UBS

Global Equity Research

Australia

Mining

12-month rating | Neutral
Prior: Not Rated

12m price target A$1.25/US$1.38

Price A$1.10/US$1.22

RIC: BTU.AX BBG: BTU AU

28 July 2011

UBS Investment Research

Bathurst Resources

Awaiting the green light

■ Initiating coverage on Bathurst Resources with a Neutral rating

Bathurst Resources' (BTU) focus is to develop the Buller Coal project in the South Island of NZ, which is planned to produce 2Mtpa by FY15. The Buller project is to produce a high quality hard coking coal, using open cast mining techniques. The project has low capital intensity at A$80m for 2Mtpa (A$40/t), due to its location near existing infrastructure and use of contractors. First production is scheduled for 4Q CY11, subject to government/environmental approvals. We take a more conservative approach due to delays from approvals, modelling first production in mid CY12. We model 2.5Mtpa of production by FY17, assuming additional production comes from BTU's recent acquisitions, with $20m incremental capex.

■ Coking coal exposure to drive premium margins compared to peers

We highlight BTU's hard coking coal exposure, which will drive better margins than peers, low capital intensity, funding position and potential corporate interest. Offsetting this, we highlight the stock is trading at a premium to peers with near-term risk from environmental approvals and work remains to be done on firming up their resource and reserve position.

■ Premium to peers but more upside potential from long-term price upgrades

We initiate coverage on BTU with a Neutral rating and a price target of $1.25ps, based on our 12-month forward NPV. Our base case NPV is $1.07ps. If we were to model BTU using consensus long-term coal price forecasts, our NPV would rise to $1.39ps. We note consensus long-term coking coal price forecasts have been moving higher and BTU has the most leverage in our coverage to coking coal price forecasts. Environmental approvals expected in Q3 CY11 are the key near-term catalyst.

■ Valuation: $1.07 (DCF, 10% d.r.)

Our price target of $1.25ps is based on our 12-month forward NPV.

Highlights (A$m)	-	06/10	06/11E	06/12E	06/13E
Revenues	-	0	7	14	148
EBIT (UBS)	-	(3)	(21)	(7)	32
Net Income (UBS)	-	(3)	(19)	(5)	21
EPS (UBS, A$)	-	(0.03)	(0.03)	(0.01)	0.03
Net DPS (UBS, A$)	-	0.00	0.00	0.00	0.00
Profitability & Valuation	**5-yr hist av.**	**06/10**	**06/11E**	**06/12E**	**06/13E**
EBIT margin %	-	-	-281.2	-48.9	21.4
ROIC (EBIT) %	-	-	(46.1)	(5.0)	15.5
EV/EBITDA (core) x	-	-1.0	-33.3	<-100	21.8
PE (UBS) x	-	NM	NM	NM	40.6
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of A$1.10 on 27 Jul 2011 23:37 EST

Daniel Morgan
Analyst
daniel.morgan@ubs.com
+61-2-9324 3844

Glyn Lawcock
Analyst
glyn.lawcock@ubs.com
+61-2-9324 3675

Trading data (local/US$)

52-wk range	A$1.27-0.18/US$1.35-0.16
Market cap.	A$0.75bn/US$0.83bn
Shares o/s	685m (ORD)
Free float	83%
Avg. daily volume ('000)	5,064
Avg. daily value (m)	A$5.6

Balance sheet data 06/11E

Shareholders' equity	A$0.16bn
P/BV (UBS)	1.7x
Net Cash (debt)	A$0.08bn

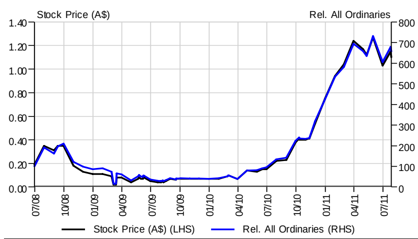
Forecast returns

Forecast price appreciation	+13.6%
Forecast dividend yield	0.0%
Forecast stock return	+13.6%
Market return assumption	9.5%
Forecast excess return	+4.1%

EPS (UBS, A$)

	06/11E			06/10
	From	To	Cons.	Actual
H1E	-	(0.05)	-	(0.01)
H2E	-	(.00)	-	(0.02)
06/11E	-	(0.03)	*(0.03)*	
06/12E	-	(0.01)	*0.01*	

Performance (A$)



Source: UBS

www.ubs.com/investmentresearch

Contents

page

Daniel Morgan
Analyst
daniel.morgan@ubs.com
+61-2-9324 3844

Glyn Lawcock
Analyst
glyn.lawcock@ubs.com
+61-2-9324 3675

Investment thesis

Bathurst Resources (BTU) is an ASX listed company focusing on becoming a producer of predominately coking coal to niche export markets. BTU's focus is to develop the Buller Coal project in the South Island of New Zealand. First production is scheduled for 4Q CY2011, subject to receipt of government and environmental approvals (final hearing began on 7th June 2011). We believe this first production target appears optimistic based on delays from approvals and we model first production from mid CY12.

BTU has made two acquisitions in the past 12 months which has consolidated its holdings in the South Buller region and expanded its resource base. BTU has a 76Mt resource, and a 125-167Mt exploration target. Reserves of 12.5Mt have been defined at Escarpment and Deep Creek. We have assumed 100Mt of life of mine production, based on BTU expanding its resource base and converting 80% of resource into reserve (similar to Escarpment/Deep Creek). This is a risk to our assumptions and our valuation.

