wise-owl.com

Guildford Coal Ltd (GUF.ASX)

Quality and Quantity

19 Jan 2015 | Last Price: $0.033

Initiating Coverage

Valuation: $0.058

Overview: Guildford Coal Ltd (“Guildford”, “the Company”) is an Australian mining company with a diversified portfolio of coal assets in Mongolia and Queensland. Its current focus is the South Gobi Project, which hosts Measured, Indicated and Inferred coal resources totalling 68Million tonnes (Mt), and pre production construction is complete. The Company’s broader coal resource portfolio totals 289Mt in Mongolia and 2,128Mt in Australia.

Exploration → **Resource** → Reserve

Catalysts: Commercial production at South Gobi is Guildford’s major value growth driver. With construction completed, it is contingent on coking quality tests now underway, and subsequent offtake partnerships. The Company is subject to a scrip based takeover bid by Singapore based, Sino Construction Ltd, with a current implied value of $0.058/share.

Hurdles: Targeted coking coal specifications at South Gobi remain to be supported by quality appraisals and offtake partnerships. With interest bearing liabilities of US$103m, restructuring discussions remain to be formalised and a large degree of near term cash flow will be directed to loan amortisation.

Investment View: Guildford offers speculative exposure to the coal mining industry. We are attracted to the potentially imminent cash flow from its South Gobi Project, and scale of coal resources contained in its Australian portfolio. Balance sheet risks are significant but mitigated to a degree by the Sino Construction Ltd takeover offer. Confirmation of coking product qualities at South Gobi, offtake agreements, and restructuring of borrowings offer near term drivers. Our valuation of $0.058/share represents a premium of 75 per cent to recent trade, but does not incorporate a premium for control. Whilst restructuring discussions are formalised, we initiate coverage.

Guildford Valuation Summary

Method	Assumption	Valuation	Per Share
Comparables	0.2x - 0.3x Invested Capital	$47.5m	$0.042
Discounted Cash Flow	Coal Price US$110/t	$81.7m	$0.073
Average		**$64.6m**	**$0.058**

Corporate Summary

Shares on Issue	917.6m
Other Securities	
	US$10m Con Notes($0.06, July 2015)
	66.7m Warrants ($0.17, Jan 2019)
	2.4m Performance Rights ($0,Oct 2016)
Net Debt	$117m
Market Cap	$30m

Asset Overview

Title	Sth Gobi Project	Galilee Project
Location	Mongolia	Qld, Australia
Status	Resource	Resource
Resource	68MT M+I+I	1936MT M+I+I
Grade	Coking	Thermal

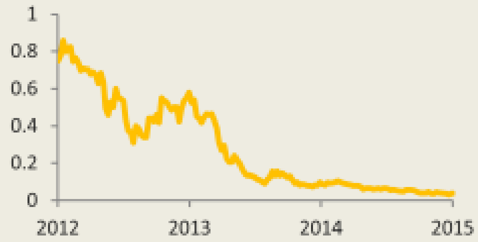
Board of Directors

Chairman	Mr Craig Ransley
Managing Director	Mr Michael Avery
Exec Director	Mr Tsogt Togoo
Non Exec Director	Hon Craig Wallace

Shareholders

Directors	2.0%
Maiora Special Situations	17.7%
C1 Commodities Pte Ltd	10.9%
TheChairmen1 Pty Ltd	8.8%
Och Ziff Capital Mgt	5.4%
Top 20	63.5%

Share Price $



Source: Bloomberg

Company Overview

Guildford Coal Limited (“Guildford”, “the Company”) is an Australian mining company with coal assets in Mongolia and Australia. Its most advanced asset is the South Gobi Project, incorporating the Baruun Noyon Uul Mine (“BNU”) in Mongolia’s Omnigovi aimag province. Resources of 27Million tonnes (Mt) classed as Indicated and Inferred have been delineated at BNU and trial mining has commenced. The operation falls within a broader mineral resource portfolio totalling 289Mt in Mongolia and 2,128Mt in Australia.

Figure 1: Guildfordis an Australian Company with coal projects in Queensland and Mongolia: Source: wise-owl

Guildford was founded in 2009 and listed on the Australian Securities Exchange in July 2010 upon raising $2million at 20c/share. Issued capital currently stands at $175.4 million, or $0.19/share.

Asset Overview – South Gobi Project (70-100%)

The South Gobi Project consists of two mining leases and six exploration licences covering 696km^2 in Mongolia’s South Gobi region. It is located approximately 850 kilometres south-west of the Mongolian capital, Ulaanbaatar and approximately 140 kilometres from the Chinese border.

Commercial coking coal production looms in Sth Gobi

Approximately 100 km west, South Gobi Resources Ltd operates the Ovoot Tolgoi mine and Mongolyn Alt Corporation operates the Nariin Sukhait mine, which have a collective production capacity of 20Mt pa. These mines transport their coal to China via Ceke, which hosts stockpiling and processing facilities.

South Gobi Project –Resource Estimate

	Measured	Indicated	Inferred	Total
BNU	15Mt	9Mt	3Mt	**27Mt**
East	-	-	41Mt	**41Mt**
Quality	Coking Target and Thermal			

Table 1: South Gobi Project Resource. BNU estimate completed to JORC (2012) standard. East licenses estimate completed to JORC (2004) standard. Source: Guildford

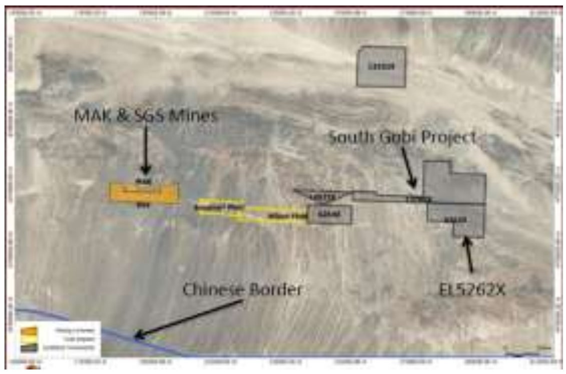


Figure 2: Located in Mongolia’s South Gobi region, the BNU Mine within Guildford’s South Gobi Project is its most advanced asset. Source: Guildford

Guildford procured the South Gobi Project via the staged acquisition of Terra Energy LLC from March 2011 for total consideration of $21m cash and 61.45m shares. The transaction also incorporated Guildford’s Mid Gobi Project, which is profiled separately.

