

Quarterly Report

September 2015 Quarterly Report

Guildford Coal Limited (“**Guildford**” or the “**Company**”) (ASX: **GUF**) is pleased to present its quarterly activities report for the period ended 30 September, 2015.

HIGHLIGHTS

- **2015 Strategic review implementation progressing across operational and corporate levels**
- **Brisbane corporate office closure and reduction of staffing levels as part of cost reduction plan**
- **Re - branding announced to transition Guildford Coal Limited to TerraCom Limited, subject to shareholder approval**
- **Ramping up to 1.5Mtpa annualised production for Baruun Noyon Uul (BNU) coking coal mine in Mongolia**
- **Direct mining costs of sub US\$2 per cubic metre of total material achieved at BNU during period**
- **Excellent safety record maintained at the BNU mine, during the Quarter with no lost time incidents**
- **Mining License obtained for the recently acquired Khar Servegen Project adjacent to the BNU Mining license.**
- **Mining Development Lease approved for the Springsure Project in Queensland, Australia**

Corporate Strategy and Operating Environment

As a consequence of continuing weak global market conditions during the Quarter, volatility in the resource market has become the norm. This continues to present significant economic and funding challenges for Guildford Coal.

In the face of these challenges, the Company has remained focused on delivering both the corporate and operational recommendations of the **strategic review** of the Company which was completed in early 2015.

A critical aspect has been the focus and delivery on actions that restructure the finances to **reduce the debt burden and update the terms** through exploring alternative funding options. The Company continues to maintain a strong and supportive working relationship with existing financial backers to allow requisite time to complete this restructure.

An important step to delivering this critical element of the strategy is obtaining approval from shareholders to secure time to progress the debt restructure. An **Extraordinary General Meeting** (EGM) of shareholders was announced for 30 October, 2015 for shareholders to consider an extension of time for making certain payments under the existing Convertible Notes and the Amortising Notes which were previously due on 8 July 2015 to no later than 31 October, 2015 as well as an extension of the Maturity date for the Convertible Notes to 8 December 2015.

The Company has announced its intention, subject to shareholder approval, to undertake an exciting rebranding involving a name change to **TerraCom Limited** and the belief is that this name far better reflects the strategic direction and focus to transition to a dynamic energy and resources company.

Guildford also continues to investigate the merits and mechanisms for a **potential listing on an Asian stock exchange**, a crucial recommendation of the strategic review. A regional hub in Singapore is providing logistics support to the Company.

As part of our **cost reduction drive**, the Brisbane corporate office in Queensland, Australia was closed in July, 2015 and relocated to Townsville. This resulted in a reduction in staffing levels.

Operations - Mongolia BNU

Safety

Our operations continued to deliver strong health and safety performance with the BNU Coal Project continuing its very impressive safety record of No Lost Time Injury (LTI) since inception. The project has now recorded over 1.3 million man hours without an LTI. Our proactive approach to intensive health and safety training combined with robust systems and a multi-layered risk management process is ensuring we continue to protect our employees from any harm.

Production

Our operations team continued to ramp up production at the BNU Coal Project with a focus on achieving the target 1.5Mtpa annualised production rate during Q4 2015. The overburden stripping in advance of production from BNU Pit 2, which includes the micro-basin previously announced on the 22nd of July 2015 was completed successfully in the September Quarter.



Figure 1- Coal Face BNU Pit 2



Figure 2 - CAT 6030 Excavator loading CAT 777D trucks stripping overburden from Pit 2

Initial coal production commenced from Pit 2 in July 2015 ramping up through the quarter.



Figure 3 - Coal production from Pit 2 during the Quarter



Figure 4 - Coal cropping in the Low Wall of Pit 2, coal mining in the background

Production from the initial Pit (Pit 1) has been put on hold in order to reduce overall production costs during the tough market conditions.



Figure 5 - BNU Pit 1 nearing completion in September 2015

Table 1 – Quarterly BNU Coal Project Production Statistics compared to Previous Quarter

	This Quarter Jul to Sep 2015	Previous Quarter Apr to Jun 2015
Rom coal production (tonnes)	154,374	101,160
Overburden removed (BCM)	2,527,210	2,089,698
Coal trucked to China (tonnes)	64,618	109,138
Coal washed (tonnes)	74,697	104,046
Overall gross product yield	82%	92%
Prime HCC delivered to Customers (tonnes)	57,261	67,197
Other Coal delivered to customers (tonnes)	4,215	13,354
EOM ROM Stocks (tonnes)	101,681	
Current Q4 2015 forward sales contracts (tonnes)	244,000	



Figure 6 - BNU ROM pad and Customs yard

The Terra Energy team has been focusing on driving down total production costs with some impressive results with Unit Direct Cost for Total Material Movement achieved for Q3 2015 being US\$1.89 per cubic metre.

