



COMPANY UPDATE | COMMENT

JULY 27, 2010

**Catalpa Resources Limited (ASX: CAH)**  
**Edna May Hitting Its Stride**

**Outperform**  
**Above Average Risk**

<b>Price:</b>	1.51	<b>Price Target:</b>	2.50
		<b>Implied All-In Return:</b>	66%
<b>Shares O/S (MM):</b>	162.7	<b>Market Cap (MM):</b>	246
<b>Dividend:</b>	0.00	<b>P/NAVPS:</b>	0.6x
<b>NAVPS:</b>	2.36	<b>P/BVPS:</b>	5.6x
<b>BVPS:</b>	0.27	<b>Tr. 12 ROE:</b>	(5.00%)
<b>ROE:</b>	(3.0%)	<b>Enterprise Val. (\$MM):</b>	270.0
<b>Float (MM):</b>	162.7	<b>Avg. Daily Volume (MM):</b>	0.40
<b>Debt to Cap:</b>	26%		

Share price is as of close on the ASX on 27 July 2010

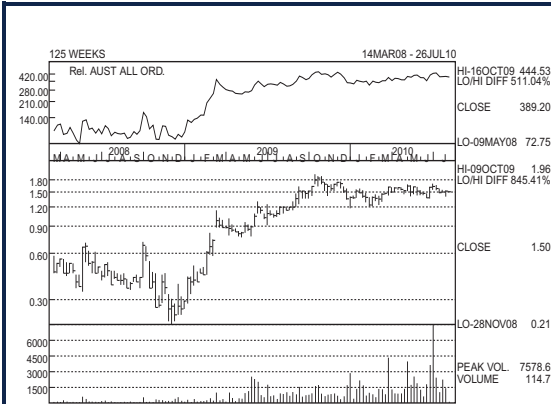
**Event**

June Q highlights good progress at Edna May, 18.3koz group production. Maintaining Outperform and A\$2.50 target.

**Investment Opinion**

The first two months of Catalpa's flagship Edna May mine have been very successful in our view, with parameters such as grade, recovery and costs meeting expectations. The targeted 2.8Mtpa throughput by the end of July looks readily achievable, reinforcing our positive earnings outlook. Catalpa's valuation is appealing to us, and the potential return of 66% represented by our price target is the best in our coverage.

- **June Q:** An initial 9.8koz from the open-pit at Edna May mine during two months of commissioning was broadly as we forecast and early indications are positive. The 30% of Cracow produced 8.5koz at A\$577/oz, which was a strong Q.
- **Guidance:** Catalpa projects FY11 group production of 115-127koz with 90-97koz from Edna May and a further 25-30koz from Cracow. We forecast an unchanged group of 125koz at A\$668/oz, and a healthy cash margin of A\$732/oz due to 56% of gold delivered to hedges at A\$1557/oz.
- **Balance sheet:** At 30 June, debt was fully drawn at A\$65m, offset by cash of A\$41m. This healthy net debt of only A\$24m is unusual for a start-up operation. This net debt is forecast to reverse to net cash of A\$16m in 12 months' time.
- **Earnings:** We have made no changes to our earnings forecast following the June Q report. We forecast A\$43-49m over each of the next three years, with dividends beginning in FY11 at A4c.
- **Compelling Value:** The discounted FY11 PER of 6x, CFM of 4x and P/NAV of 0.6x are very attractive and much lower than peers, i.e., good value. Once Edna May "puts runs on the board", a re-rating through multiple expansion is likely, in our view. An 8x CFM and 0.8 P/NAV yields a target of A\$2.50, representing potential return of 66%.
- **Valuation:** Our unchanged A\$2.50 price target is based on 8x FY11 CFM and 0.8x P/NAV. This is a discount to comparable golds ahead of full production at Edna May.