The area under Mining Lease was the subject of a Scoping Study completed in 2012. Its most recent Resource estimate was completed in June 2014, delineating Measured, Indicated, and Inferred Resources totalling 27Million tonnes, compliant to JORC (2012) standards. It contains all Measured and Indicated Resources associated with the South Gobi Project. Whilst, the coals are believed to be of coking quality, appraisal of their characteristics is ongoing.

Development Strategy

Following completion of its 2012 Scoping Study, Guildford entered into a marketing agency agreement with Noble Resources International Pte Ltd (Noble Resources) for coal produced from the South Gobi Project. As part of the agreement, Noble Resources has extended a US$38million loan to assist with mine development.

Guildford has subsequently developed a six year, open cut mine plan, and established critical mine infrastructure, including box cut development and construction of a 98km haul road to the Chinese border crossing at Ceke, where processing facilities are available.

The mine plan is scheduled to initially produce 1Mt pa Run of Mine ("ROM") coal, ramping up to 2Mt pa during 2016. The average Life of Mine ("LoM") strip ratio is 13.3bank cubic metres per ROM tonne. The mine plan presently incorporates around half of the existing Resource.

As reserve definition is partly contingent on validation of the coal's metallurgical characteristics, Guildford's recent focus has been quality testing and trial shipments to prospective customers. Following completion of the permitting phase in July 2014, two separate trial shipments totalling 22,300tonnes raw coal have been delivered, with inaugural sales to Sojitz, Hong Kong.

Contingent on results of offsite washing and metallurgical tests, the target specification of the primary product from BNU is for a low ash premium quality hard coking coal with low sulphur and the following key parameters;

Ash 8%, Volatile Matter 25%, G Caking Index (G) 80, Sapozhnikov Test (Y) 17, Coke Strength after Reaction (CSR) 50+, Sulphur (S) <0.7%, Total Moisture (TM) 8%.

Ramp up to full production as per the mine plan is pending execution of long term off take agreements.

Economics

Capital expenditures associated with mine development at BNU are largely complete. Mine site costs are expected to be $51/t, whilst transport, processing, and marketing is expected to add $37/t.

Should Guildford successfully establish product from the BNU mine as a premium hard coking coal, changes in its relative value can be monitored via the Bloomberg seaborne hard coking coal index.

Mine development is complete

Figure 3 and 4: Top – Panoramic view of the box cut at the BNU Mine. Bottom: Digger working exposed coal seam at base of box cut. Source: Guildford

Trial shipments delivered for quality testing

Figure 5: Haul road constructed by Guildford over which ROM coals will be delivered to China for further processing. Source: Guildford

Since reaching a peak above US$300/t during 2012, the index has retreated by approximately two thirds to US$117/t. However with current index levels only 2.5 per cent below the previous corresponding period, the past 12 months is emerging as one of the most stable pricing periods of the past decade.

Coking coal benchmarks stabilising following three years of contraction

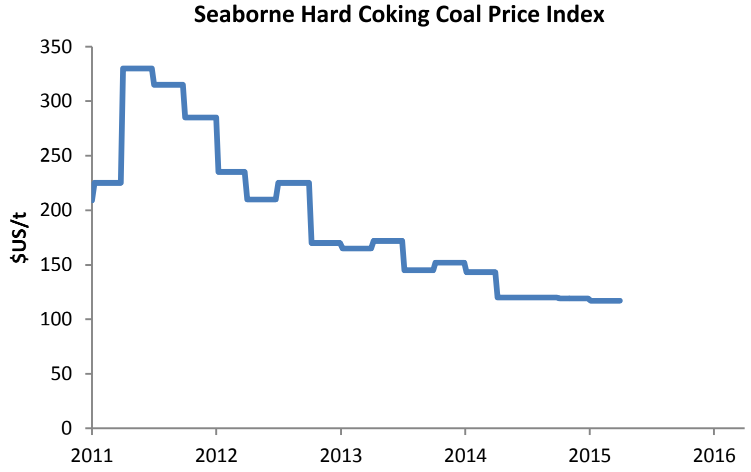


Figure 6: Guildford has completed development of the BNU Mine amid challenging market conditions that have seen coking coal prices contract by two thirds over the past three years. Source: wise-owl, Bloomberg

We understand that similar Mongolian coals supplied to China through the border crossing of Ganqimaodou are currently attracting prices of US$80-$90/t. Whilst Ganqimaodou is the most active border crossing for Mongolian coal into China, Guildford's planned border crossing at Ceke is closer to key markets such as Wuhai, Gansu and Xinjiang. Guildford anticipates that transportation savings in the order of US$30/t versus Ganqimaodou supplied product could translate into more favourable pricing for output from the BNU Mine.

South Gobi Project Economic Summary

Status	Commissioning	Trial shipments underway
Licensing	Fully Permitted	2Mtpa capacity
Mine Life	6 Years +	Incorporates < 1/5th of M+I+I Resources
Sunk Capital	A$67m	Mine construction & haul road
Economics	Opex $88/t	For delivery and processing into China

Table 2: Economic Summary of the South Gobi Project. Source: Guildford. Wise-owl

Figure 7: Stockpiled product awaits delivery pending results of coking quality tests. Guildford aims to position its output has premium hard coking coal. Source: Guildford

To enhance economics of the South Gobi Project, Guildford is seeking to acquire exploration license 12600 which lies adjacent to its BNU Mine. Acquisition of the license has potential to extend BNU's mine life and leverage existing infrastructure. An option agreement was executed with existing license holder, Noble Resources, in November 2013 and due diligence is ongoing.

