

CAH.AU

30 June 2010
 Gold
 Australia (WA)
 Production & New Plant Ramp Up
 Exchange: ASX:CAH

Catalpa Resources Limited

A\$ 1.63

Catalpa is about to become a ~125kozpa producer with the 100kozpa Edna May mine on target to achieve nameplate capacity by end of July. Now the Company can start to focus on its more ambitious aim to more than double output to 270kozpa in the next two years.

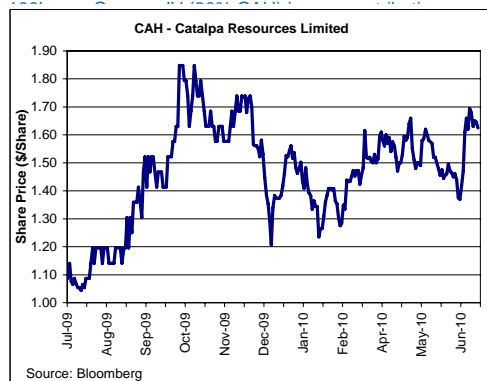
Capital Profile

Share price (A\$)	1.63
52 week range (A\$/share)	1.02 to 1.96
Number of shares (m)	161.4
Options and warrants (m)	14.9
Convertible notes (m)	0.0
Fully diluted (m)	176.3
Market capitalisation (undiluted) (A\$m)	262.2
Debt (A\$m) - Jun 10F *	65.0
Enterprise value (A\$m)	327.2
Major shareholders: HSBC Custody Nominees (14.4%), ANZ Noms. (7.9%), Citicorp Nominees PL (7.2%), National Nominees Ltd (4.5%)	
Avg monthly volume (m)	14
Cash (A\$m) - Jun 10F *	18.4
Price/Cash (x)	14.2
Price/Book (x)	-30.5
ASX-listed options:	CAHO

* A\$7m of A\$65m loan held in a cash retention account, net debt is A\$58m.

Investment Points

- Our FY11 gold production forecast is 126koz.
- Ramp up of the A\$92m 100kozpa Edna May plant on track for 2.8mtpa nameplate capacity by end of July.
- Total group resources 1.9moz, reserves 1.1moz.
- Strong forward sales (~55% for 5 yrs) at A\$1,557/oz.
- A\$20m capital raising and debt restructure has de-risked the company and will accelerate exploration.
- CAH targeting 'organic' growth towards 190kozpa - high grade Edna May deeps (u/g ore) and regional targets.
- Possible acquisitions to reach more ambitious 270kozpa in medium term.
- Our six month share price target is A\$2.50/share after Edna May commissioning.
- Prospective P/E ratio for FY11 is only ~ 5x.



Production and Financial Forecasts

YEAR END:	2009a	2010F	2011F	2012F	2013F
Gold Price (US\$/oz)	886	1,089	1,079	1,022	976
Equity Production (koz)	0.0	24.2	126.3	128.6	120.8
Revenue (A\$m)	0.1	33.1	183.7	186.8	172.4
EBIT (A\$m)	-2.6	-1.8	87.2	90.7	74.6
Net Profit (norm) (A\$m)	-2.6	-4.0	57.9	60.9	50.1
EPS (norm) (A¢/share)	-0.07	-1.8	33.3	35.0	28.9
CFPS (A¢/share)	-0.2	3.0	54.2	57.0	48.2
Dividends (A¢/share)	0	0	5	10.0	10.0
PER (x)	na	-89.6	4.9	4.6	5.6
P/CF (x)	na	54.6	3.3	2.9	3.4
Yield (%)	0	0	0	6%	6%
EV/EBITDA (x)	na	-364.7	3.4	3.3	3.9
Shares on Issue (EOP)*	1171.8	161.4	161.4	161.4	161.4

Key Assumptions:

Forecasts: Gold price: (long term from FY13) = US\$850/oz; A\$/US\$=0.80 (long term).