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FY Jun	2009A	2010E	2011E	2012E
Adj EPS - FD	(0.01)	(0.03)	0.24	0.27
P/AEPS	NM	NM	6.3x	5.6x
Adj CFPS - FD	(0.01)	0.02	0.38	0.42
Prev.				0.43
P/ACFPS	NM	75.5x	4.0x	3.6x
Annual Div. - FD	0.00	0.00	0.04	0.05
Prod.	0	25	125	132

All values in AUD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

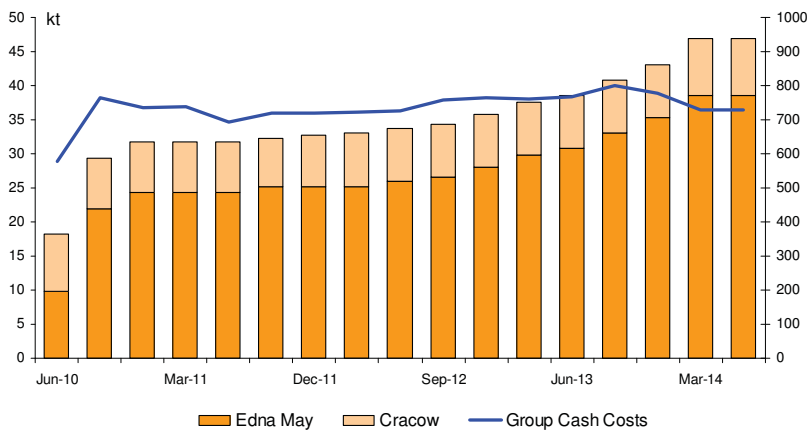
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## Edna May commissioning proceeding well

The key Edna May deposit is ramping up successfully and on target to achieve 2.8Mtpa at end of July. On our forecasts, we project a rate of 3.0Mtpa in the current year to produce 95koz. The company is well funded with net debt of only A\$24m and offers strong upside for reserve and resource growth, beginning with a maiden resource at Edna May underground due December this year. Edna May has a mine life of at least nine years from its open pit, but we are confident that underground ore and mine extensions will extend and supplement this mine life.

CAH is trading at discounted multiples of 6.2x PER and 3.9x CFM as well as 0.6x P/NAV. **We reiterate our Outperform rating and price target of A\$2.50, which represents potential return of 66%. We believe the market will endorse Catalpa's appeal once the company gets "runs on the board" as we believe it is currently doing.**

Exhibit 1: Quarterly Group Production and Cash Costs Including Royalties



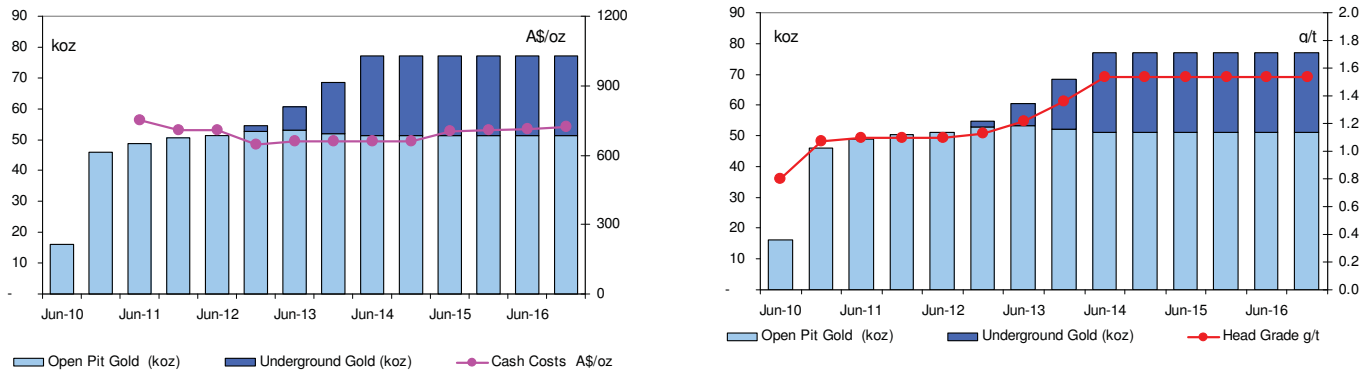
- We forecast 95koz from Edna May in FY11, in line with guidance of 90-97koz.
- Cash costs are forecast to be A\$701/oz excluding royalty.
- We forecast 30koz from the 30% of Cracow, the top end of guidance of 25-30koz.

