construction and development of the start-up mine on the North Pit.

- ROM production from the North Pit is expected to be 3Mt in the first full year of production and 4Mtpa at full production in the second year. Terra Energy is also developing a second mine at the East Pit. All requisite approvals are in place for the East Pit and mining could happen in parallel with the North Pit, significant increasing saleable coal production.
- This catapults GUF into the ranks of multi-million ton producers. **We retain our BUY recommendation with a price target of \$1.25/share.**

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