

HD Guildford Coal Limited - September 2014 Quarterly Report

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During the quarter, Guildford Coal Limited via its wholly owned subsidiary Terra Energy LLC exported its first trial lot of Hard Coking Coal from the Baruun Noyon Uul coal project.

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The coal was sent for trial washing and signaled the commencement of coal sales from the mine.

This significant milestone has now demonstrated the full process of extracting, exporting and delivering the premium product from the BNU coal project. Further shipments of coal will be prepared and exported over the coming months.

The BNU North Pit Operations has been preparing for the second, larger coal trial shipment. This coal is expected to perform better than the first trial batch due to the extraction direct from the mine, rather than long term stockpiles.

Further preparations at the BNU project are now focusing on continuous operations and a ramp up of production. The mine will be prepared through November to provide 25kt of coal in December 2014, 35kt in January 2015 and 65kt in February 2015, thereby setting the path to achieve 1Mtpa.

We are continuing to see great interest in BNU coal after completion of the first washing trial and further samples have been released to customers to aid in the offtake negotiations.

QUEENSLAND

During the quarter the Board advised that they have reached agreement with Sino Construction Ltd (Sino), a Singaporean company listed on the Main Board of the Singapore Exchange Security Trading Ltd, to enter into a term sheet to acquire all of Guildford's Australian coal assets. Subsequently Guildford received a notice that Sino intends to make a conditional off-market takeover bid to acquire all of the issued shares in the Company and withdrew the Australian coal assets purchase offer. Further details are provided in the Corporate update below.

An exploration drill hole on the Springsure Project (EPC 1674) was completed in early October. Sampling and analysis is currently ongoing.

A successful renewal of the Springsure Project's EPC 1674 for an additional 5 years was achieved securing the tenement until June 2019. A MDL application covering part of the Springsure Project area was approved by the Springsure Mining and Guildford Boards for submission to the Department of Natural Resources and Mines (DNRM). Obtaining the MDL will enable the Project to progress to commercialisation in a timely manner.

A number of initiatives were undertaken to reduce ongoing costs for the Queensland business. The outcomes of which included reductions in exploration costs across all areas of the program. Work on pursuing investment and/or funding options to progress exploration programs for the Pentland Project (Massive thermal coal target in the Northern Galilee Basin) and the Sierra Project (Coking coal target in the Southern Bowen Basin) is ongoing.

The Mineral and Energy Resources (Common Provisions) Bill 2014 passed through parliament in September and is now awaiting gazettal which is expected in late 2014 when the Regulations have been

finalised. This legislation removes 3rd party appeal rights on some project proposals and is supported by the resource sector.

Engagement activities have continued throughout the North Galilee region.

CORPORATE

As announced on 8 August 2014, Guildford completed a Non-Renounceable Entitlement Offer which resulted in the **Company** receiving a total of \$5 **million**. Maiora Asset Management Pte Ltd (Maiora) has today confirmed its intention to exercise 73,500,000 of its 77,300,446 unlisted options which will result in Guildford receiving \$4,410,000 from Maiora by 7 November 2014.

The Board received a notice that Sino Construction Ltd intends to make a conditional off-market takeover bid to acquire all of the issued shares in the **Company**. A formal offer (Bidder's Statement) is expected before the end of November and until the formal offer is made, the directors will continue to operate the business as usual.

Cash & Investments

As at 30 September 2014, Guildford **Coal** had cash of \$5.3m (June 2014: \$9.1m). The principal movements in cash and investments for the quarter were attributable to:

Operating Cash Flows

Payments for development expenditure of \$2.8m

Cash outflows for operational support costs, insurance and overheads of \$1.0m

Net outflow of interest expense/income of \$5.2m

Investing and Financing Cash Flows

Proceeds from issues of shares \$5.0m

Total financing facilities available and drawn at the end of the quarter totaled \$117m.

Board, Personnel and Office Changes

As a result of the Sino Construction Ltd's intention to make a conditional off-market takeover bid to acquire all of the issued shares in the **Company**, the Board and Mr. Wal King have resolved to delay the appointment of Mr. King as Chairman of Guildford until the bid has been determined.

The Hon Craig Wallace has resigned from his position as a Non-Executive Director effective 29 September 2014. The **Company** is actively seeking replacement Board positions.

Ms Aimee Hyde commenced as General Counsel and **Company** Secretary on 7 October 2014. Mr. Chris Munday commenced as Acting CFO from 8 October 2014.

EVENTS SUBSEQUENT TO 30 SEPTEMBER 2014

On 1 October 2014, the **Company** negotiated the termination of the C1 Management Agreement on the basis of the **Company** transferring 15% of the share capital of Springsure **Mining** Pty Ltd. The transaction is subject to shareholder approval at the forthcoming AGM.

On 7 October 2014, Ms Aimee Hyde joined the **Company** as General Counsel and **Company** Secretary. Ms Hyde replaces Mr. Kon Tsiakis who has resigned from the role of **Company** Secretary.

Mr. Tsiakis will continue to hold the role of Non-Executive Director of the **Company**.

As announced on 15 October 2014, GUF advised that shipment of the second trial batch of **coal** (14,300t) from the BNU Mine has commenced. Test results for this second trial batch of **coal** are expected early November.

Operating metrics of the mine reveal a cash positive margin of \$9-\$14/t which has taken into account the recent introduction of the **Chinese** import tariff.

The recent **Chinese** capping of key **coal** quality parameters, ash and sulphur, does not affect the

BNU mine, as testing of the first trial batch of **coal** from the BNU Mine has proven very low ash and sulphur specifications and BNU **coal** is a coking **coal** product rather than a thermal product.

As separately announced today, Maiora has confirmed its intention to exercise 73,500,000 of its 77,300,446 unlisted options which will result in Guildford receiving \$4,410,000 from Maiora by 7 November 2014.

COMPANY GOALS

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

We are also committed to conservatively progressing 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

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