Source: Company data, RBC Capital Markets estimates

## June Q Highlights

- **Group production was 18.3koz**, split 9.8koz at Edna May and 8.5koz at Cracow (30%).
- **Cash costs** including royalties were A\$577/oz at Cracow but not disclosed at Edna May, where costs were capitalised during the ramp-up.
- **Edna May:** The project was commissioned on 15 May 2010 and produced 9.8koz for the Q. Capex of A\$92m was in line with budget. Edna May was cash positive from operations during commissioning, scheduled to be finalized by 31 July. A few teething issues have resulted in 16 days of lost production. Early indications are gold recovery of 91.6% and gravity recovery of 40% of gold. Full production of 2.8Mtpa is on schedule for 31 July 10 and a rate of 3.2Mtpa is targeted by debottlenecking the plant. We are pleased to see a relatively smooth ramp-up and we have made no changes to our outlook.
- **Cracow:** (30% share) produced a very good 8.5koz at A\$577/oz. All production is unhedged.
- **Hedging:** Catalpa will deliver 69.9koz into the existing hedge book at A\$1557.5/oz in FY11. The company has a hedge book of 352koz to deliver over five years and on our forecast represents ~38% of annual group production at a health price, well in excess of current spot.
- **Exploration:** The budget is A\$7m at Cracow (100%) and A\$6m at Edna May in FY11, with the focus on underground and mine extensions at Edna May. The A\$3.2m underground drilling programme commences in July, and a maiden underground resource at Edna May is due Dec Q 2010.
- **Reserves:** Edna May reserves at 30 June were 1.05moz and resources were 1.68Moz. Cracow (30%) has reserves of 188koz and resources of 0.8Moz.

Exhibit 2: Edna May Production & Cash Costs (LHS) and Head Grade (RHS)



Source: Company data, RBC Capital Markets estimates

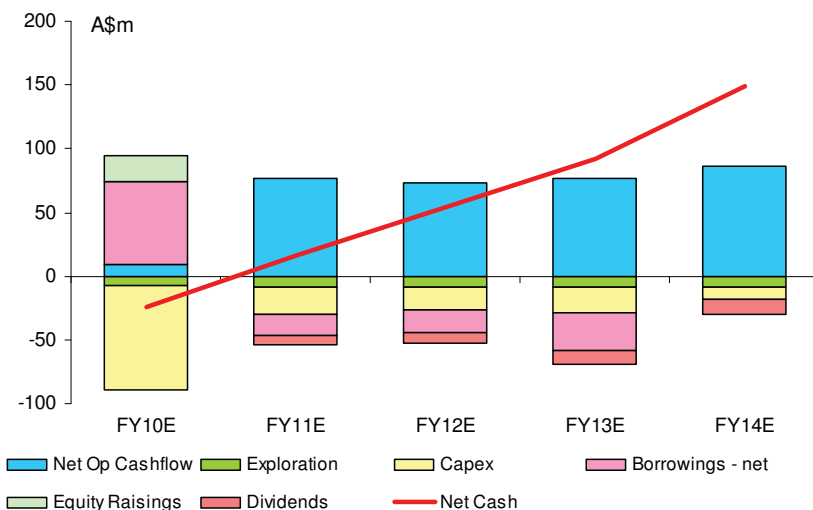
**Guidance**

- **FY11:** Edna May is 90-97koz while Cracow is 25-30koz attributable; thus, group total is 115-127koz.

**Financials**

- **Cash & Debt:** Macquarie debt is fully drawn to A\$65m, cash A\$41m. Thus, net debt is only A\$24m – very low for a start-up mine. This net debt is low for a new operator, and Catalpa will be net debt free very soon on our forecast A\$83m EBITDA in FY11.

Exhibit 3: Catalpa Resources Cash Flow Analysis



- Catalpa currently has cash of A\$41m offset by full drawn debt of A\$65m
- Net debt of A\$24m is forecast to be net cash of A\$16m at 30 June 2010.
- Capex of A\$92m has been spent last year and we forecast an ability to pay dividends from the current year from the significant operating surplus shown in blue.