Asset Overview – Mid Gobi Project *(70-100%)*

The Mid Gobi Project consists of two exploration licenses spanning 360km² in Mongolia's Dundgovi Province which is approximately 200km south of Ulaanbaatar and just over 200km west of the Mongolian railway grid, which offers a logistic route to China via the Erlianhaote border crossing.

The Mid Gobi Project lies adjacent to the Tsagann Ovoo Mine, which provides thermal coal for the domestic energy market. The licenses were acquired as part of the staged acquisition of Terra Energy LLC from March 2011 for total consideration of $21m cash and 61.45m shares. The transaction also incorporated Guildford's South Gobi Projects, discussed previously.

Figure 8: Mid Gobi Project location relative to South Gobi Project. Source: Guildford

Mid Gobi Project – 2011 Resource Estimate

	Measured	Indicated	Inferred	Total
Mid Gobi	-	32.3Mt	189.1Mt	**221.4Mt**
Quality	Medium to high ash thermal coal			

Table 3: JORC (2004) compliant Resource Estimate and key quality parameters for the Mid Gobi Project. Source: Guildford

221Mt JORC (2004) Resource

Development Strategy

After acquiring the Mid Gobi Project in 2011, Guildford's focus has been exploration. The Company has established JORC (2004) compliant coal resources of 221.4Mt classed as Indicated and Inferred.

As quality testing to date suggests the coals to be low rank thermal coal, Guildford indicates that a large scale open cut mine would be the most suitable development scenario. We understand that further development of the Mid Gobi Project will likely require a recovery in thermal coal markets. Over the past three years, export grade thermal coal benchmark prices have contracted over 40%.

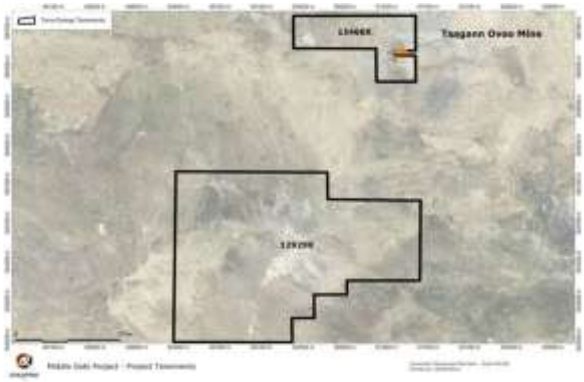


Figure 9: Mid Gobi Project tenement map. Source: Guildford

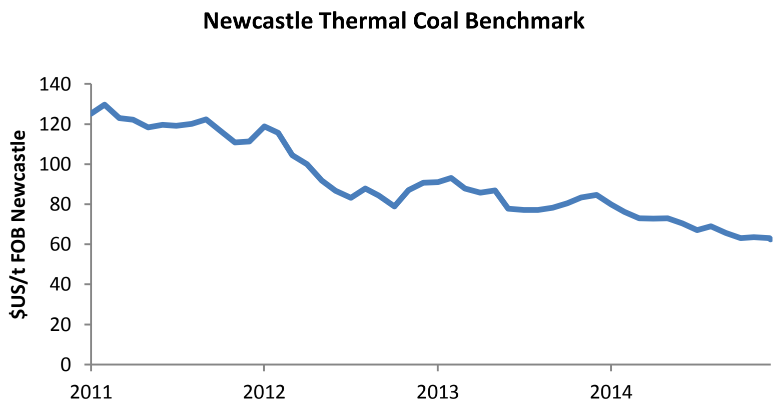


Figure 10: International thermal coal prices have contracted since 2011. Source: Bloomberg

Asset Overview – Galilee Coal Projects (64-100%)

The Galilee Coal Projects consist of 22 exploration licenses spanning 12,369km^2 in Queensland, Australia. The licenses are located in the Galilee Basin, which is a coal bearing structure extending over an area of approximately 247,000km^2 in central Queensland. The licenses straddle the townships of Pentland, Hughenden, and Richmond, which lie between 300km to 500km west of Townsville along the Mt Isa Rail Line.

Figure 11: Galilee Coal Project tenement map. Source: Guildford

Copper and Phosphate mines situated in the Mt Isa district 500km west utilise this rail corridor, whilst the operating Pajingo gold mine is situated approximately 200km eastward. There are three major thermal coal developments underway in the south eastern part of the Galilee Basin, between Emerald and Clermont. They are situated approximately 700km south east of Guildford's Galilee Coal Projects, and plan to utilise separate logistical routes. Guildford's Galilee Coal Projects were acquired prior to its 2010 Initial Public Offer.

Galilee Coal Projects – H2 2012 Resource Estimate

	Measured	Indicated	Inferred	Total
Clyde Park	-	51Mt	677Mt	728Mt
Hughenden	-	132.9Mt	1,076Mt	1,208.9Mt
Total	**-**	**183.9Mt**	**1,753Mt**	**1,936.9Mt**
Quality	Thermal Coal			

Table 4: JORC (2004) compliant Resource Estimate and key quality parameters for the Galilee Coal Projects. Source: Guildford

1936Mt JORC (2004) Resource

Development Strategy

Subsequent to its IPO, Guildford's focus in the Galilee has been exploration and supply chain development. The Company has delineated 1,936.9Mt coal resources classed Indicated and Inferred, compliant to JORC (2004) standard.

Guildford has also entered Memorandum of Understandings (MoU) with QR National and Asciano, the two freight haulage operators on the Mt Isa Rail Line. The MoU's are intended to drive collaboration in developing a logistics solution for Guildford's Galilee Projects.

The Mt Isa Rail system presently hauls 5.8Mt pa. Its owner, Queensland Rail, has accommodated the potential future haulage of coal in its Master Plan released during 2012. To establish additional capacity for 10Mt pa coal haulage from Hughenden, Queensland Rail estimated the required investment to be $631million over a three year construction period.

