



Quarterly Report

March 2014 Quarterly Report



HIGHLIGHTS

- BNU North Coal mine formally commissioned for operations and sales by the Mongolian Government
- Seeking approval for the haulage road permit continues to be the main focus of the company
- Successfully negotiated OCP Asia financing facility of US\$10m Convertible Notes and US\$55m Amortising Notes. Proceeds used to repay existing debt
- Finishing due diligence on adjacent Noble Group owned Mongolian exploration lease 12600 for which Guildford has an option to either operate or acquire
- BNU North mine in cash preservation mode until haulage contractor permit approved and current coal market improves
- An Asian based Financial Advisor has been appointed to help explore equity and debt financing options

MONGOLIA

BNU North coal mine owned by our subsidiary Terra Energy LLC has been successfully and formally commissioned for operations and sales by the Mongolian Government during the quarter. The commissioning of the mine has enabled further overburden removal, whilst minimizing coal extraction to preserve coal quality. Coal via stockpile is ready for first sale. Since early March, mine development has continued but reduced to one excavator on day shift only in order to conserve cash whilst waiting for the commission of the coal haul road. Considerable resource definition work has also been undertaken to improve the resolution of the coal quantity and quality forecasting.

Every effort is being undertaken to obtain the contractor haulage permit to commence coal exports to the distribution hub located at the Ceke Border Port on the Mongolian–Chinese border. During the quarter, activity centered on seeking further local government support and resubmission of certain aspects of the Environmental Management Plan and several meetings with the relevant departments of the Central government.

Pursuant to an Option Agreement between the company and the Noble Group, the company is finishing due diligence on a Mongolian exploration lease (12600), to help guide a decision whether to exercise an option to operate or acquire 12600. This is an exploration license which is adjacent to our BNU North coal mine, which could result in operational synergies and would further reinforce the close working relationship we have with Noble.

Other operational activities included:

- Consolidation of the results of the core drilling program undertaken on BNU North in the second half of 2013 in order to lodge a revised resource with the Minerals Resource Authority of Mongolia (MRAM). Following approval of the revised resource, Terra Energy will submit a revised Feasibility study to MRAM in order to increase the maximum mining limit (currently 500ktpa)
- Continuation of coal quality testing and modeling at BNU North in order to maximize value from the sizable and diverse Chinese market
- Regional development planning and evaluation focusing on unlocking value from the surrounding Terra Energy controlled licenses in the South Gobi region
- Additional exploration works in the form of magnetic and IP surveys, surface mapping and trenching on the southern part of the BNU Mining License and also on the Hovguun Mining License exploring the extension of the current basin

- Further customer visits were conducted during the quarter along with coal sales marketing activities and sales agreement negotiations and we continue to work closely with the Noble marketing team
- Environmental monitoring and local stakeholder relations activities continued during the quarter in anticipation for first sales

BNU North will remain in cash preservation mode until the current coal market improves.

QUEENSLAND

The Company successfully negotiated a share issue for the Springsure Indicated Resource settlement which was completed during the quarter including approval of final share settlements at an EGM. This confirms the company saving \$2.2m in future cash payments under the agreement.

The Springsure EPC renewal application was submitted and exploration planning for the year is in progress.

Following a review of Kolan exploration results to date, QCI (Coking) Pty Ltd (QCI) advised their withdrawal from the Kolan JV. The exploration results have demonstrated limited prospectively of the tenements in the current marketing environment.

The conclusion of the JV with QCI means that Guildford Coal will resume management of the tenements and that QCI's farm in option ceases. The past two years of exploration work on this project have also concluded ensuring that the expenditure commitments required for the EPCs have been exceeded. All landowner commitments have been fulfilled and ongoing stakeholder engagement is planned.

In North and North West Queensland, the company continued to be actively involved in MITEZ and the Townsville Enterprise Committee overseeing the federally funded investigation into the feasibility of a coal fired base load power station in the Townsville/Pentland region.

Guildford Coal made a submission on the Queensland Government's new Regional Interests Planning legislation and appeared before a Parliamentary Committee as part of the consultation process.

No significant additional work has been undertaken on Clyde Park or Hughenden this quarter and no significant work is planned for the upcoming quarter.

Regular landowner engagement has continued with a number of site visits. A number of small scale community investments were undertaken across the region.

During the quarter the company engaged with potential joint venture partners to discuss participation in future exploration activities on various projects.

CORPORATE

Cash & Investments

As at 31 March 2014, Guildford Coal had cash of \$18.0m (December 2013: \$12.9m). The principal movements in cash and investments for the quarter were attributable to:

Operating Cash Flows

- Payments for exploration and evaluation expenditure of \$1.0m
- Payments for development expenditure of \$12.9m
- Cash outflows for operational support costs, insurance and overheads of \$3.5m
- Net outflow of interest expense/income of \$5.8m

Financing Cash Flows

- As announced on 10 January 2014, completion of OCP Asia Financing Facility, and confirmed receipt of funding by the Company of US\$10,000,000 in exchange for the issuance of Convertible Notes, the receipt by the Company of US\$55,000,000 in exchange for the issuance of Amortising Notes, and the issuance by the Company of Detachable Warrants for an amount equal to 18.5% of the Amortising Notes
- As announced to the market on 2 January 2014 the proceeds from the issue of the Convertible Notes, Amortizing Notes and associated Detachable Warrants were used to repay existing indebtedness of the Company owed to OCP Asia and for working capital purposes in relation to the Company's Mongolian assets
- Repayments of borrowings \$44.1m, consisting of existing OCP debt \$39.4m, Noble Additional Debt Facility \$1.7m, Noble Debt Facility \$1.2m, Noble Fuel Agreement \$1.7m

Total financing facilities available and drawn at the end of the quarter totalled US\$103m.

Although Guildford management is focused on cash preservation in the short term, the company has appointed an Asian based Financial Advisor to explore additional debt and equity funding alternatives to ensure Guildford has adequate financing and cash reserves in place to ensure it can achieve its strategic goals.

Other

- 89,547,433 fully paid Ordinary Shares have been issued in part payment of the initial additional consideration due in relation to the acquisition of 3,691,740 ordinary shares in Springsure Mining Pty Ltd by Guildford Coal Ltd on 2 April 2012. Details regarding the issue of these shares were announced to the ASX on 20 February 2014

Board, Personnel and Office Changes

During the quarter, the following appointment took place:

- Mr Michael Majendie has been appointed as Chief Financial Officer

EVENTS SUBSEQUENT TO 31ST MARCH 2014

In Mongolia, all regulatory, environmental and local government requirements have been completed for the revised road and the permit application. This has now been officially received by the Mongolian Ministry of Roads and Transportation and the Ministry has commenced its formal process of road inspection to make the final recommendation for the Minister's approval.

COMPANY GOALS

The Company's immediate priority and goal is to achieve coal sales in Mongolia

- There is a short term focus on cash preservation
- Raising additional finance to support the growth of the company
- We are also committed to conservatively progress select projects from our large tenement holding in Queensland

Guildford Coal is committed to:

- Working cooperatively within the communities where it operates
- Creating jobs for local people
- Supporting local businesses and contractors
- Helping to improve local services and infrastructure wherever possible; and
- Generating a return for its shareholders as it transitions from explorer/developer into producer



Peter Kane
Group Managing Director