The permits largely surround Solid Energy's Stockton open cut mining operation, which produces ~2Mtpa of hard coking coal. The Buller Project would expect to produce the same high quality coal from the same seams mined at Stockton.

The Buller project is to produce a high quality hard coking coal, using open cast mining techniques. Initial production was planned to occur at the Escarpment block followed by Deep Creek ramping up to 2Mtpa by FY15. We believe it may make more sense for BTU to develop recently acquired tenements that neighbour Escarpment before Deep Creek. These tenements may also allow BTU to produce greater tonnage and we model BTU at 2.5Mtpa. Conceptually, Buller may be able to be expanded to 4Mtpa through duplication of wash plant and mining infrastructure in the Northern tenements.

The project's location near existing port infrastructure at Westport results in low capital intensity. Capex to reach 2Mtpa is forecast by BTU to be ~A$80m at current spot currency, and we have assumed an extra A$20m to reach 2.5Mtpa.

We initiate coverage on BTU with a Neutral rating and a price target of $1.25ps, based on our 12-month forward NPV. Our base case NPV is $1.07ps for 2.5Mtpa of production by FY17. If we were to model BTU using consensus long-term coal price forecasts, our NPV would rise to $1.39ps.

We highlight BTU's hard coking coal exposure, which will drive better margins than peers, low capital intensity, funding position and potential corporate interest. Offsetting this, we highlight the stock is trading at a premium to peers with near-term risk from environmental approvals and work remains to be done on firming up its resource and reserve position.

We believe that environmental approvals are the single biggest risk to an investment near term. Environmental hearings have recently concluded, and BTU has indicated that approvals may be received by September/October 2011. If approval is not granted or with significant conditions, the value of BTU's resource position in the Buller region could be significantly impaired. Environmental approval would be a material positive catalyst.

Highlights

High quality coking coal exposure: The Buller project will produce a high quality hard coking coal that will be sold into export markets. We believe the metallurgical coal market is the more favourable market longer term than the thermal coal market and so we would expect met coal producers to trade at a premium.

Access to existing infrastructure: The Buller project is located ~10km from an existing rail line with spare capacity and ~20km from a port at Westport which is not being utilised by other coal companies. The port is currently used by Holcim to ship cement, up to two shipments per week taking cement from Westport to other NZ locations.

BTU has two alternate routes to market, via Westport 10kt Ocean going vessels transferred to Panamax vessels at New Plymouth or via a 380km rail to Lyttleton port at Christchurch.

Low capex intensity: Capex to reach 2.0Mtpa is ~A$80m (A$40/t), which is comparatively low compared to other Greenfield met coal projects. The major capital items to bring the Buller project into production is a Coal Handling and Preparation Plant (CHPP) for ~$19m and $22m for an 11km slurry pipeline to link the CHPP to a stockpile and rail loud out facility at Fairdown. Capital intensity is low due to the use of contractors as well as access to the location of the Buller project near existing infrastructure with spare capacity.

Open cast mining: The Buller project is an opencast mining operation, which means lower operational risk than an underground operation. The Pike River Coal disaster in 2010 involved an explosion at an underground mine. Had the Buller project been an underground mine, we believe there would be greater scrutiny and potentially delays resulting from the NZ community post Pike River.

Funding: We believe BTU is fully financed to enter production. BTU has ~A$85m in cash at bank (pro forma for Galilee/Eastern and Brookdale acquisitions and equity raising). In addition BTU has finance facilities provided by offtake partners for US$90m. Capex to develop Buller is ~A$80m, and BTU has deferred acquisition payments of US$80m once in production.

Offtake: BTU has negotiated two separate offtake agreements, summarised on page 16 which account for 67% of production for the first five years and which also provide US$90m in subordinated debt. The rest of BTU's offtake is uncontracted, with the company taking a strategic view that selling some proportion into the spot market may provide the opportunity for revenue maximisation.

Corporate interest: We believe that BTU's coking coal exposure, geographic location and potential to grow to 4.0Mtpa of production makes the company attractive to potential corporate acquirers. Bowen basin coking coal producers may look to BTU to diversify their vulnerability to factors such as wet weather which has impacted production in 2008 and 2010/11. We would note that in the past two to three years, despite volatile markets, potential and completed transactions have demonstrated corporates are placing significant value in both undeveloped and developed coal assets.

Weaknesses and risks

Approvals: We believe that environmental approvals are the single biggest risk to an investment in BTU. Environmental hearings have concluded and the process adjourned to allow the BTU to provide the commissioners with written responses to certain questions raised during the hearing. Furthermore, BTU has been requested to provide a final draft set of terms and conditions for the resource consents, should they be granted, which incorporate a number of matters raised during the process to date. BTU is reasonably confident of receiving approvals by September/October 2011. If environmental approval is not granted or with significant conditions, the value of BTU's resource position in the Buller region could be significantly impaired.

We believe that environmental and access approvals will be received, but have factored into our forecasts first production in mid CY12 to be conservative. We note that BTU has acquired a mining lease in its Brookdale tenement acquisition, which allows it to begin small scale mining if approvals were to be delayed (~200-300ktpa).

Weakening coking coal prices short term: The prospect of declining spot metallurgical coal prices as the Australian coal industry recovers post the wet season and the potential for near-term volume impacts from the Japanese steel industry as it recovers post the earthquake provides a potential short-term headwind to the equity market performance of BTU in our view.