Company Comment

Overview: CAH was listed on the ASX in Aug '02, and has recently re-commenced production at Edna May at a rate of ~100kozpa. It also has a 30% JV interest in the 100kozpa Cracow JV (QLD).
Edna May Start-Up: The A\$92m Edna May Project started commissioning in April 2010 (first gold pour 28 April) and is now in the post-commissioning ramp-up stage. This seems to be going very well with CAH confirming in early June that the plant had reached 2.5mtpa capacity and is on schedule to reach targeted nameplate capacity of 2.8mtpa by end July '10. Our FY11 forecast is 2.7mt of ore processed to produce 95.4koz. LOM ave. A\$640/oz opex. Base case valuation (NPV @ 5%DR, US\$850/oz Au) is A\$319m assuming 60% resource conversion to reserves (42mt LOM, 13 year life). Margins are boosted by the strong forward sales book of 352koz at A\$1,557/oz (~70% of Edna May's years 1-5 production).
The Cracow Joint Venture: Situated in S QLD, Cracow is a high grade underground mining field based on an epithermal system that has yielded over 1.1moz since 1932. Newcrest Mining (ASX:NCM) is the operator (70%). Output is ~100kozpa. It is likely that the mine will have a life well in excess of 10 years.
Cracow Performance: In 1Q10 the JV produced 21.5koz. Grades (6.15g/t) were below recent quarters, cash costs of A\$610/oz. We expect FY10 production to reach 100koz with average opex ~A\$540/oz.
Exploration Emphasis: CAH will accelerate exploration to upgrade existing resources and bring in new resources (e.g. Golden Point gneiss) with A\$11m of the recent A\$20m raising allocated to exploration.
Corporate Developments: CAH has raised A\$10m through a share placement @A\$1.32 (bringing in two new investment funds) and a further A\$10m from a recent rights issue @A\$1.25/share. The A\$20m will be utilised for start-up working capital and resource exploration at Edna May and regional targets.
Catalpa's Growth Targets: CAH has set a strong growth target to reach group production of ~270kozpa in the next 2-3 years. How can it do this? 'Organic' growth to ~190kozpa is targeted through the significant higher-grade underground potential at Edna May, and from the regional exploration potential of the relatively unexplored Westonia greenstone belt, where numerous targets await drilling. The interesting bit is the further ~80kozpa required to get to 270kozpa. One option is to seek to purchase NCM's 70% of Cracow. Based on our conservative (US\$850/oz Au price) valuation this would cost at least A\$110m or US\$166/oz resource (probably 20-30% more than that). CAH may well be looking elsewhere in the market where it may be able to find better value with numerous under-valued emerging gold companies.
Investment Comment: Our base case NPV is **A\$2.26/share** (US\$850 long term gold, A\$/US\$ 0.80). Using spot gold (US\$1,240/oz, A\$/US\$=0.87 long term) the valuation rises to **A\$3.40/share**. Assuming target production is achieved in 3Q10, with continued gold price strength, and given very low prospective P/E ratios (<5x FY11), we expect the shares to re-rate to at least 10% above our conservative base case NPV. This gives a six-month target of **A\$2.50/share**.

Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)									
Gold	Classification	Project Equity	Ore Mt	Au g/t	Cut Off g/t	Au t	Au koz	Au Eqty koz	
Reserves									
Edna May	Proved & Probable	100%	25.5	1.09	0.4	27.7	892	892	
Greenfinch	Proved & Probable	100%	2.5	1.07	0.5	2.7	86	86	
Cracow **	Proved & Probable	30%	0.7	7.20	na	5.8	188	56	
Total (includes Edna May stockpiles: 1.6mt @0.65g/t for 34koz)			30.3			37.3	1,200	1,068	
Resources *									
Edna May	Meas+Ind+Inf	100%	48.1	0.99	0.4	47.5	1,526	1,526	
Greenfinch	Meas+Ind+Inf	100%	4.0	1.06	0.4	4.0	130	130	
Cracow **	Meas+Ind+Inf	30%	3.1	8.20	na	24.3	780	234	
Total			55.2			75.8	2,436	1,890	