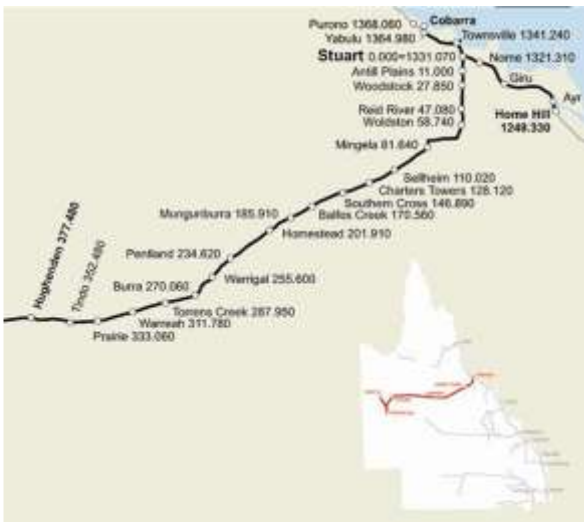


Figure 12: Line map of the Mt Isa rail system between Hughenden and Townsville Source: Qld Rail

Expansion may also be necessary for the rail line's connecting port at Townsville. The Government owned and operated port currently has nine available births and exports over 2Mtpa of concentrated and refined metal products. Master planning is underway to increase its capacity. An alternative loading and shipping point with existing coal handling facilities is provided by Abbot Point port, 200km south of Townsville. During 2011 Guildford lodged an Expression of Interest with operator, North Queensland Bulk Ports Corporation, for the proposed expansion of Abbot Point.

Figure 13: Conceptual development schematic of the Galilee Basin Project showing proposed mining areas at Hughenden and Clyde Park. Existing rail line shown in blue line. Source: Guildford

In anticipation of infrastructure upgrades, Guildford completed a Conceptual Mining Study in October 2012 and lodged a Mining License application over the Clyde Park area, where it is envisaged that a Coal Handling and Processing Plant (CHPP) would be installed.

Clyde Park is estimated to host Indicated and Inferred resources totalling 728Mt and the south-eastern boundary of license EPC1260 is approximately 15 km from a potential rail siding at Pentland. It is envisaged that Clyde Park could host a combined open cut/underground mine, whilst the CHPP could accommodate coals from a separate underground mine at Hughenden, which is estimated to host Indicated and Inferred resources totalling 1,208.9Mt.

Clyde Park site 15km from potential rail siding

Economics

Guildford's October 2012 Conceptual Mining Study estimated that a 10Mt pa multi mine operation would require capital investment of $750million and deliver coal for export at an operating cost of $75/t.

The most relevant pricing indicator for the Galilee Projects is provided by the Newcastle benchmark for thermal coal exported from Australia's east coast. Approximately half of the coals at Clyde Park have been identified to be of export quality grade, whilst depth of coals at Hughenden has been identified as the primary economic constraint rather than grade.

Whilst additional testing is required to ascertain the product characteristics of Clyde Park and Hughenden coals, market conditions are presently the major impediment to further development of an export operation.

Export and domestic power potential

In the event of a sustained contraction, Guildford's Galilee Projects could be utilised as a strategic fuel supply to support base load power development in North Queensland. A Federal Government funded feasibility study released June 2014 highlighted that an 800MW coal fired power station in the Galilee Basin could generate potential social cost benefit gains of $836million[1].

1. GHD, Townsville Enterprise (2014). North & Northwest Queensland Sustainable Resource Feasibility Studies

Asset Overview – Other QLD Projects (35-100%)

Guildford's other Queensland Coal Projects incorporate five coal exploration licenses and two coal exploration license applications covering a total area exceeding 2000km^2. The licenses are geographically dispersed across five project areas within Queensland's Bowen Basin, Maryborough Basin, and Surat Basin.

They were acquired prior to Guildford's 2010 IPO. We understand that further development is contingent on a recovery in coal markets.

Bowen Basin Projects

Within this portfolio, Guildford's most advanced asset is a 35.78% interest in the Springsure Project. Situated 60km south of Emerald, Springsure is located along strike, 3km south of the Minerva open cut thermal coal mine, operated by Sojitz.

Mineral Resources totalling 191.5Mt, classed Indicated and Inferred have been delineated at Springsure. Quality analysis to date indicates the coals to be of similar export quality to the Minerva mine, although greater depths of the coal seams would require future development to be an underground mining operation. Mining studies still need to conducted.

Figure 14: Tenement map of other Qld Projects. Source: Guildford

Springsure Project – 2012 Resource Estimate

	Measured	Indicated	Inferred	Total
Springsure	-	43Mt	148Mt	191Mt
Quality	Thermal Coal			

Table 5: JORC (2004) compliant Resource Estimate and key quality parameters for the Springsure Coal Project. Source: Guildford

191Mt JORC (2004) Resource at Springsure

Guildford has yet to delineate Mineral Resources at its other Bowen Basin Project, Sierra (100%), which is 20km west of Blackwater.

Maryborough Basin Projects

Guildford's Maryborough Basin Projects incorporate Kolan and Monto, which are situated between 18 and 78km west of Bundaberg. The Kolan and Monto Projects are 60km apart. Guildford's interests in the licenses are 100%. Mineral resources have yet to be delineated.

Surat Basin Projects

Guildford's Surat Basin asset is the Sunrise Project. Located 160km north west of Roma, the Sunrise Project covers 1,800km^2. Completion of the two exploration license applications incorporating the Project remains pending and mineral resources have yet to be delineated.

Financial Performance

Whilst trial production has commenced at Guildford's South Gobi Project, output has yet to reach a scale that eliminates the Company's reliance on external capital. To date, Guildford has funded activities through equity, convertible securities and borrowings. Issued capital currently stands at $175.4 million, or $0.19/share.

Guildford Financial Summary

Issued Capital	$175m	$0.19/share
Interest Bearing Liabilities	$117m	Restructure in progress (US$103m)
Remaining Funds	$4m	Nov '14 option exercise at $0.06/share
Capex	-	BNU Mine production ready

Table 6: We estimate Guildford has invested $288million in its Mongolian and Australian coal assets. Source: wise-owl

$7million renounceable entitlement offer to facilitate debt restructure and provide working capital

The Company's last equity issuance was conducted between July and November 2014 at $0.06/share via a non renounceable entitlement offer, institutional placement, and accompanying option issue. Approximately $9.3million was raised, with 157.6million new shares issued, expanding shares outstanding by approximately 22 per cent. Approximately 90 per cent of shares issued were subscribed by Maiora Asset Management Pte Ltd ("Maiora"), underwriter of the entitlement offer. Maiora is now Guildford's largest shareholder, accounting for 17.73 per cent of shares outstanding.