Resource and reserves: We have assumed 100Mt life of mine production at Buller in our valuation, well in excess of BTU's current reserves of 14Mt and the current resource of 73Mt. This is a risk to our assumptions and our valuation.

We justify our 100Mt life of mine production by assuming BTU can expand its resource base (BTU's exploration target is 125-167Mt) and assuming a high conversion rate. We note the high conversion of resource into reserve at Escarpment and Deep Creek of ~80%.

There is essentially a single seam across the entire plateau (60km x 15km) that outcrops around the edge. The Solid Energy Stockton mine nearby mines the same seam. BTU has over 400 holes in its tenements, but they were down previously by state owned entities, unfortunately not done to JORC standard. Based on this work however, BTU is confident in its ability to increase its present resource base.

Weather: Westport receives on average 2,274mm of annual rainfall while on the Plateau, this can average 7 metres per annum. This compares to average rainfall at Moranbah in QLD's bowen basin of 605mm and rainfall during the last 12 months of 1,160mm. Wet weather has the potential to impact production particularly in open pit mining operations. We highlight this as a risk to production forecasts.

Deferred equity: Under BTU's agreement with the vendors when it acquired L&M, the vendors are entitled to be issued with 5% of the issued capital of Bathurst (on a fully diluted basis) at the same time as the second performance payment is due (after 1Mt of shipments). In the event that Bathurst does not or cannot make this share issue, then the royalty payable to L&M is increased from 1.75% up to a maximum of 3.75%.

Valuation

We value BTU based on a DCF analysis, which indicates a net present value for the equity of the company of A$730m, or A$1.07ps. A breakdown of our valuation is shown in Table 1.

Table 1: DCF valuation of BTU

	A$m	A$ps
Buller (incl. Cascade, Wareatea West & Brookdale)	750	1.10
Takitimu	18	0.03
NPV - Operating Assets	768	1.12
NPV - corporate costs and deferred consideration	-118	-0.17
Cash at bank (Net debt) - bop	80	0.12
NPV - Equity Value	730	1.07

Source: UBS estimates

Valuation sensitivities

Our valuation is very sensitive to both long-term benchmark hard coking coal prices and our opex assumptions. We have flexed these in Chart 1. We note that consensus hard coking coal price is US$145/t, running this through our model would imply a valuation of $1.39ps.

Chart 1: Sensitivity of valuation to long-term coking coal price and opex (A$ps)

Long term Buller opex (US$/t) \ Long term Hard Coking Coal Price (US$/t)	120	130	140	150	160
75	1.03	1.23	1.44	1.64	1.84
80	0.86	**1.07**	1.27	1.47	1.67
85	0.70	0.90	1.10	1.30	1.51
90	0.53	0.73	0.94	1.14	1.34
95	0.36	0.57	0.77	0.97	1.17

Source: UBS estimates

UBS versus consensus

A comparison of our earnings estimates with consensus is shown in Table 2. We are below consensus earnings estimates in FY12E and FY13E as we assume a delay to first shipments which are scheduled for end of CY11. We assume first shipments in Q3 CY12E. We also believe our earnings estimates are below consensus from lower coking coal price assumptions.

Table 2: Comparison of UBSe vs Consensus

		FY11		FY12		FY13	
		UBSe	Consensus	UBSe	Consensus	UBSe	Consensus
Revenue	A$m	7	2	14	55	148	227
EBITDA	A$m	-20	-19	-6	12	37	136
EBIT	A$m	-21	-20	-7	11	32	134
NPAT	A$m	-19	-19	-5	8	21	94
EPS	Acps	-3.5	-3.3	-0.7	1.1	2.7	26.0

Source: UBSe and IRESS.

Upcoming catalysts

We expect BTU to provide investors with significant newsflow during 2011/12, summarised in Table 3. In our view, the key near-term catalyst is environmental approvals, expected by September/October 2011.

Table 3: Potential catalysts

Catalyst	Date
Environmental approvals at Escarpment	Q3 CY11
Lodgement of environmental approvals for Deep Creek	Immediately after Escarpment approvals
Access approvals from Department of Conservation for Escarpment	Q3 CY11
Solid Energy rail agreements	Q3 CY11
Resource/reserve drilling results	Aug-11
First production at Escarpment	End CY11 - mid 2012
Potential to begin mining at Brookdale	End CY11

Source: BTU and UBSe.

Company overview

Bathurst Resources (BTU) is an ASX listed company focusing on becoming a producer of predominately coking coal to niche export markets. BTU's focus is to develop the Buller Coal project in the South Island of New Zealand. First production is scheduled for 4Q CY2011, subject to receipt of government and environmental approvals (final hearing began on 7th June). We believe this first production target appears optimistic based on delays from approvals; we model first production from mid CY12.

BTU has made two acquisitions in the past 12 months which has consolidated its holdings in the South Buller region and expanded its resource base. BTU has a 76Mt resource, and a 125-167Mt exploration target. Reserves of 12.5Mt have been defined at Escarpment and Deep Creek.