* Resources includes reserves ** Cracow data from NCM release 17.8.09

Mineralised Material (est., non compliant with JORC)		
	0.0	0.0
	0.0	0.0

Contacts

Mr Bruce McFadzean
 Managing Director
 Tel: 61 (8) 9321 3088
 Perth, WA, Australia
www.catalparesources.com.au

Analyst: Dr Tony Parry
 tonyparry@rcresearch.com.au

Directors

P Maloney (Non Exec Chair)
 B McFadzean (MD)
 J Rowe (Non Exec)
 M Pollock (Non Exec Dir)
 B Sullivan (Non Exec Dir)
 G Freestone (Non Exec Dir)

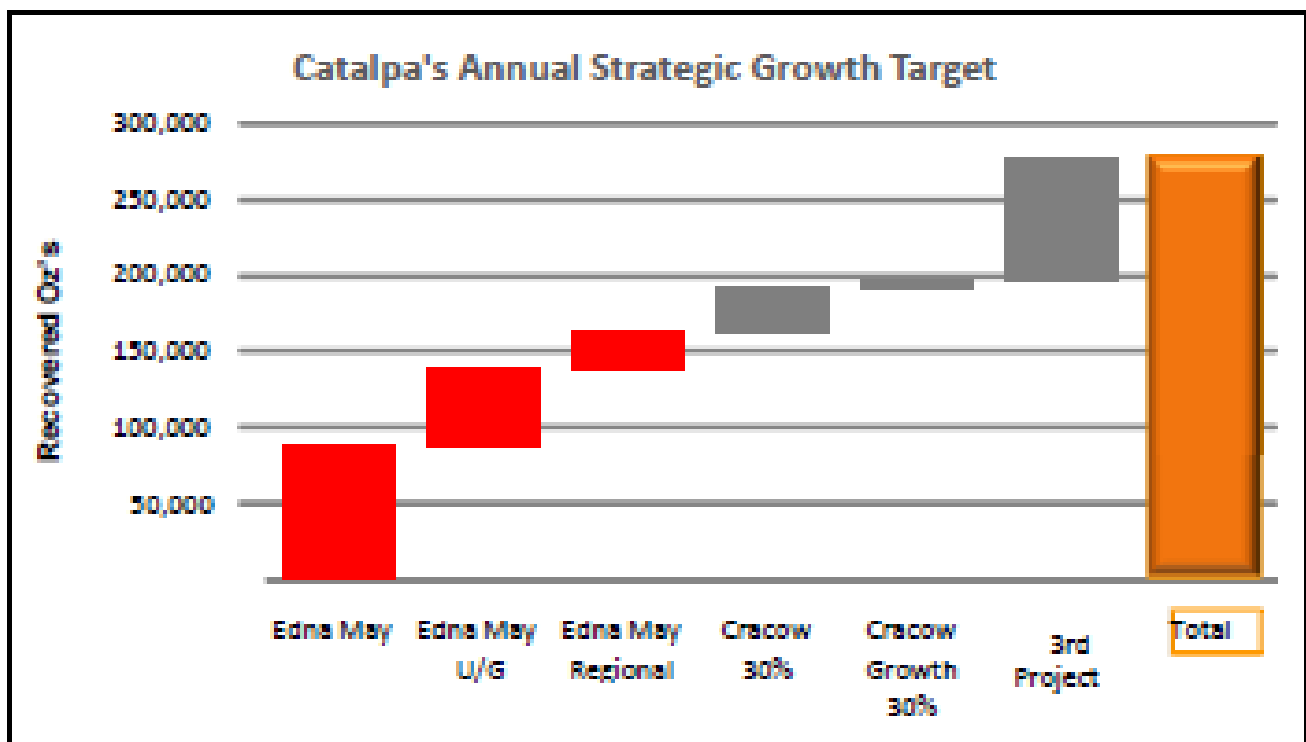
Key Projects

Project	Ownership/Option	Metal	JV Partner	Target Type	Process Route	Project Status	Location
Edna May	100%	Au	na	IRG/reef	CIL	Operating	Aus (WA)
Cracow	30%	Au	NCM	epithermal	CIL	Operating	Aus(QLD)