Acting Chairman seeking to acquire OCP Asia Con Notes

Interest bearing liabilities currently total US$103million, comprised of arrangements with two counterparties. Noble Resources has extended US$38million since September 2012 to assist with development of the South Gobi Project. The loans are secured by Guildford's Mongolian subsidiaries.

Alternative Investment Fund Manager, OCP Asia Ltd ("OCP Asia"), has extended US$65million since March 2013, with the facilities secured by Guildford's Australian coal assets and accompanied by the issuance of 66.7million warrants convertible into ordinary shares at $0.17/share prior to January 2019.

To facilitate a restructuring of these facilities and provide working capital, Guildford is currently undertaking a $7million pro rata, renounceable entitlement offer on the basis of one new share for every 4.85 shares held at a price of $0.037/share. Following the offer, Noble Resources has agreed to extend its existing facility with Guildford by a further $7million for working capital purposes.

Separately, acting Chairman, Craig Ransley is representing a consortium which has agreed to acquire US$10million convertible notes currently held by OCP Asia. Formal documentation surrounding the loan restructurings remain pending.

Valuation

Guildford's investment appeal rests in the cash generating capacity of its South Gobi Project, and substantial inventory of coal resources in Mongolia and Australia. Our appraisal utilises a Comparables based approach and Discounted Cash Flow methodology.

Per share valuations are derived from both methods assuming existing interest bearing liabilities are restructured with no further equity issuances required aside from settlement of US$10m convertible notes maturing July 2015. An AUD/USD exchange rate of 0.85 is assumed.

The Discounted Cash Flow arrives at a valuation of $81.7million which equates to $0.073/share. Our Comparables approach arrives at a valuation of $47.5million, which equates to $0.042/share. Applying equal weightings both methods delivers an aggregate valuation of $64.6million or $0.058/share.

Valuation $0.058/share

Guildford Valuation Summary

Method	Assumption	Valuation	Per Share
Comparables	0.2x - 0.3x Invested Capital	$47.5m	$0.042
Discounted Cash Flow	Coal Price US$110/t	$81.7m	$0.073
Average		**$64.6m**	**$0.058**

Table 7: Our two appraisal methods suggest Guildford may be worth $0.055/share
Source: wise-owl

Comparables

Our peer based valuation of Guildford is based on a universe of publicly listed companies with predominantly coal assets in Australia and Mongolia. To benchmark Guildford's Mongolian assets we have developed a peer group of companies with thermal and coking coal assets in Mongolia at or beyond the feasibility stage. To benchmark Guildford's Australian assets we have developed a peer group of companies with thermal coal assets in Queensland at the exploration and feasibility phase.

In light of recent contraction in coal price indicators, industry participants are generally trading at equity valuations below invested capital. We have therefore adopted the multiple of invested capital as our valuation metric for the comparables analysis.

The average equity valuation for Guildford's Mongolian peers is approximately 0.2x invested capital. Companies with predominantly coking coal assets attract a premium, and presuming quality testing at Guildford's South Gobi mine achieves its coking grade target, we have applied a multiple of 0.3x to its Mongolian assets.

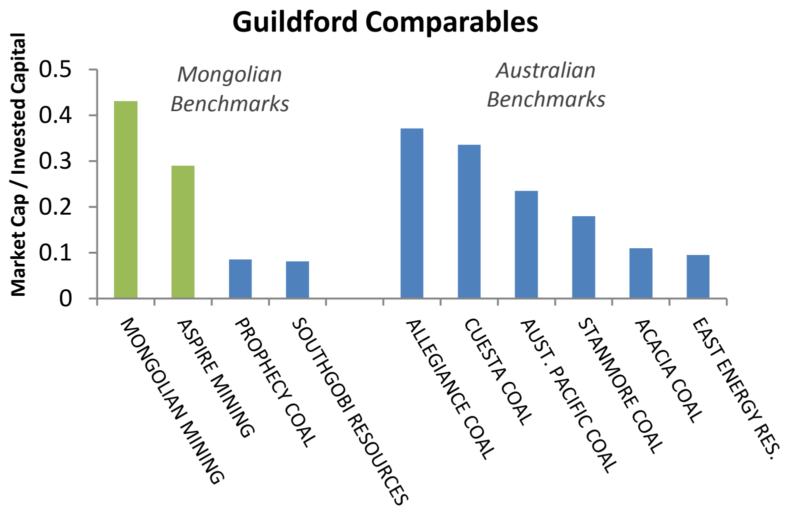


Figure 15: Valuations of Comparable Mongolian and Australian Coal companies. Green bars denote coking coal companies. Source: wise-owl, Company announcements.

Comparable valuations 0.2 to 0.3x Invested Capital

For Guildford's Australian assets, we have adopted the average equity valuation of the peer group, which is approximately 0.2x invested capital.

Guildford Comparables Valuation

Asset	Invested Capital	Multiple	Valuation
Mongolia	$93.7m	0.3x	$28.1m
Australia	$97m	0.2x	$19.4m
Total			**$47.5m**

Table 8: Applying multiples of 0.2 to 0.3x invested capital suggests Guildford is worth $47.5m. Source: wise-owl

Discounted Cash Flow

Our Discounted Cash Flow appraisal is restricted to Guildford's South Gobi Project, where mine development is complete and commercial operations are pending results of product testing and offtake negotiations.

Whilst Guildford's current mine plan at BNU is constrained to six years, we have modelled a 14 year operation commencing FY2016 initially producing 1.5Mt pa ROM. Expansion to 2Mt pa ROM is scheduled from 2022 delivering total ROM output of 24Mt over Life of Mine ("LoM"). This is consistent with the current level of Measured and Indicated resources currently delineated at BNU, but nonetheless, assumes the Company will successfully delineate ROM reserves beyond that captured in the current mine plan.