The direct cash cost positive margin on the hard coking coal product is forecast to be between US\$9/t and US\$11/t during the last quarter of 2015. Strong operational performance has maintained forecast margins despite continued weakness in coking coal markets. The lower product yield during the last quarter is being reviewed and alterations to the Ceke coal beneficiation plant configuration and process are being considered to sustain and improve product yield performance. This is critical to sustaining and improving the BNU mine forecast product margin.



While the market continues to remain soft there are some positive signs and there is still strong buyer interest for the BNU coking coal and Guildford remains committed to developing its Mongolian business in the most capital and cost efficient methods.

Development - Mongolia

Mining Licenses

The Terra Energy development team successfully managed the conversion of the resource area of exploration license 12600X into Mining License MV-019149, Khar Servegen, KS North.

Detailed work for the continued staged development of this exciting project is being completed including coal quality review, data analysis, model analysis and compliance review. Planning has been put in place to expedite mining.

South Gobi Mining Licenses applications XV005264, XV13780 and XV17163 are all in application with MRAM (Minerals Resource Authority of Mongolia).

Uvs Project

A successful site visit to the Uvs project took place which included meeting relevant local ministry representatives and confirmation of an approval of the Environmental Plan for all three licenses. Planning, analysis and interpretation of historical information has taken place for ground based geological review in October.

The Uvs project is situated in the north-western region of Mongolia. The project area is targeting Potash Salts, Brines (CaCl₂ and Lithium) and Coking Coal and consists of three exploration licenses 18142X (coking coal and adjacent to Khuden Coking Coal Mine), 18797X and 18802X (Potash and Brines). The Uvs Project is located close to a major 220Kw power line, which runs from Russia to Mongolia. The sealed asphalt road between Ulaangom and Borshoo provides easy access to the strategic border crossing of Borshoo and the city of Kyzk in the Tuvan Republic of Russia. Access in Russian leads to railways which service Vladivostok port. The republic is part of the East Siberia Economic Zone.

Coal Bed Methane (CBM)

A CBM license application in the South Gobi is still pending following financial review by PAM (Petroleum Authority of Mongolia). The application's office has been on leave for over 4 weeks, this has slowed up the process of pending approval.

Operations - Queensland

A focus on cost conservation on projects as a result of the 2015 strategic review has restricted exploration for the reporting period.



The North Galilee and Springsure Project remains the focus and there have been discussions with potential joint venture or offtake partners to self-fund these projects through the development phase into operating mines.

A notable achievement has been the securing of a Mining Development Lease (MDL 3002) for the Springsure Project area from the Queensland Department of Natural Resources and Mines. The MDL was granted for three years. In accordance with section 177 of the Mineral Resources Act 1989 (the MRA), upon grant of the MDL, background Exploration Permit for Coal 1674 will be reduced by omitting the land over which the MDL applies. The next step exploration program for MDL 3002 consists of five (5) partially cored boreholes and two fully cored holes.

Coal Quality Analysis- Springsure Project

During exploration between 2011 and 2013, coal quality samples were taken from core boreholes that were later used in the Indicated resource estimation for the Springsure Project. In 2015 Springsure Mining Pty Ltd approved further Coal Quality Analysis of the Springsure samples and Bureau Veritas was engaged to perform this work.

The Coal Quality testing was conducted over 2 stages. Stage 1 was completed in early May 2015 and instructions were given to proceed with Stage 2 with Phosphorus in Coal analysis being added to the scope of tests. Results from Stage 2 were received in early June 2015. The Coal Quality indicated the following characteristics:

- Preliminary view of the raw coal results indicate this coal to be a high volatile thermal coal (>30% VM) with a rank similar to the coals of the upper Hunter Valley
- The coal has low in situ ash giving rise to the possibility of "bypass" production
- The coal is environmentally "green" with low total sulphur for Australian thermal coal and low chlorine content
- Ash fusion results indicate that the majority of seams reported are likely to have benign fouling propensity
- All seams classified as high volatile bituminous A (volatiles >35% (daf), RoMax <0.8%)
- All products (bypass, washed) have low ash, very low sulphur, low chlorine, high energy (>6000 kcal/kg NAR at <12.0% ash)
- Simple coal processing (dense medium cyclone, spirals) with commercially acceptable yield (CF1.60) range 77.0% – 93.0%, ash range 6.4% - 11.1% (ad)
- RD2 Seam (4.65m) suitable for mining as a raw product coal (ash 7.6% - 9.5%)
- High nitrogen content (>2.0% daf) may attract a negative pricing adjustment (NOx emissions).



GUILDFORD
COAL

ABOUT GUILDFORD COAL www.guildfordcoal.com.au

Guildford Coal has fully commissioned the Baruun Noyon Uul (BNU) coking coal mine in the South Gobi Mongolia. The Company's goal is to become one of the largest and highest quality coking coal producers in Mongolia, providing exceptional value for its steel-producing customers. Guildford Coal is also focused on developing two priority projects in Queensland, Australia: the large thermal coal Northern Galilee Project and the high energy prime thermal coal Springsure Project.

Please contact Tony Mooney, +61 423 841 259 for further information.

