BATHURST RESOURCES LIMITED (ASX: BTU)

4 NOVEMBER 2011

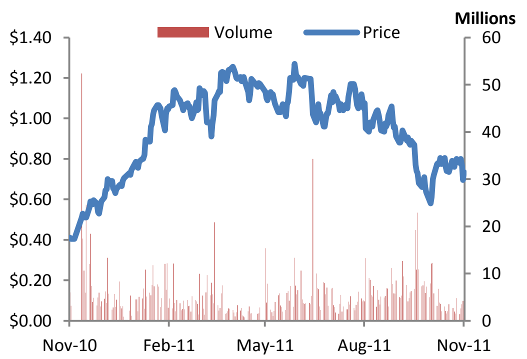
Bathurst Resources (ASX: BTU) is an Australian coal development company focused on the development of the Buller Project in New Zealand.

Company Data	
ASX Code	BTU
Share Price ($)	0.695
Shares on Issue (m)	688.2
Options on Issue (m)	72.2
Market Cap (undiluted, $m)	478.3

Valuation	$m	$/share
Valuation at Forecast Coal/FX		
South Buller	828.2	1.20
Resources	29.4	0.04
Cash (30 Sep)	69.0	0.10
Debt/Contingency (est)	(80.9)	(0.12)
Investments/Other	5.0	0.0
Exploration	11.3	0.02
Total Valuation	862.0	1.25
Share Premium/(Discount) to valuation		-44.5%
Valuation at Spot Coal/FX*		
Total Valuation	1,560.4	2.27
Share Premium/(Discount) to valuation		-69.3%
*Spot Benchmark Coking Coal Price (US$/t)		285
Spot A$/US$ Xrate		1023
Spot Benchmark Coking Coal Price (A$/t)		279

Board	
Craig Munro	Non-Executive Chairman
Hamish Bohannan	Managing Director
Gerald Cooper	Executive Director
Rob Lord	Non-Executive Director
Malcolm McPherson	Non-Executive Director

Share price performance



Analyst

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Site Visit and Update – Appeals Will Delay Development But Fundamentals Remain Very Attractive

RECOMMENDATION: BUY

In the volatile markets of the past month or two, Bathurst was clearly oversold. The share price has since recovered from a low of $0.58 to the current $0.695. The shares are currently trading at a 44% discount to our base case valuation of $1.25 share.

While the delays have caused some time-based erosion of value, the company's excellent suite of assets, its rail and port infrastructure, which would make it the envy of many aspiring coal producers, and the fact that the South Buller Project is fully funded make it an extremely attractive proposition. Share price weakness may persist during the approvals process – this provides an excellent buying opportunity.

KEY POINTS

- Resource consents (environmental approvals) for the development of the Escarpment mine and coal preparation plant (CPP) were granted to Bathurst's wholly owned subsidiary, Buller Coal Limited, on 26 August 2011 by the West Coast Regional Council and the Buller District Council. Subsequently, three appeals were received. While some of the issues may be resolved through mediation, there is a strong likelihood that some of the appeals will be heard by the Environmental Court of New Zealand, which could delay the final approval by 9-15 months.
- The project has the support of most of the local residents, the local councils and the national government, which is likely to be re-elected in the November 2011 elections. Other factors in favour of a positive outcome are the closure of the Pike River mine (and subsequent loss of jobs), the rebuilding of Christchurch taking much longer than expected (mainly due to aftershocks) and macro issues such as the recent downgrade of the country's credit rating. Investment and job creation are clearly a high priority.
- The Cascade mine, though very small (45,000tpa, with the potential to move to +75,000tpa) is cash flow positive and should help to cover the bulk of overheads while the appeals process is in progress. The company has recently despatched its first export coal from the mine and is expected to ship the trial parcel through the port of Lyttleton in November. The first shipment through Westport is also due in November.
- The Coalbrookdale underground development (fully permitted) is expected to begin shortly, with first export coal (from development headings) expected in Q1 2012. The company is targeting steady state production of 100,000-200,000tpa, which should be achieved by the Sep quarter 2012. Coal will be moved by road to the port at Westport for export. Buller Coal has a licence to transport 250,000tpa of Coalbrookdale coal by road and an unlimited licence for Cascade coal. Some coal may be railed to Lyttleton.