An average product yield of 80% has been applied to ROM coal, and a production cost of US$83/t has been applied to salable phase one output, which includes processing and delivery charges to Ceke. We have modelled an average selling price of US$110/t over LoM.

Guildford Discounted Cash Flow Summary

Metric	Assumption	Comment
Start Up Capex	-	Capex completed
Debt Funding	US$103m	10% interest pa
Saleable Output	2Mt pa	Initially 1.5mpta
Operating Cost	US$83/t	per tonne salable product @ 1.5Mt pa
Coal Price	US$110/t	22 to 37 per cent premium to current market
Ungeared NPV$_{10}$	US$131m	Pre financing cost, post tax & royalties
Geared NPV$_{10}$	A$81.7m	Post tax, royalties, financing costs

Table 9: Parameters and key results of our DCF valuation. Source: wise-owl

DCF Valuation $81.7million

Our pricing assumption is a 22 to 37 per cent premium to the current market price of similar coals delivered to Ganqimaodou, hence, it implicitly assumes:

- pending wash and quality testing achieve premium hard coking coal quality specifications targeted by Guildford
- a combination of recovering coking coal markets and transportation savings for offtake partners realise higher prices for Guildford than that implied by Ganqimaodou benchmarks

With development expenditures associated with the BNU Mine completed, our modelled cash flows generate a Net Present Value of US$131million on an ungeared basis, applying a 10% discount rate. For the purposes of our appraisal, we have assumed that cash flow is used to service Guildford's interest bearing liabilities with Noble Resources and OCP Asia.

The model assumes facilities provided by Noble Resources and OCP Asia is restructured with interest charged at 10% pa and principal retired over a ten year period commencing FY16. Applying a 10% discount rate, the Net Present Value to Guildford is US$69.5million. Assuming a 0.85 AUD/USD exchange rate delivers an NPV of A$81.7million.

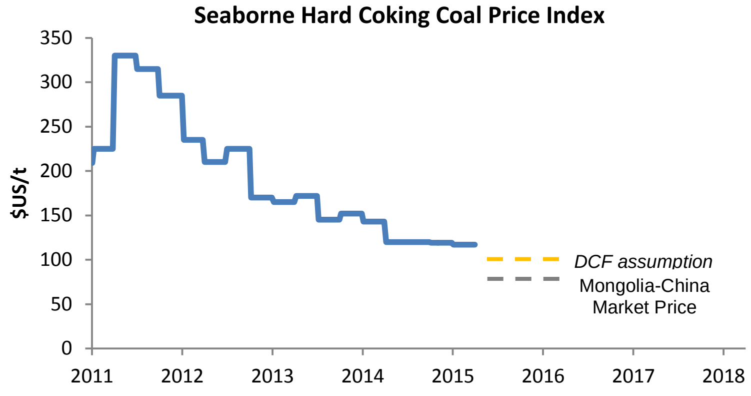


Figure 16: Comparison of DCF price assumption, current market benchmark price for Mongolian coking coal delivered to China, and international seaborne benchmark price. Source: Bloomberg, wise-owl

Investment View

Guildford offers speculative exposure to the coal mining industry and demand for steel making ingredients. We are attracted to the possibility of imminent cash flow from its South Gobi Project, and the scale of coal resources contained in its Australian portfolio.

Confirmation of coking product qualities at South Gobi, offtake agreements, and restructuring of interest bearing liabilities stand as the Company's major near term value growth drivers. Utilisation of cash flow from South Gobi to restore balance sheet stability is the major medium to long term value driver.

Valuation represents 75 per cent premium to recent trade

Balance sheet risks are currently significant, but mitigated to a degree by a takeover bid from Sino Construction Limited ("Sino Construction"), a Singapore based Company listed on the Singapore Stock Exchange (tickers "F3V" and "SICON"). The scrip based bid is offering 4.5 shares for every Guildford share. Utilising the one month volume weighted average price of Sino Construction shares, and the one month average SGD/AUD exchange rate of 0.92, the offer currently values Guildford at $0.058/share.

Supported by takeover bid

Without incorporating a premium for control or the proposed entitlement offer, our valuation of Guildford stands at $0.058/share. This represents a premium of 75 per cent to recent trade, and suggests the current control premium implied by Sino Construction's offer is zero.

Whilst the Company seeks to validate the coking qualities of its South Gobi Project and restructure interest bearing liabilities, we initiate coverage, reserving our investment view.

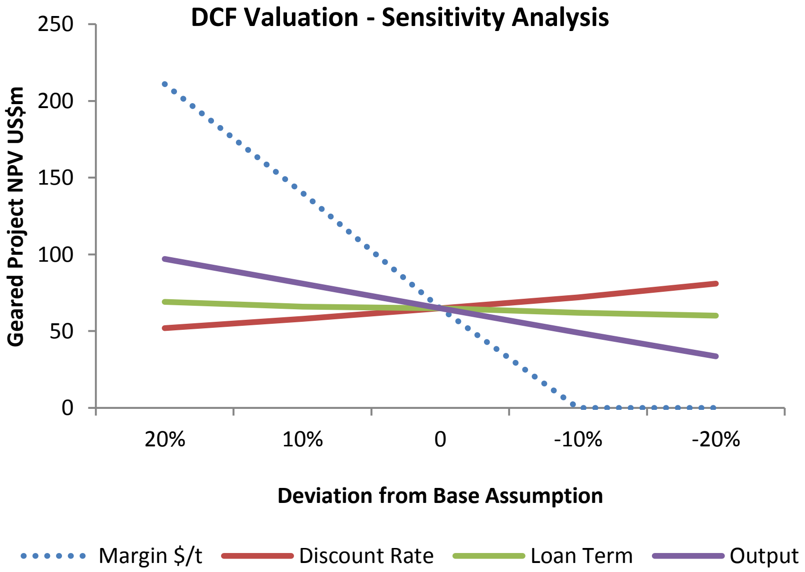


Figure 17: DCF valuation is most sensitive to coal prices. Source: wise-

Risks

Technical Risks

There is no guarantee that the current six year BNU Mine plan can be extended to incorporate a greater proportion of the Project's Resource estimate, or that further exploration within the South Gobi licenses can delineate additional commercial resources. There is no guarantee that existing resources within Guildford's Queensland portfolio can be economically extracted. Rail and port facilities closest to Guildford's Galilee Projects are not presently utilised for export of coal, and future utilisation is contingent on significant capacity expansion.