Michael Avery

Group Managing Director

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Guildford Coal Limited

ABN

35 143 533 537

Quarter ended ("current quarter")

30 September 2015

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors ⁽¹⁾	2,403	2,403
1.2 Payments for (a) exploration & evaluation (b) development (c) production ⁽²⁾ (d) administration	(262) (3,807) (1,635) (2,008)	(262) (3,807) (1,635) (2,008)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid ⁽³⁾	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	(400)	(400)
Net Operating Cash Flows	(5,709)	(5,709)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - -	- - -
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	- - -	- - -
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	(120)	(120)
Net investing cash flows	(120)	(120)
1.13 Total operating and investing cash flows (carried forward)	(5,829)	(5,829)

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(5,829)	(5,829)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings ⁽⁴⁾	5,941	5,941
1.17	Repayment of borrowings ⁽³⁾	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	(623)	(623)
Net financing cash flows		5,318	5,318
Net increase (decrease) in cash held		(511)	(511)
1.20	Cash at beginning of quarter/year to date	687	687
1.21	Exchange rate adjustments to item 1.20	35	35
1.22	Cash at end of quarter	211	211

Note:

- (1) Receipts for the September minegate product sales were delayed into the next quarter.
- (2) The BNU achieved commercial production for accounting purposes during this quarter.
- (3) During the period, the Company had reached agreement with its financiers to defer certain principle repayments and facilities interest payments to no later than 31 October 2015, the date of completion of its debt restructuring plan as announced to the market on 19 October 2015 or the date of completion of any future capital raising.
- (4) Proceeds from borrowings during the quarter were realised from existing financing facilities.

Guildford's strategic partners and financiers continue to support the Company.

Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	(314)
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Item 1.23 includes fees and salary paid to directors.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

The legal transfer of 100% of the equity interest in Enkhtunkh Orchlon LLC (EO) was finalised during the quarter.

+ See chapter 19 for defined terms.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities ^[1]	162,624	157,342
3.2	Credit standby arrangements	-	-

Note

(1) Item 3.1 consists of the following financing facilities:

- Noble Debt Facility US\$10m (A\$14.3m equivalent)
- Noble Working Capital Facility US\$10m (A\$14.3m equivalent)
- Noble Fuel Exclusivity Agreement US\$4.3m (A\$6.1m equivalent) of the original facility of US\$8.0m (A\$11.4m equivalent)
- Noble Additional Debt Facility US\$14.0m (A\$20.0m equivalent)
- Noble Additional Working Capital Facility US\$7.0m (A\$10.0m equivalent)
- OCP Amortising Notes US\$55m (A\$78.4m equivalent)
- OCP Convertible Notes US\$10m (A\$14.3m equivalent)

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	(889)
4.2	Development	(1,011)
4.3	Production	(11,326)
4.4	Administration ⁽²⁾	(1,999)
Total⁽³⁾		(15,225)

Note:

(2) This amount includes Guildford Coal corporate overheads as well as Terra Energy Mongolia overheads.

(3) Estimated cash inflows for next quarter from product sales is A\$15,319,000.

Ongoing Funding Requirements:

As announced by the Company's ASX release dated 19 October 2015, Guildford remains on track to deliver all aspects of the 2015 strategic review, both on a corporate level and on operational level in Mongolia and Queensland. A critical aspect of the Company's recent activities has been the evaluation

+ See chapter 19 for defined terms.

Appendix 5B Mining exploration entity and oil and gas exploration entity quarterly report

and active pursuit of several funding alternatives to enable a restructuring of its existing debt facilities (the "Restructuring").

In this regard, the Company continues to maintain strong and supportive working relationships with its existing financiers to allow requisite time to complete the Restructuring.

These funding alternatives include, amongst others, equity placement to strategic Chinese investor of AU\$7 million, debt restructuring plan involving a circa US\$115 million five-year interest only listed bond and potential listing on Asian stock exchange.

Ongoing funding requirements will be realised in the next quarter from existing finance facilities and the proceeds from BNU minegate sales, debt restructuring outcomes and equity placement.

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	211	687
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	211	687

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed			
6.2	NE-025961		-	100%
	NE-025966 (Baruun Termes, Mongolia)		-	100%
	MV-019149 (Khar Servegen, KS North)		-	100%

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	1,095,928,523	1,095,928,523	Fully Paid	Fully Paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 +Convertible debt securities OCP Asia Convertible Notes ⁽³⁾	1,000	Nil	\$10,000	Refer Appendix 3b lodged 9 January 2014 for terms and conditions
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-	-	-	-
7.7 Options OCP Asia Detachable Warrants ⁽³⁾	66,762,962	Nil	\$0.17	8 January 2019
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	-	-	-	-

+ See chapter 19 for defined terms.

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7.10	Expired during quarter	-	-	-	-
7.11	Debentures <i>(totals only)</i>	-	-	-	-
7.12	Unsecured notes <i>(totals only)</i>	-	-	-	-

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 30 October 2015
Group Managing Director

Print name: Michael Avery

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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