- Production to +1Mtpa is fully funded, rail and port facilities are immediately available and off-take agreements currently in place for Escarpment are not time-based i.e. they apply only when the coal is being produced.
- Exploration is unaffected by the consent process and North Buller feasibility studies are continuing.

KEY RISKS

- Final environmental approval is still the key risk to the project.
- Open pit mining, coal processing and coal transport will be conducted amid environmentally and culturally sensitive areas. The proposed mining sites are a likely habitat for endangered snail and kiwi species. High rainfall rates, acid-generating overburden and historical acid mine drainage are all concerns that need to be addressed.

RESOURCE CONSENT APPLICATIONS

A mining permit and Overseas Investment Office (OIO) approval have been granted, and the Exploration Licence extended to 2015. Following a hearing which considered 24 applications for resource consents required from the Buller District Council and West Coast Regional Council, Environmental Consent was granted on 26 August 2011.

Three appeals have been made to the Environmental Court. The appellants are:

- Fairdown-Whareatea Residents Association Incorporated
- The Royal Forest and Bird Protection Society of New Zealand Incorporated
- West Coast Environmental Network Incorporated

The two councils that granted the resource consents for the Escarpment Project have indicated that they intend to defend their decision through the appeals process, alongside Bathurst.

The Environmental Court actively encourages parties to try and settle the matters through mediation, which has proven to be a successful resolution method in the past. Bathurst/Buller Coal will be doing its best to resolve the issues through arbitration.

The objection by the Residents Association is mainly related to noise and dust around the proposed Fairdown stockpile and transfer point, and is the issue most likely to be resolved through mediation.

The local environmental issues, some of which may be resolved through the arbitration process, largely revolve around three issues:

- Protection of the carnivorous snails and the Great Spotted Kiwi. One of the main problems relating to the latter is predators, particularly previously-introduced weasels and stoats. Bathurst proposes to undertake predator management over 5,620 hectares of the neighbouring Heapy region for at least 35 years to help protect and monitor populations of the Great Spotted Kiwi. In addition to monies paid to the Buller District Council to provide funding for reserves, recreational and community facilities, Buller coal will also set up a NZ$250,000 trust to fund rehabilitation of flora and fauna on the Denniston Plateau.
- Breaking of natural rocks and destruction of flora. Large areas have been previously mined and the environment is hardly pristine. In the more sensitive areas, underground mining could be considered.
- Possible depletion of water flow. Recycling of process water is already planned.

While it is impossible to categorically state that the Escarpment Project and CPP will definitely proceed, we are unaware of any successful appeal to a consent for a mining project in New Zealand in recent times. However, the appeals process will not be simple, will take considerable time and effort to resolve and could delay production until late calendar 2012.

INFRASTRUCTURE IS THE KEY

One of Bathurst's most significant advantages over other coal companies in the development stage is the excellent infrastructure, particularly rail and port facilities.

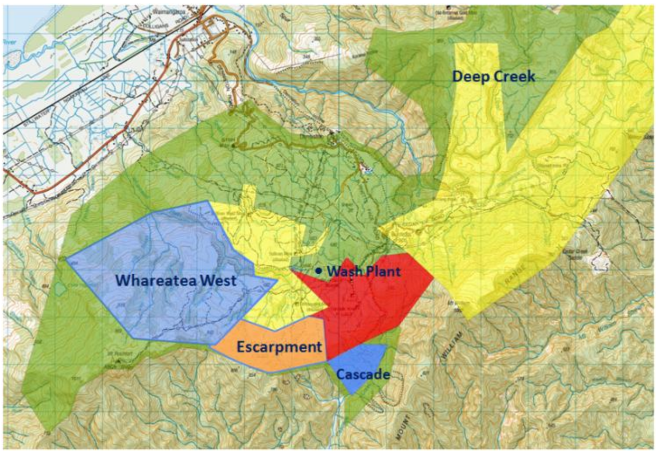
There are two alternatives for port facilities:

Westport is an operating river port 10km from the Fairdown transfer point. 10,000t vessels would transfer coal to a deep sea port such as New Plymouth on the North Island where the coal would be transferred to Panamax vessels. The port could currently comfortably handle coal exports well in excess of 1Mtpa and possibly up to 2Mtpa. Only four vessels per week would be required to move 2Mtpa. However, Bathurst believes that upgrading port facilities to state-of-the-art would significantly improve efficiencies and has earmarked ~NZ30m for an upgrade, work to commence as soon as mining approvals have been granted. The only cost at New Plymouth, which is already Panamax-capable, would be for storage facilities.

A second alternative is **Lyttleton**, the deep water port of Christchurch, which has 10Mtpa capacity. The Fairdown-Westport-Lyttleton rail link currently has 5Mtpa capacity. Buller currently has an agreement with Solid Energy New Zealand (SENZ), which has rights over 5Mtpa, to use the rail-port facilities for 25% of sales. With the closure of the Pike River mine, which had a take-or-pay contract with SENZ, additional capacity should be available immediately. The rail capacity to Lyttleton is constrained by ventilation through tunnels, which could be overcome by electrification.

ACQUISITION OF BROOKDALE ASSETS

The company has recently acquired the Brookdale assets (now referred to as Coalbrookdale) on the Buller Plateau. The assets include permits covering an area of 342 hectares across three blocks and are strategically located adjacent to Bathurst's Cascade and Escarpment blocks. The exploration target is 15-25Mt of hard and semi-soft coking coal. The acquisition also includes fully consented permits for two small underground mines, with the potential for these to be converted to open cut operations, and a partially consented permit for one open cut operation. A permit to truck up to 250,000 tonnes per annum of coal off the Buller Plateau and a consented stockpile facility of up to 90,000 tonnes at Fairdown are also included.



South Buller Project (Coalbrookdale assets in red)

OFFTAKE AGREEMENT

On 6 May, Bathurst announced that it had signed a non-binding term sheet with CITIC Resources regarding potential coal off-take. Both parties have agreed to work towards a formal off-take and towards funding agreements prior to the start of the development phase of the Buller Coal Project.

The key terms, effective for 5 years from the commencement of first coal production, would see CITIC act as principal for sales of 30% of annual production and possibly as agent in some markets. Subject to satisfactory due diligence, CITIC would provide up to US$40m in a Finance Facility repayable over 5 years.

Previously, the company announced the execution of a Memorandum of Understanding (MoU) with Stemcor Australia, a subsidiary of Stemcor Holdings Ltd, for the sale of coal from the Buller Project. The key aspects of the MoU are a 5 year term from the commencement of first coal production and an exclusive agency agreement for 45% for the first 1 million tonnes of production plus 30% of any additional production above 1Mtpa. Stemcor has also agreed to provide up to US$50m in a coal finance facility.

BASE CASE VALUATION

Our base case valuation for Bathurst is $862m or $1.25 per share on an undiluted basis. This does not include the 5% of free equity that will accrue to L&M once the 1Mtpa production rate has been achieved. This valuation is based on the DCF value for the Escarpment, Deep Creek and Whareatea deposits at a maximum annual production rate of 2Mtpa of saleable coal. It does not include the North Buller Project.

First production from Escarpment is now expected from the beginning of calendar 2013, building up to 1Mtpa by FY2015. Current reserves are 4.0Mt. In addition, there is approximately 2.1Mt of inferred coal resources in Escarpment which will be mined, processed and sold. This is expected to produce an additional 1.4Mt of coal product, bringing the total saleable coal over a five year life to approximately 5.4Mt. The mining schedule for Escarpment indicates an average strip ratio of around 9.5:1. We estimate the operating cost, including royalties, to be approximately NZ$156/tonne of sales coal, or around US$110/t at a NZ$/US$ exchange rate of 0.70.