Market Risks

Whilst Guildford is targeting production of a premium hard coking coal, product testing has yet to be concluded, or supported by off take agreements. There is a risk realised product quality and processing yield is below targeted specifications, hence attracting lower prices than benchmarks referenced in our appraisal. Thermal and Coking Coal prices have been contracting for the past three years and there is no guarantee the trend will cease.

Funding Risks

Guildford's interest bearing liabilities currently total US$103million, and whilst restructuring discussions are underway with creditors, there is no guarantee maturities of existing facilities will be extended. Our appraisal assumes that Guildford retires interest bearing liabilities over ten years commencing FY16 utilising cash flow from the South Gobi Project. Additional financings have not been incorporated into our appraisal, and if required, could significantly impair our valuation to existing shareholders.

Scheduling Risks

Delays in commercial production, and expansion at the South Gobi Project could impair Guildford's valuation to present equity holders. Our Discounted Cash Flow valuation is sensitive to production forecasts, which anticipates ROM output of 1.5Mt and sales of 1.2Mt during FY16.

Valuation Risks

Our Discounted Cash Flow appraisal assumes a constant coal pricing regime which is 22 to 35 per cent above that implied by current market indicators. Implicit to this assumption is a recovery in coal markets from current levels, however failure to eventuate could substantially impair our valuation.

The Bulls & The Bears

The Bulls Say

- Guildford is on the cusp of cash flow with development of its South Gobi Project complete and product testing in progress
- Invested capital across its Australian and Mongolian portfolio exceeds $180million
- Looming coking quality tests, offtake negotiations, and debt restructuring offer major value catalysts
- Our base case valuation represents a significant premium to current trading levels and is supported by a takeover bid

The Bears Say

- With coal prices contracting for three years, marketing a premium hard coking product appears critical for the South Gobi operation to be commercial
- Amid recent price contractions, coal assets are generally trading at substantial discounts to invested capital
- Intention to raise further equity for working capital may dilute impact of near term value drivers
- DCF valuation incorporates coal prices above that implied by current market benchmarks

Management

Craig Ransley – Acting Non Executive Chairman

Mr Ransley was a founder and involved in the creation and listing of Guildford. He served as Non-Executive director of Guildford until 2013, when he resigned from the Board. With the support of the Company's major financiers and shareholders representing more than 50 per cent of the Company, Mr Ransley was reappointed to the Board as Acting Chairman in November 2014. Mr Ransley was also involved in the creation and listing of Doyle's Creek Mining (NuCoal Resources NL) which made exploration license applications that are subject to investigation by New South Wales Independent Commission Against Corruption (ICAC).

Michael Avery – Acting Managing Director

Mr Avery was the founding Managing Director of Guildford and served this position until January 2013, when he resigned for health reasons. Mr Avery was reappointed to the Board in November 2014. He has worked in the coal industry for over 25 years, performing senior management and technical roles for a number of blue-chip mining companies at operations in NSW, throughout Australia and around the world. Mr Avery's experience spans the full life cycle of coal assets from resource exploration and evaluation to conceptual design, pre-feasibility, feasibility, construction and operation.

Mr Avery has a Masters in Business Administration from Mt Eliza Business School, a NSW Open Cut Coal Mine Managers Certificate of Competency, and a Bachelor of Mining Engineering from the University of New South Wales with First Class Honours. Mr Avery is also a member of the Australasian Institute of Mining & Metallurgy.

Tsogt Togoo – Executive Director

Mr Tsogt holds a Masters of Business Administration, Master of Economics and Bachelor of Economics degrees. Mr Tsogt has close to two decades of experience in the Mongolian public sector. He worked in the senior management of the Mongolian national oil company and was in charge of the commercial and operational functions of the company, such as petroleum product imports and internal distribution to filling stations.

Mr Tsogt also worked as the head of the Privatisation division of the State Property Committee and has played extensive roles in the privatisation of Mongolia's most valuable state-owned companies. He was in charge of the privatisation of the national oil and aviation companies, restructuring power generation and energy distribution enterprises and the deregulation of the energy and oil sectors.

The Hon Craig Wallace – Non-Executive Director

Mr Wallace served as the Queensland State Minister for Main Roads, Fisheries and Marine Infrastructure from 2009 to 2012. He also represented the Premier of Queensland in North Queensland. His departments delivered major infrastructure projects across Queensland including the Brisbane Gateway Bridge duplication and rebuilding of Queensland road assets following significant flood events. Mr Wallace personally oversaw plans that are delivering major port upgrades along the Queensland coast to facilitate future commodity exports to the world.

Mr Wallace was a member of the Executive Council of Australia, a member of Roads Australia and a Patron of the Committee for Infrastructure and Logistics Australia. In 2012, Mr Wallace formed Shanghai Commonwealth Investment and Consulting (which is operating mainly in China). The company has a focus on building trade ties between China and Australia with a particular focus on food products. Mr Wallace offers a wide range of skills and experience in both Queensland and China coupled with being fluent in Mandarin.

Julien Lawrence – Chief Operating Officer

Mr Lawrence is a qualified mining engineer graduating with first class honours from the University of Queensland. With more than 15 years of industry experience, Mr Lawrence has worked throughout Australia and Asia across multiple commodities including coal, iron ore, gold and most base metals. Mr Lawrence has extensive experience in mining project development throughout Asia which includes developing a number of coal mining projects in Mongolia.

Most recently, Mr Lawrence project managed the development of the Khushuut Coal Project in Western Mongolia from technical studies through to first production. Mr Lawrence is a Member of the Australasian Institute of Mining & Metallurgy.