Source: Company data, RBC Capital Markets estimates

Exhibit 4: Catalpa Resources Operating & Financial Summary

Catalpa Resources																															
<b>ASX: CAH</b>		Share Price: (A\$) <b>1.51</b>			Stock Rating: <b>Outperform</b>			Return <b>66%</b>		Price Target: <b>NAV: A\$2.50</b>			<b>A\$2.50</b>																		
Issued Shares (m) <b>162.7</b>		Market Cap: (A\$M) <b>245.8</b>			Risk Qualifier: <b>Above Average</b>																										
<b>Fiscal Year Ended June</b>																															
<b>ASSUMPTIONS</b>		<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>	<b>ATTRIBUTABLE MINE STATS</b>					<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>															
Gold Price	US\$/oz	875	1,090	1,175	1,150	1,100	Edna May - Ore milled	Mt	0.4	3.0	3.1	3.3																			
Exchange Rate	A\$/US\$	0.75	0.89	0.84	0.82	0.79	(100%) - Head grade	g/t	0.8	1.1	1.1	1.2																			
Spot Gold Price	A\$/oz	1,183	1,228	1,394	1,413	1,391	- Gold produced	koz	10	95	102	115																			
Hedged Gold Price	A\$/oz	1,558	1,558	1,558	1,558	1,558	- Cash costs ex royalty	A\$/oz	1,092	701	661	711																			
Realised Gold Price	A\$/oz	1,427	1,479	1,479	1,454		- Cash costs incl royalty	A\$/oz	1,167	769	728	777																			
Gold Hedged	%	59%	56%	45%	40%		Cracow - Ore milled	Mt	0.1	0.1	0.2	0.2																			
				11%	2%		(30%) - Head grade	g/t	6.8	7.2	6.5	6.5																			
							- Gold produced	koz	15	30	30	31																			
							- Cash costs ex royalty	A\$/oz	533	564	629	639																			
							- Cash costs incl royalty	A\$/oz	591	616	700	708																			
<b>RATIO ANALYSIS</b>		<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>	<b>Group - Gold produced</b>					<b>koz</b>	<b>25</b>	<b>125</b>	<b>132</b>	<b>146</b>															
Issued Shares - period end	MM	1,172	163	163	163	163	- Cash costs ex royalty	A\$/oz	755	668	654	696																			
Net profit (pre 1-offs)	A\$MM	(7)	(4)	43	48	49	<b>- Cash costs incl royalty</b>	<b>A\$/oz</b>	<b>820</b>	<b>732</b>	<b>722</b>	<b>763</b>																			
EPS - fully diluted	A¢	(0.8)	(2.5)	24.3	27.0	27.5	- Cash costs ex royalty	US\$/oz	670	563	533	550																			
P/E	x	n.m.	n.m.	6.2x	5.6x	5.5x	- Cash costs incl royalty	US\$/oz	727	617	588	603																			
CFPS	A¢	(1.2)	2.1	38.2	42.2	44.4	<b>Cash Margin</b>					<b>A\$/oz</b>	<b>607</b>	<b>747</b>	<b>757</b>	<b>691</b>															
P/CF	x	n.m.	72.1x	3.9x	3.6x	3.4x		<b>US\$/oz</b>	<b>539</b>	<b>629</b>	<b>617</b>	<b>546</b>																			
Dividend per share	A¢	0.0	0.0	4.0	5.0	6.0	<b>Reserves &amp; Resources</b>																								
Franking	%	0%	0%	100%	100%	100%	<b>P+P Reserves</b>					<b>M+I Reserves</b>																			
Dividend yield	%	0%	0%	3%	3%	4%	Mt	g/t	koz	Mt	g/t	koz																			
Payout Ratio	%	0%	0%	16%	19%	22%	Edna May (100%)	29.4	1.1	1,012	41.3	1.0	1,355																		
Effective Tax Rate	%	4%	29%	29%	29%		Cracow (30%)	0.3	7.2	70	0.4	8.6	110																		
Book value per share	A¢	27.4	78.7	101.2	125.7	149.7	<b>Group Totals</b>					<b>29.7</b>	<b>1.1</b>	<b>1,082</b>	<b>41.7</b>	<b>1.1</b>	<b>1,465</b>														
P/Book value	x	5.5x	1.9x	1.5x	1.2x	1.0x	Total including inferred						53.1	1.1	1,906																
R.O.E.	%	-15%	-3%	26%	23%	20%	Enterprise Value / oz Reserve	A\$/oz	250	US\$/oz	217	<b>Rsc/Rsv</b>																			
R.O.A.	%	-14%	-2%	18%	18%	18%	Enterprise Value / oz M+I Resource	A\$/oz	185	US\$/oz	161	1.35																			
EBITDA per share	A\$	0.02	0.51	0.55	0.56		<b>EARNINGS SENSITIVITY (NPAT)</b>					<b>FY11E</b>	<b>FY12E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>Sen</b>															
EV/EBITDA	x	74.7x	3.3x	3.0x	3.0x							A\$m		Percent																	