Due to its close proximity to the Escarpment block and the coal preparation plant, Whareatea West is now expected to be the next deposit to be developed. We have assumed start-up in FY2014, reaching an annual production rate of 1Mtpa by FY2015. However, timing will largely depend on how quickly approvals are granted. The production profile also assumes the development of Deep Creek as Escarpment reserves are depleted. The average strip ratio for Deep Creek is considerably lower than at Escarpment, which should result in a significant reduction in operating costs. It is also anticipated that only 70% of the Deep Creek raw coal will require washing. Production at a rate of 2Mtpa of saleable coal from South Buller has been assumed to FY2027.

In the short term, production from the Cascade open pit is expected to ramp up to 75,000tpa from FY2013 and Coalbrookdale underground production gradually build up from 100,000t in FY2012 to 250,000t by FY2015. FOB costs of NZ$143/t (US$100/t) and NZ$194/t (US$136/t) have been assumed for Cascade and Coalbrookdale underground respectively. Production of thermal coal from Takitimu is expected to continue but has not been valued on a DCF basis as the overall contribution to cash flow is small.

Wash plant recovery of 67.5% has been assumed for Escarpment, and 75% for Deep Creek and Whareatea, although only 70% of Deep Creek coal is expected to require washing. Some of the Escarpment and Whareatea West coal may not require washing, providing some upside. Unit mining cost assumptions used are:

Waste Removal	NZ$6.00/BCM
Coal Mining	NZ$3.50/tonne raw coal
Site Administration	NZ$3.00/tonne raw coal
Rehab and Closure	NZ$3.00/tonne raw coal
Load/Haul/Wash Plant	NZ$11.25/tonne raw coal
Slurry	NZ$1.20/tonne saleable coal
Transport	NZ$41/tonne saleable coal
Coking Coal Royalty	NZ$1.40/tonne sales
Resource Levy	NZ$2.00/tonne sold
L&M Royalty	1.75% sales revenue

While it is most likely that the majority of the Buller deposits will be mined, resources outside of Escarpment, Deep Creek and Whareatea have not been valued on a DCF basis in the base case. Instead, we have arbitrarily assigned a value of $1.25/tonne to all indicated resources at North Buller, Blackburn and Millerton North and $0.50/t for the 9Mt inferred resource at North Buller. Exploration potential has again been fairly arbitrarily based on the discovery of an additional 5Mt of coal at a value of $0.25/t. We have ascribed a nominal value of $5m to the remaining Eastern Resources assets, including the Takitimu Coal Mine and surrounding tenements.

The remaining US$80m of acquisition costs have been treated as debt.

UPSIDE SCENARIOS

Coal Price

Our forecasts are based on the Australian benchmark Goonyella brand coking price assumptions tabled on page 6. The Buller Project is expected to produce a high volatile, low ash product, with very high swell and fluidity and very high fixed carbon. Buller expects to produce the same quality coal that has been mined by Solid Energy at the adjacent Stockton mine for more than twenty years. The brand is well established, and attracts a premium to the Australian benchmark price and Bathurst expects to achieve a 5-15% premium on this benchmark price.

We have assessed two scenarios, based on the company achieving a 5% and 10% premium. The results are shown below.

		Coal Price Premium	
	Base Case	**+5%**	**+10%**
DCF Value of Operations ($m)	828.2	921.7	1,015.1
Other, incl debt ($m)	33.8	33.7	33.8
Total Value ($m)	862.0	955.4	1,048.9
Valuation/share ($)	1.25	1.39	1.52

The valuation increases by around $19m, or 2.7 cents per share, for every 1% premium achieved over the benchmark price.

Production From North Buller

Bathurst has always expressed a desire to eventually move to a production rate of 4Mtpa, subject to obtaining the requisite permitting. A pre-feasibility study is currently being conducted on the North Buller area.

Our current $29.4m valuation of North Buller is based on an in situ value of coal. A pre-feasibility study is currently in progress. We have attempted a preliminary DCF assessment of North Buller, based on the following:

- Resource to reserve conversion of 80%
- A$80m capital expenditure, including a coal preparation plant
- Annual production of 2Mtpa, starting in FY2016 at 750,000t and building up to 2Mtpa by FY2018
- Waste:ore ratio of 9:1 and wash plant recovery of 70%
- Unit costs as per South Buller, which results in an average cash cost, including royalties, of ~$US108/t
- Coal price assumptions used for South Buller

Based on the above, we value the North Buller assets in the $400m to $450m range, or between $0.58 and $0.65 per share, on an unrisked basis.