Chris Munday – Acting Chief Financial Officer

Mr Munday is a former Partner within the Transactions Advisory Services division of global accounting firm Ernst & Young, with more than 20 years' experience in accounting, formal and informal restructuring and turnaround consulting. Mr Munday has extensive experience in providing expert advisory and restructuring services to organisations across a broad variety of industries including mining, oil and gas. During his career he has worked closely with executive teams and boards of ASX listed companies, assisting with their restructure, refinance and growth strategies. Mr Munday is a registered liquidator, a Fellow of the Institute of Chartered Accountants in Australia and New Zealand and holds a Bachelor of Economics from the University of Adelaide.

Appendix - Discounted Cash Flow

FY		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026-29
ROM Production	Mt	1.5	1.5	1.5	1.5	1.5	1.5	2	2	2	2	7
Salable Product	Mt	1.2	1.2	1.2	1.2	1.2	1.2	1.6	1.6	1.6	1.6	5.6
Revenue	$USDm	122.8	122.8	122.8	122.8	122.8	122.8	163.7	163.7	163.7	163.7	572.9
Capex	$USDm	3.3	3.3	3.3	3.3	3.3	3.3	14.4	4.4	4.4	4.4	15.4
Opex	$USDm	99.6	99.6	99.6	99.6	99.6	99.6	119.52	119.52	119.52	119.52	418.32
Operating Cash Flow	*$USDm*	*19.9*	*19.9*	*19.9*	*19.9*	*19.9*	*19.9*	*29.8*	*39.8*	*39.8*	*39.8*	*139.2*
Financing Cash Flow	$USDm	18.2	19.8	18.8	17.7	16.7	15.7	14.7	13.6	12.6	13.9	-
Net Cash Flow	*$USDm*	*1.64*	*0.05*	*1.08*	*2.11*	*3.14*	*4.17*	*11.49*	*22.81*	*24.68*	*22.57*	*104.8*

DCF Valuation Summary		
Geared Cash Flow	$USDm	198.6
NPV_{10}	$USDm	69.6
FX	USD/AUD	0.85
NPV_{10}	$AUDm	81.85
Share Base	m	1113.7
Value Per Share	$AUD	0.073

Notes

1. Salable output incorporates Resources classed Measured and Indicated but includes material additional to Guildford’s current mine plan for BNU.

Glossary

Buy Increasing value of established business operations is likely to yield share price appreciation

Spec Buy Increasing value of a new or developing business operation is likely to yield share price appreciation.

Hold There exists an even balance of risks

Sell There is elevated risk of share price depreciation.

Stop Our recommended, pre determined sell price, to be executed if the share price fails to appreciate

JORC Joint Ore Reserves Committee. A body sponsored by the Australian mining industry and its professional organisations, which sets minimum standards for the measurement and reporting and mineral reserves and resources.

Exploration A category of companies that have yet to define resources beyond the 'inferred' category according to JORC standards

Resource A category of companies that have defined resources classified as 'measured' and/or 'indicated' according to JORC standards.

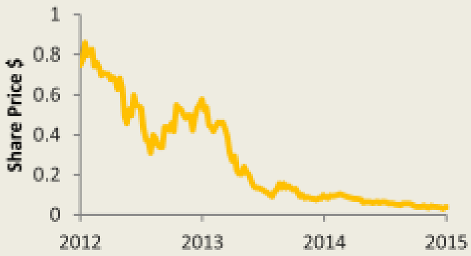
Reserve A category of companies that have defined mineral reserves according to JORC standards.

Archives

Natural Resources

Guildford Coal (GUF.ASX)

Jan-15 Initiating Coverage



Analysts

Simon Herrmann simonh@wise-owl.com

Imran Valibhoy imranv@wise-owl.com

Tim Morris timm@wise-owl.com

About Us

Wise owl is a global supplier of intelligence, strategic solutions, and expansion capital for emerging companies and investors. Established in 2001, wise owl drives efficient capital allocation towards developing assets.

Media Partners:

Contact Us

Domain House, Level 4
139 Macquarie Street
Sydney, NSW 2000

Phone Australia 1300 306 308
International +61 2 8031 9700

Intelligence Centre
www.wise-owl.com

Disclaimer

This report was produced by wise-owl.com Pty Ltd (ACN 097 446 369), which is an Australian financial services licensee (Licence no. 246670). Wise-owl.com received payment for the compilation of this report. Wise-owl.com Pty Ltd has made every effort to ensure that the information and material contained in this report is accurate and correct and has been obtained from reliable sources. However, no representation is made about the accuracy or completeness of the information and material and it should not be relied upon as a substitute for the exercise of independent judgment. Except to the extent required by law, wise-owl.com Pty Ltd does not accept any liability, including negligence, for any loss or damage arising from the use of, or reliance on, the material contained in this report. This report is for information purposes only and is not intended as an offer or solicitation with respect to the sale or purchase of any securities. The securities recommended by wise-owl.com carry no guarantee with respect to return of capital or the market value of those securities. There are general risks associated with any investment in securities. Investors should be aware that these risks might result in loss of income and capital invested. Neither wise-owl.com nor any of its associates guarantees the repayment of capital.

WARNING: This report is intended to provide general financial product advice only. It has been prepared without having regarded to or taking into account any particular investor's objectives, financial situation and/or needs. All investors should therefore consider the appropriateness of the advice, in light of their own objectives, financial situation and/or needs, before acting on the advice. Where applicable, investors should obtain a copy of and consider the product disclosure statement for that product (if any) before making any decision.

DISCLOSURE: Wise-owl.com Pty Ltd and/or its directors, associates, employees or representatives may not effect a transaction upon its or their own account in the investments referred to in this report or any related investment until the expiry of 24 hours after the report has been published. Additionally, wise-owl.com Pty Ltd may have, within the previous twelve months, provided advice or financial services to the companies mentioned in this report. As at the date of this report wise-owl.com Pty Ltd and/or its directors, associates, employees or representatives currently hold interests in: GUF