<b>PROFIT &amp; LOSS</b>		<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>	Gold Price US\$/oz	+10%	46.1	52.3	7%	9%																			
Revenue	A\$MM	0	23	174	186	203	Exchange Rate	+10%	35.1	38.9	(19%)	(19%)																			
Operating costs	"	0	(9)	(83)	(86)	(102)	<b>CATALPA ANNUAL PRODUCTION &amp; CASH COSTS</b>																								
Mine Operating Surplus	"	0	14	101	109	111																									
Royalties	"	0	(1)	(8)	(9)	(10)	<b>CATALPA CASH FLOW</b>																								
Exploration Expense	"	(3)	(1)	(4)	(4)	(4)																									
Corporate and Other	"	(4)	(8)	(6)	(6)	(6)	<b>SHARE VALUATION</b>																								
EBITDA	"	-7	4	83	89	91	<b>Projects</b>																								
D&A	"	(0)	(7)	(19)	(21)	(23)	<b>Edna May</b>					<b>Ownership</b>																			
Operating Income (EBIT)	A\$MM	(7)	(3)	64	69	67	100%					360					2.21					84%									
Net Interest Expense / Gain	"	0	(1)	(3)	(1)	2	<b>Cracow</b>					30%					71					0.43					16%				
Pre Tax Profit	"	(7)	(4)	61	68	69	<b>Exploration</b>					25					0.15														
Tax Expense	"	0	0	(18)	(20)	(20)	<b>Debt</b>					(65)					(0.40)														
Underlying Net Profit	A\$MM	(7)	(4)	43	48	49	<b>Cash</b>					40					0.25														
Sign Items after tax	"	0	0	0	0	0	<b>Group &amp; Unallocated</b>					(46)					(0.29)					<b>P/NPV</b>									
Reported Net Profit	A\$MM	(7)	(4)	43	48	49	<b>Net Asset Value</b>					<b>385</b>					<b>2.36</b>					<b>0.64</b>									
EPS	A¢	(0.8)	(2.5)	24.3	27.0	27.5																									
DPS	A¢	0.0	0.0	4.0	5.0	6.0																									
<b>CASH FLOWS</b>		<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>																									
Operating Cash Flow	A\$MM	(3)	10	87	93	95																									
Net Interest Expense	"	0	(0)	(3)	(1)	2																									
Tax Paid	"	0	(0)	(7)	(20)	(20)																									
Other	"	0	0	0	0	0																									
Retained Op. Cash Flow	A\$MM	(3)	10	77	73	76																									
Acquisitions	"	0	0	0	0	0																									
Exploration	"	0	(8)	(9)	(9)	(9)																									
Capital Ex & Op Development	"	(5)	(82)	(21)	(18)	(20)																									
Funding Surplus/(Deficit)	A\$MM	(8)	(80)	47	46	48																									
Dividends Paid	"	0	0	(7)	(8)	(10)																									
Borrowings	"	0	65	0	0	0																									
Loan Repayments	"	(0)	(0)	(17)	(17)	(30)																									
Equity Issues	"	41	20	0	0	0																									
Other	"	0	(1)	0	0	0																									
Total Funds Provided	A\$MM	41	84	(24)	(25)	(40)																									
Net change in cash	"	29	8	23	21	7																									
Cash at start of year	"	0	32	40	64	84																									
Exchange Rate Adjustments	"	0	0	0	0	0																									
Cash at end of year	A\$MM	32	40	64	84	92																									
Net Op. CFPS	A¢	(1.9)	5.9	47.2	44.7	46.8																									
<b>BALANCE SHEET</b>		<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>																									
Cash & equivalents	A\$MM	32	40	64	84	92																									
Other current assets	"	4	8	8	8	8																									
PP&E & Other Mining Assets	"	7	94	95	92	88																									
Capitalised Exploration	"	2	71	76	82	87																									
Other Non Current Assets	"	4	3	0	0	0																									
Total assets	A\$MM	49	217	243	266	275																									
Total liabilities	"	5	89	79	61	31																									
Total Net Assets	A\$MM	45	128	165	205	244																									
Total Debt	"	0	65	48	30	0																									
Net Debt (Cash)	A\$MM	(32)	25	(16)	(54)	(92)																									
Gearing (net debt:nd+ equity)	%	(260%)	16%	(11%)	(36%)	(61%)																									
Gearing (net debt:equity)	%	(72%)	19%	(10%)	(26%)	(38%)																									