CATALPA RESOURCES LIMITED VALUATION

	Equity	Equity Gold Resource (moz)	Resource Valuation US\$/oz	RCR Target Gold Price A\$m ^	Valuation with Spot Gold Price *
Projects					
+ Edna May Gold Project NPV**	100%	1.66	176	319	549
+ Cracow JV NPV **	30%	0.25	292	58.5	79.5
+ Regional & U/G Exploration	100%			10.0	15.0
Sub Total				387.5	643.5
+ Cash (est Jun '10)				19.0	19.0
+ Tax Losses				9.5	9.5
+ Discounted Value of Forward Sales (5% nominal)				70.0	14.0
- Debt (est. Jun '10)				65.0	65.0
- Corporate Overheads (NPV @ 5%)				36.4	36.4
Sub Total				-2.9	-58.9
CAH NET ASSET VALUE			157	384.6	584.6
Capital Structure					
Shares (Jun '10) (m)				161.4	161.4
Fully Diluted Shares (Jun '10) (m)				176.3	176.3
CAH NET ASSET VALUE PER SHARE	:A\$/share			2.38	3.62
CAH NET ASSET VALUE DILUTED	:A\$/share fully diluted			2.27	3.40
^ Target valuation based on RCR long term gold price forecast of US\$850/ounce (from 1Q14), A\$/US\$ = 0.80. * Spot price valuation is based on current spot price of US\$1,240/oz, A\$/US\$ = 0.87 as long term prices. ** Edna May and Cracow project valuations based on after tax nominal NPV @ 5% discount rate.					

Higher grades from future underground ore at Edna May, along with additional regional resources, are projected to drive strong medium-term production growth. But to achieve 270koz per annum within two years, CAH is projecting an even bigger production jump from a "3rd Project" acquisition



Source: Catalpa Resources Ltd

Disclosure and Disclaimer

Disclosure and Disclaimer

Important Information

Resource Capital Research Pty Limited (referred to as "we", "our", or "RCR" herein) ACN 111 622 489 holds an Australian Financial Services Licence (AFS Licence number 325340). General advice is provided by RCR's Authorised Representatives Dr Tony Parry (Authorised Representative number 328842) and Dr Trent Allen (Authorised Representative number 331960). The FSG is available at www.rcresearch.com.au. All references to currency are in Australian dollars unless otherwise noted.

This report and its contents are intended to be used or viewed only by persons resident and located in the United States and Australia and therein only where RCR's services and products may lawfully be offered. The information provided in this report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject RCR or its affiliates to any registration requirement within such jurisdiction or country.

This report and its contents are not intended to constitute a solicitation for the purchase of securities or an offer of securities. The information provided in this report has been prepared without taking account of your particular objectives, financial situation or needs. You should, before acting on the information provided in this report, consider the appropriateness of the purchase or sale of the securities of the companies that are the subject of this report having regard to these matters and, if appropriate, seek professional financial, investment and taxation advice. RCR does not guarantee the performance of any investment discussed or recommended in this report. Any information in this report relating to the distribution history or performance history of the securities of the companies that are the subject of this report, should not be taken as an indication of the future value or performance of the relevant securities.