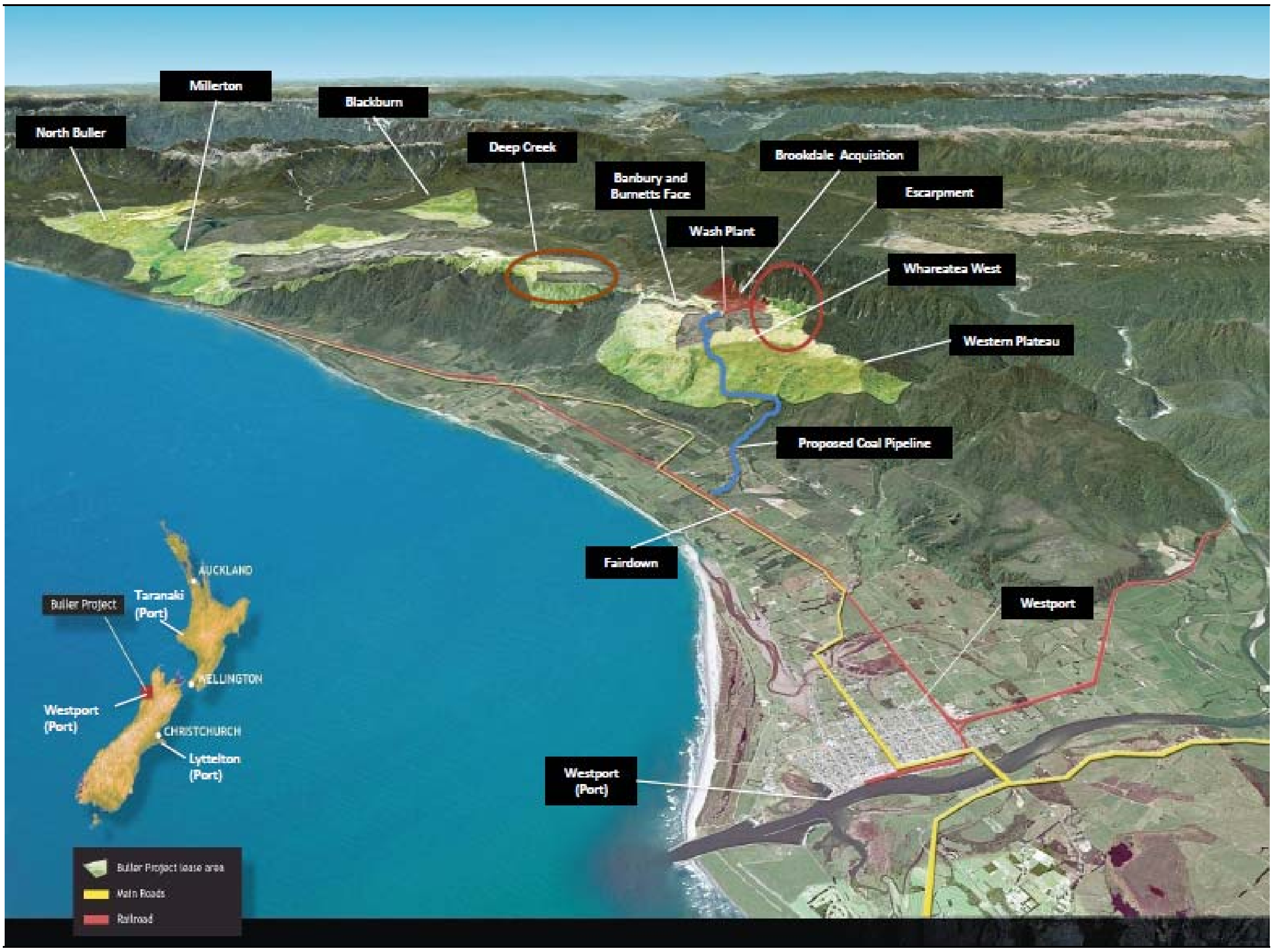
The permits largely surround Solid Energy's Stockton open cut mining operation. Stockton produces approximately 2Mt of coal per annum. Most of the coal mined at Stockton is exported for use in steel mills in India, China, Japan, South Africa and Brazil. The Buller Project would expect to produce the same high quality coal from the same seams mined by Solid Energy at Stockton.

The Buller project is to produce a high quality hard coking coal, using open cast mining techniques. Initial production at Buller was planned to occur at the Escarpment block followed by the Deep Creek block ramping up to 2Mtpa by FY15. We believe however it may make more sense for BTU to develop recently acquired tenements that neighbour Escarpment before Deep Creek. Conceptually, the Buller project may be able to be expanded to 4Mtpa through duplication of wash plant and mining infrastructure in its Northern tenements.

Raw coal will be transported to a central CHPP on the Denniston Plateau with a capacity of 250tph to produce 2Mtpa of product. Product is to be transported via a slurry pipeline to the proposed rail load out on the coastal plain below, at Fairdown. The coal will then be carried via train to the port of either Westport or Lyttelton.

The project's location near existing port infrastructure at Westport results in low capital intensity. Capex to reach 2Mtpa is forecast by BTU to be ~A$80m.

Chart 2: Map of operations



Source: BTU

Buller Coal project history

BTU's main focus is the Buller hard coking coal project which is located on the north west of New Zealand's South Island. Mines have been operating in the Buller Coalfield for 140 years and BTU's project is adjacent to the Stockton open cut mine operated by Solid Energy, a NZ Government owned coal mining and exploration company. Stockton is producing ~2Mtpa from open cast mining techniques.