Source: Company data, RBC Capital Markets estimates



## Valuation

Our unchanged A\$2.50 price target is based on 8x FY11 CFM and 0.8x P/NAV. This is a discount to comparable golds ahead of full production at Edna May.

## Price Target Impediment

Impediments to Catalpa reaching our forecast earnings and price targets include: 1) ramp-up at Edna May is not as expected, thus hindering production and sales; 2) Catalpa decides not to proceed or is unable to proceed with the underground development of Edna May; 3) failure to discover additional gold resources around Edna May, thus restricting mine life; 4) unanticipated operation issues at Edna May or Cracow ; and 5) lower than expected average gold prices.

## Company Description

Catalpa Resources Limited is a relatively young gold mining and exploration company with interests in two gold mines in Queensland and Western Australia. The company's flagship mine is the wholly owned and recently commissioned ~100koz pa, A\$92m Edna May open pit in WA. Cracow is a 100koz pa underground mine in Queensland, in which Catalpa has a 30% JV interest with Newcrest 70% owner and operator. Catalpa is building group production to about 130koz pa by August, when Edna May is scheduled to be fully ramped up.

The company is capitalised at ~A\$230m and as at 31 March 2010, had A\$19m cash-in-hand offset by A\$58m of debt. The company raised A\$106m of debt and equity for its A\$92m Edna May mine and forward sold 352koz at a healthy price of A\$1,557/oz. First gold was produced in April 2010, some six weeks ahead of the scheduled 12-month construction period. Group reserves total 1.0moz and resources are over 1.9moz.

In June 2009, Catalpa Resources and its largest shareholder, Lion Selection Limited, agreed to merge as a new Australian mid-tier gold producer. The merger, completed in December 2009, brought together Lion Selection's 30% stake in the Newcrest-managed Cracow Gold Operations and Edna May. Catalpa acquired a pre-emptive right over Newcrest's 70% stake in Cracow.

## Required Disclosures

### Non-U.S. Analyst Disclosure

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An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

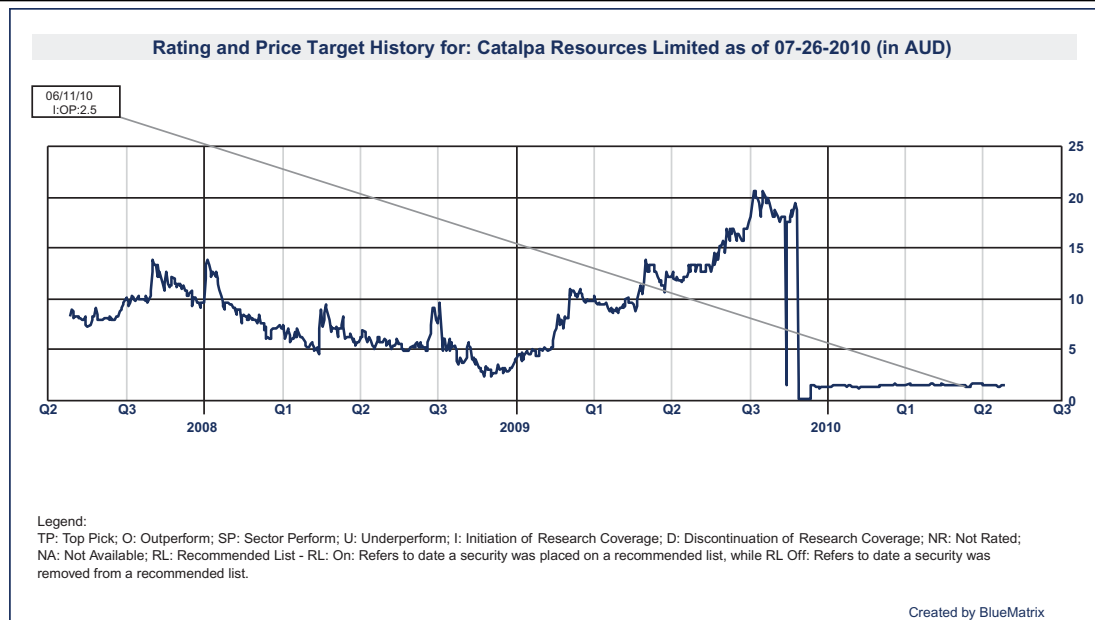
**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	635	50.30	180	28.35
HOLD[SP]	576	45.60	123	21.35
SELL[U]	52	4.10	7	13.46



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