BATHURST RESOURCES LTD (BTU)	Recommendation:	Buy

Issued Capital:	688.2m	Share price:	$0.695	Market Cap:	$478m	Y/E June, A$m

Assumptions	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F	LT	Spot
Hard Coking Coal Price (US$/t)		238	243	205	180	180	180	180	285
A$/US$ Exchange Rate	0.883	0.989	1.000	0.975	0.950	0.900	0.850	0.850	1.023
Hard Coking Coal Price (A$/t)		240	243	210	189	200	212	212	279

Physicals	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F	FY17F	LOM*
Waste/Ore Ratio			4.0	7.6	8.0	8.0	8.0	8.7	7.4
Raw Coal (Mt)		-	0.150	0.805	2.102	3.065	3.065	2.815	32.534
Saleable Coal (Mt)		-	0.150	0.617	1.558	2.250	2.250	2.000	24.825
Cash Cost (incl royalties, NZ$/t)		-	177.20	166.38	153.51	150.93	150.93	145.92	133.92
Cash Cost (incl royalties, US$/t)		-	124.04	116.47	107.46	105.65	105.65	102.14	93.74
Cash Cost (incl royalties, A$/t)		-	124.04	119.45	113.11	117.39	117.39	113.49	103.43

Financials (A$m)	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F	FY17F	LOM*
Sales Revenue		-	32.2	127.4	290.0	442.1	468.1	416.1	4,689
Operating Costs		-	(18.6)	(73.6)	(176.2)	(264.1)	(264.1)	(227.0)	(2,375)
Operational Cash Flow		-	13.6	53.7	113.8	178.0	204.0	189.1	2,314
Capital/Development		(20.2)	(15.0)	(41.0)	(10.5)	(3.3)	(3.5)	(3.5)	(111)
Pre-tax Cash Flow		(20.2)	(1.4)	12.7	103.3	174.7	200.5	185.6	2,203

* South Buller Operations Only

Resources (Mt)	Measured	Indicated	Inferred	Total	Reserves (Mt)	Proven	Probable	Total
Escarpment	4.4	0.2	1.9	6.5		4.1	0.3	4.4
Deep Creek	6.2	3.1	1.6	10.9		5.8	2.7	8.5
Coalbrookdale	-	4.0	5.7	9.7				
North Buller	-	4.8	9.0	13.8				
Blackburn	-	10.8	-	10.8				
Millerton North	-	4.3	-	4.3				
Whareatea West	18.0	7.7	-	25.7		3.9	0.5	4.4
Takitimu	0.6	2.4	0.1	3.1				
Total	**29.2**	**37.3**	**18.3**	**84.8**		**13.8**	**3.5**	**17.3**

EV/t Reserve	A$28.34/t	Reserve/Resource (%)	20%
EV/t Resource	A$5.78/t		

Valuation	$m	$/share	Discount Rate Assumptions	
South Buller	828.2	1.20	Risk Free Rate	5.5%
Resources	29.4	0.04	Market Risk Premium	6.0%
Cash (30 Sep)	69.0	0.10	Beta	1.10
Debt/Contingency (est)	(80.9)	(0.12)	Cost of Equity (after tax)	12.1%
Hedging			Cost of Equity (pre tax)	16.8%
Exploration	11.3	0.02	Cost of Debt	8.5%
Investments/Other	5.0	0.01	Debt	40.0%
Total	**862.0**	**1.25**	Equity	60.0%
Premium/(Discount)		-44.5%	**WACC (pre-tax)**	**13.5%**
Valuation at Spot	**1,560.4**	**2.27**	Tax Rate	28.0%
Premium/(Discount)		-69.3%		

Valuation Sensitivities		$m	$/share	% change		$m	$/share
Coal Price	+/-10%	186.9	0.27	21.0	per 1%	18.7	0.027
Exchange Rate	+/- 5c	104.8	0.15	13.2	per 1c	21.0	0.030

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