BTU has been focused on consolidating coal resources during the past 18 months in the Buller Coal district. Its acquisitions are summarised below:

- **L&M Coal Holdings:** In February 2010 Bathurst signed an agreement with L&M Coal Holdings to acquire the Buller project, through the acquisition of 100% of L&M Coal Limited. These assets currently have a 47.1Mt resource and formed the initial basis for BTU's production plans, including Escarpment and Deep Creek which have a total of 12.5 Mt in Reserves.

  The purchase price was structured on a stage basis and can be summarised as:

  - Payment of a US$5m by 30 June 2010 (paid);
  - Payment of US$35m by 5 November 2010 once the Definitive Feasibility Study has been completed (paid);
  - Payment of US$40m once 25kt of saleable coal has been shipped;
  - Payment of US$40m once 1Mt of saleable coal has been shipped;
  - L&M is entitled to be issued with 5% of the issued capital of Bathurst (on a fully diluted basis) at the same time as the second performance payment is due. In the event that Bathurst does not or cannot make this share issue, then the royalty payable to L&M (discussed below) is increased from 1.75% up to a maximum of 3.75%; and
  - A 1.75% royalty on coal revenue over life of mine.

- **Eastern Resources:** In November 2010 Bathurst announced the acquisition of Galilee Energy Limited's wholly owned subsidiary Eastern Resources Group Limited. The total acquisition cost was A$35m through cash and assignment of debt. Eastern Resources key assets are:

  - **Whareatea West** which has a 25.7Mt resource adjacent to Escarpment. This increases the resource base and may have operational synergies and preventing the sterilisation of coal through tenement boundaries.
  - **Cascade operating coal mine** which produces ~40ktpa with the majority of coal sold under contract to the local cement works operated by Holcim. Cascade has approvals for up to 250ktpa to be trucked off the plateau. The Cascade mine is located near Escarpment as shown in Chart 3.
  - The **Takitimu operating thermal coal mine** in the Ohai region of New Zealand which produces ~160kt. The mine has a current resource of 3.24Mt of thermal coal. The majority of the coal is sold under a long-term

contract to the Fonterra operated Clandeboye milk processing plant. The coal seams identified at the Takitimu operations extend into the adjoining Eastern held Ohai Exploration Permit (EP 51260) which surrounds the existing mine. Recent drilling supports additional resources of sub-bituminous coal which are likely to extend the current mine life at Takitimu from under two years to potentially 10 years.

We note that in the March quarter the Eastern assets produced 55kt and shipped 69kt. Revenue was NZ$5.3m implying average sales price of NZ$77/t. We understand that prices for existing contracts for domestic sales are linked to NZ inflation.

- **Brookdale Mining:** In May 2011, BTU announced the acquisition of Brookdale Mining for US$12m in cash and 15m shares in BTU. In addition, the vendors have a life of mine royalty, the rate of which was not publically disclosed. Completion is subject to at least 5Mt in JORC resources established in BTU's upcoming 36 hole exploration program. Brookdale has three exploration blocks adjacent to Escarpment & Cascade (acquired with Eastern Resources). The Brookdale Tenements are expected to contain a majority hard coking coal and semi soft coking coal. Brookdale has approvals for a trucking license for up to 250ktpa off the Plateau and two fully permitted underground mines and one partially permitted open cut mine.

The Buller Region is now consolidated between Solid Energy and BTU. Solid Energy is a NZ Government owned coal mining and exploration company. There may be opportunities for future synergies to be negotiated between Solid Energy and BTU, for infrastructure and to prevent coal sterilisation through tenement boundaries.