In preparing this report, RCR analysts have relied upon certain information provided by management of the companies that are the subject of this report or otherwise made publicly available by such companies. The information presented and opinions expressed herein are given as of the date hereof and are subject to change. We hereby disclaim any obligation to advise you of any change after the date hereof in any matter set forth in this report. THE INFORMATION PRESENTED, WHILE OBTAINED FROM SOURCES WE BELIEVE RELIABLE, IS CHECKED BUT NOT GUARANTEED AGAINST ERRORS OR OMISSIONS AND WE MAKE NO WARRANTY OR REPRESENTATION, EXPRESSED OR IMPLIED, AND DISCLAIM AND NEGATE ALL OTHER WARRANTIES OR LIABILITY CONCERNING THE ACCURACY, COMPLETENESS OR RELIABILITY OF, OR ANY FAILURE TO UPDATE, ANY CONTENT OR INFORMATION HEREIN.

This report and the information filed on which it is based may include estimates and projections which constitute forward looking statements that express an expectation or belief as to future events, results or returns. No guarantee of future events, results or returns is given or implied by RCR. Estimates and projections contained herein, whether or not our own, are based on assumptions that we believe to be reasonable at the time of publication, however, such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from the estimates and projections provided to RCR or contained within this report.

This report may, from time to time, contain information or material obtained from outside sources with the permission of the original author or links to web sites or references to products, services or publications other than those of RCR. The use or inclusion of such information, material, links or references does not imply our endorsement or approval thereof, nor do we warrant, in any manner, the accuracy or completeness of any information presented therein.

RCR, its affiliates and their respective officers, directors and employees may hold positions in the securities of the companies featured in this report and may purchase and/or sell them from time to time and RCR and its affiliates may also from time to time perform investment banking or other services for, or solicit investment banking or other business from, entities mentioned in this report. Catalpa Resources Limited commissioned RCR to compile this company review. In consideration, RCR received from the company a cash consultancy fee of less than \$15,000. RCR may receive referral fees from issuing companies or their advisors in respect of investors that RCR refers to companies looking to raise capital. Those fees vary, but are generally between 0 - 1% of the value of capital raised from referrals made by RCR. RCR received referral fees in relation to recent capital raisings for Globe Uranium Limited, PepinNini Minerals Limited, Uranex NL, Adamus Resources Limited and Toro Energy Limited. At the date of this report, neither RCR, nor any of its associates, hold any interests or entitlements in shares mentioned in this report with the exception that either or both of John Wilson (either directly or through Resource Capital Investments Pty Limited (RCI)) and associates, or RCI, as trustee of the Resource Capital Investments Fund owns shares in Ampella Mining Limited, Castle Minerals Limited, Chalice Gold Mines Limited, Gryphon Mines Limited, BHP and Rio Tinto.

Analyst Certification: All observations, conclusions and opinions expressed in this report reflect the personal views of RCR analysts and no part of the analyst's or RCR's compensation was, is, or will be, directly or indirectly related to specific recommendations or views expressed in the report. Officers, directors, consultants, employees and independent contractors of RCR are prohibited from trading in the securities of U.S. companies that are, or are expected to be, the subject of research reports or other investment advice transmitted to RCR clients for a blackout window of 14 days extending before and after the date such report is transmitted to clients or released to the market.

Cautionary Note to U.S. Investors Concerning Estimates of Measured, Indicated and Inferred Resources: RCR publishes mineral resources based on standards recognized and required under securities legislation where listed mining and exploration companies make their exchange filings and uses the terms "measured", "indicated" and "inferred" mineral resources. U.S. investors are advised that while such terms are recognized and required under foreign securities legislation, the SEC allows disclosure only of mineral deposits that can be economically and legally extracted. United States investors are cautioned not to assume that all or any part of measured, indicated or inferred resources can be converted into reserves or economically or legally mined. We recommend that US investors consult Securities and Exchange Commission Industry Guide 7 – "Description of Property by Issuers Engaged or to Be Engaged in Significant Mining Operations" for further information about the use of defined terms and the presentation of information included in this report.