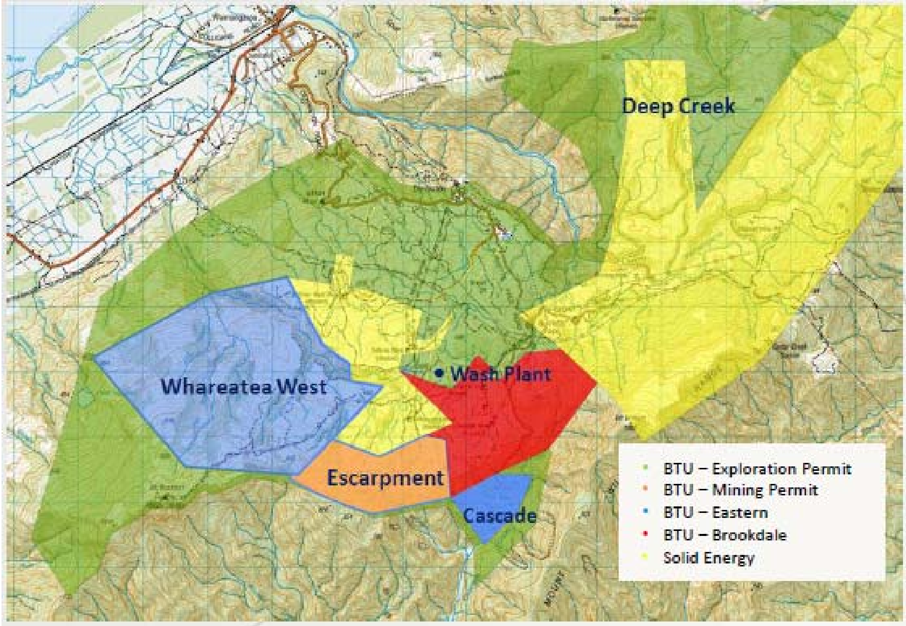
Benefits of acquisitions

- The acquisition of Eastern Resources and Brookdale provides a number of benefits, including:
  - **Additional potential resources and mining life:** Whareatea West has a 25.7Mt resource located next to Escarpment. Brookdale Mining does not have a JORC resource currently, but BTU is targeting 15-25Mt of coal through an additional drilling, including the currently underway 36 hole drill programme, in 2H 2011. The acquisitions also potentially add to future mining life by preventing the sterilisation of coal through tenement boundaries.
  - **Access:** Uniting the leases simplifies access to BTU's exploration tenements in the Cascade area. The Brookdale acquisition enables a route over the plateau without entering non-BTU permit areas for roads and pipeline and also shortens the haulage route from Escarpment to the washplant by ~8km.
  - **Production benefits:** The acquisitions provide increased production source flexibility. Although BTU's plans to date have been to develop Deep Creek next after Escarpment, we believe it may make greater sense to produce from either Whareatea West, Cascade or from the Brookdale tenements, due to their location.

— **Operational experience from Eastern:** The Takitimu and Cascade operating coal mines provide BTU with access to experienced personal, and cash flow from ~200ktpa of production.

— **Advanced licensing and permitting at Brookdale:** Environmental consents at Brookdale are largely in place, and there are two fully permitted and one partially permitted mining leases (one open cast, two underground). BTU believes there is the potential to convert underground leases to open cast. In addition there is a stockpile consent at Fairdown and a permit to tuck 250ktpa off the Plateau.

Chart 3: South Buller Resources



Source: BTU

Resources and reserves

BTU has a 76Mt resource base, which BTU expects to grow with a $10m drilling programme. BTU has a 55-94Mt incremental exploration target as shown in Table 5.

Only 12.6Mt of Reserves (ROM) have been defined to date, or 10.2Mt of product coal. In addition there are 2.1 Mt of Inferred coal resources (ROM) in Escarpment which will be mined, processed and sold. It is expected that processing this material will produce approximately 1.4Mt of product coal.

BTU expects that reserves will be increased significantly which will lead to an extension of mine life. BTU highlights that the 14Mt of reserve and product has been defined from 18Mt resource between Escarpment and Deep Creek, implying ~80% conversion. We highlight that Escarpment has old mine workings, which has negatively impacted the conversion of resource into reserves, implying that higher conversion rates may be possible at other tenements.

Table 4: Summary of JORC Resources (Mt)

Prospect	Measured	Indicated	Inferred	Total
Escarpment	3.8	1.6	1.9	7.3
Deep Creek	6.2	3.1	1.6	10.9
Millerton North	0	4.3	0	4.3
Blackburn	0	10.8	0	10.8
North Buller	0	4.8	9	13.8
Whareatea West	18	7.7		25.7
Takitimu	0.7	2.4	0.1	3.2
Total	28.7	34.7	12.6	76.0

Source: BTU.

Table 5: Summary of Exploration targets

Further Resource Potential	Mt
Millerton	5 - 9
Denniston	16 - 35
Brookdale Acquisition	15 - 25
Whareatea West	19 - 25
Total Incremental Resource Target	55 - 94

Source: BTU

Table 6: Summary of JORC Reserves (Mt)

Block	Run-of-Mine Coal Reserves			Product Coal		
	Proved	Probable	Total	Proved	Probable	Total
Escarpment	3.5	0.5	4.1	2.3	0.4	2.7
Deep Creek	5.8	2.7	8.5	5.1	2.4	7.5
Total	9.3	3.2	12.5	7.4	2.8	10.2

Source: BTU.

Coal quality

BTU's Buller project's coal quality is summarised in Table 7. It is low ash, has very high swell and fluidity, high fixed carbon and the majority of the resource has low ash and sulphur. We assume the coal will attract a similar price to the Goonyella hard coking coal price benchmark. We believe the coal will have a high value in use as a blending coal due to the favourable characteristics.

Table 7: Buller Project coal quality vs Australian coal product peers

Property	BTU	Peak Downs	Goonyella	Oaky Creek	Curragh	Maules Creek
Fixed Carbon (by difference)	58.9%	68.3%	66.1%	61.9%	70.0%	51.1%
Maximum fluidity (ddpm)	>10,000	350	1300	7000	150	>50
Phosphorus	0.014%	0.04%	0.02%	0.06%	0.05%	<0.005
Ash (adb)	3-5%	9.7%	8.9%	8.0%	7.0%	7.0%
Total Sulphur (adb)	0.7%	0.60%	0.55%	0.74%	0.55%	0.45%
Estimated Total Moisture (ar)	8%					11%
Inherent Moisture (adb)	1.1%	1.0%	1.0%	1.2%	1.5%	3.50%
Volatile Matter (adb)	37%	21%	24%	29%	22%	37.70%
FSI	9+	8.5	8	8.5	7.5	3-6
CV (adb) (kcal/kg)	8,238	7,760	7,860	7,760	7,882	7,150
Calorific Value (ar) (kcal/kg)	7,660	7,084	7,132	7,141	7,235	
Base acid Ratio	0.13					
Nitrogen (daf)	1.2%					

Source: BTU and AME.

Mining and processing

Mining is anticipated by BTU to commence in the Denniston Sector initially at Escarpment before moving on to other resources within the sector. The Denniston Sector has a conceptual exploration target of 34-53Mt of coal within which an initial resource of 18.2Mt has been established at Escarpment and Deep Creek, with a 12.5Mt Reserve.

The coal lies in near horizontal seams up to 1 to 10 metres thick, but generally 4 to 6 metres, and covered largely by sandstone overburden generally 30 to 60 metres thick. The mining schedule for Escarpment indicates an average strip ratio of 9:1 and for Deep Creek an average strip ratio of 5.5:1.

Both Escarpment and Deep Creek are planned to be conventional open cast coal mining operations, utilising diesel powered hydraulic excavators and dump trucks to mine and haul the coal.

At full production Escarpment will produce ~1.5Mtpa of ROM coal which after washing though the CHPP is forecast to produce ~1.0Mt of Product (or Saleable) coal.

Adding the reserve at Deep Creek to that of Escarpment will enable Bathurst to increase production from an initial 1Mtpa to 2Mtpa from 2014 and as a result of the higher production, lower unit costs by approximately 15 – 20%.

The CHPP is to be located on the Denniston Plateau, with the final product transported via a pipeline to the proposed rail load out on the coastal plain below, at Fairdown. The coal will then be carried via train to the port of either Westport or Lyttelton.

The processing of coal from the Escarpment project requires the design and construction of purpose built facilities including:

- Mine office and workshop facility;

- A feed hopper, rock breaker and crusher;
- A CHPP with dense medium cyclones, concentrators and a tailings thickener;
- A slurry pump station and pipeline; and
- A de-watering, stockpiling and rail load out station.

Capex

The Bankable Feasibility Study estimated the Escarpment project capital costs to be US$69m as per Table 8. The feasibility study assumed a USDNZD exchange rate of $0.70. We estimate based on current exchange rates, the capex to be ~A$80m.

Table 8: Buller capex estimates

Description	Capital (US$m)
Preproduction (Pre strip)	14.5
Coal Processing Plant	18.5
Slurry Systems	21.5
Mine Infrastructure & Other	2.5
Deep Creek infrastructure	7.1
Total Capital Expenditure	64.1
Contingency	5.1
Total incl Contingency	69.2

Source: BTU.

Contractors will be utilised for most of the mining and equipment, which significantly reduces the capital cost to BTU. The main capital item will be the CHPP infrastructure and the slurry pipeline.

The CHPP has been designed to process 250tph producing between 1.4Mtpa and 2.0Mtpa of product coal. The CHPP comprises an enclosed plant, stockpiles of ROM coal, product coal and coarse reject, feed and product conveyors a thickener and a control room. Included in the design of the CHPP is the capacity to bypass the plant and direct transport raw coal to the rail load out, since a proportion of the coal, particularly at Deep Creek, should not require washing, allowing total production of saleable product to increase to 2Mtpa.

The slurry pipeline system will be used to transport product coal approximately 11km from the CHPP to a dewatering, stockpiling and water treatment facility at the base of the escarpment near Fairdown.

Mine Infrastructure and Other comprises office facilities in Westport, dams for raw and process water, light vehicles and site access roads.

The US$7.1m for Deep Creek includes a bridge and haul road to the CHPP.

If, as planned, Bathurst were to develop a mine nearby at another of the Denniston prospects then the additional infrastructure required would be minimal, likely comprising only haul roads to the CHPP.

If BTU were to develop North Buller tenements, we estimate that the project would be very similar to the South Buller project in that a CHPP would be built, a slurry pipeline down the escarpment to a stockpile adjacent to the rail line that runs past Fairdown and into Westport would be required. As such we estimate incremental capex of ~$80-90m would increase BTU's production capacity to 4.0Mtpa.

Offtake

BTU has negotiated two separate offtake agreements, summarised below, which account for 67% of production for the first five years and which also provide US$90m in subordinated debt.

Just over 30% of BTU's offtake is uncontracted, with the company taking a strategic view that selling some proportion into the spot market may provide the opportunity for revenue maximisation. BTU is looking to build a marketing function within the company to sell this coal under Executive GM Max Brunsdon has 18 years experience in marketing coal with BHP.

Stemcor Agreement – 37.5% of production

BTU announced it had reached a memorandum of understanding (MOU) with Stemcor on 9 December 2010. A summary of terms includes:

- five year term, Agent & Principal structure;
- First 1Mt: 45% of production;
- Production over 1Mtpa: 30% of production;
- At 2Mtpa Stemcor entitled to 37.5% of production;
- Agency commission linked to coal price premiums obtained above benchmark;
- Finance facility of up to US$50m; and
- Subject to completion of financial and operational due diligence.

CITIC Agreement – 30% of annual production

BTU announced it had signed a term sheet with CITIC Resources Australia on 6 May 2011. A summary of terms includes;

- Five year term from the commencement of first coal production (expected late 2011);
- CITIC to act as principal for sales of 30% of annual production;
- CITIC may act as agent in some markets;
- Subject to satisfactory due diligence and respective Board approvals, CITIC will provide up to US$40m in a Finance Facility repayable within five years. The funds can be used to fund construction and development costs of the Buller Coal Project and to provide working capital for Bathurst; and
- Bathurst is expected to offer a subordinated security facility to rank pari passu with the Stemcor facility announced on 9 December 2010.

Infrastructure

The CHPP is to be located on the Denniston Plateau, with the final product transported via a slurry pipeline to the proposed rail load out on the coastal plain below, at Fairdown.

BTU has two different infrastructure solutions to get coal to market:

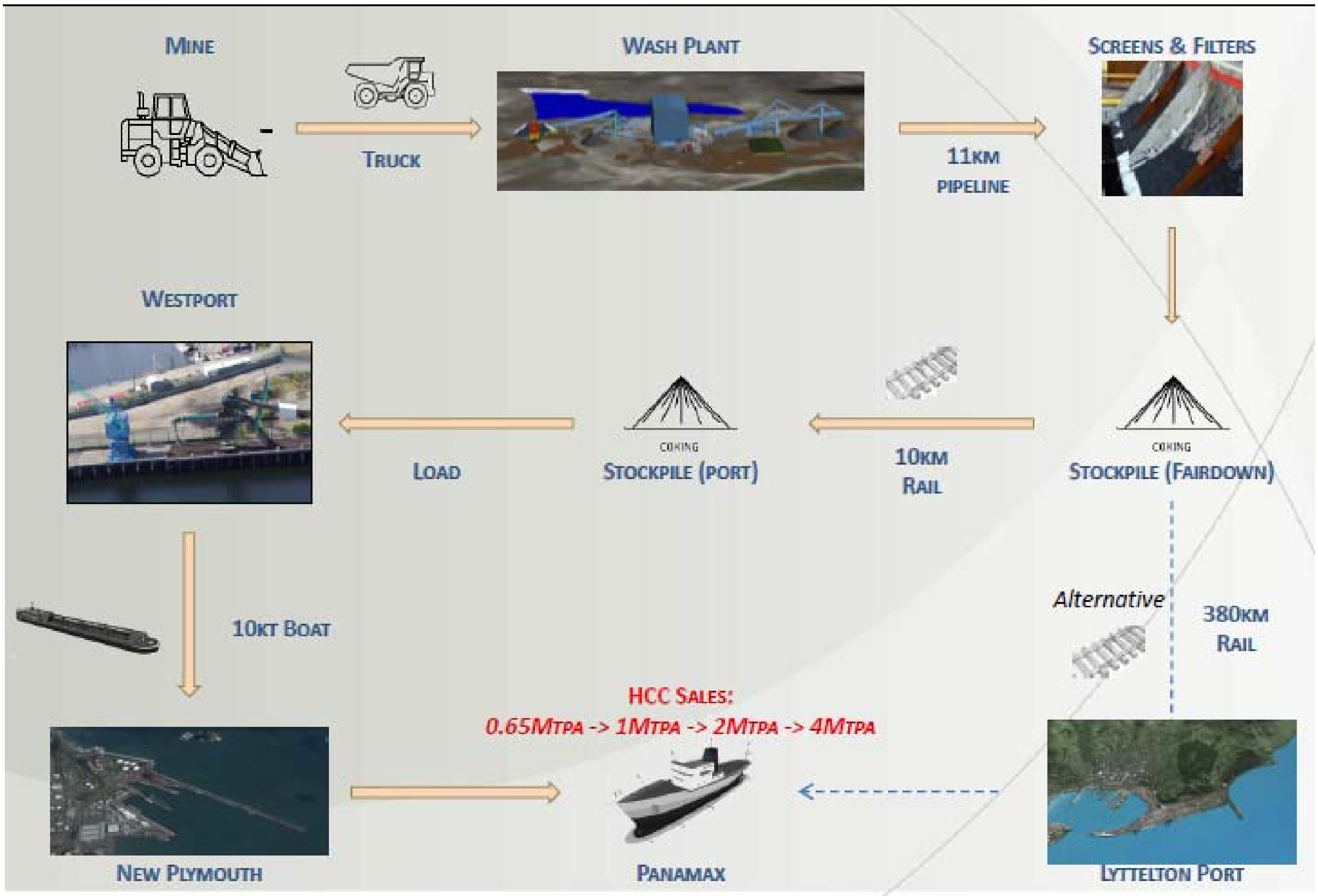
(1) Port of Westport loading onto 10kt boats for transhipment at New Plymouth onto Panamax vessels, and

(2) Rail east to Lyttelton Port for export through Panamax vessels.

Both options are roughly cost equivalent at ~NZ$45/t fob, which is inline on the Lyttelton option with Pike River's planned cost expectations of ~NZ$40/t.

BTU will plan to use both export options concurrently. Initial exports are planned through Westport with BTU targeting ~75% of exports. Lyttelton will form the balance of exports with BTU targeting ~25% initially.

Chart 4: Overview of infrastructure to market



Source: BTU

Westport/New Plymouth option

Wesport is ~10km from the proposed Fairdown stockpile by an existing railway which has surplus capacity. Westport is an existing river port, which is too shallow to load bulk material vessels. Westport is currently being used by Holcim, the local cement manufacturer.

BTU plans to load 10kt ocean going vessels to transport coal from Westport to Taranaki at New Plymouth where coal will then be transferred to Panamax size vessels. Each 10kt vessel would be able to make ~100 trips per year, so 1Mtpa via this transport method would require one vessel, 2Mtpa would require two.

Westport is planning to upgrade its facilities to facilitate Buller's coal exports. BTU estimates that ~$13m is required on land purchases, a rail loud out facility, conveyors, 20kt storage shed and moorings. BTU estimates this will enable 2Mtpa of exports through the port, with further upgrades required to increase capacity.

Westport will fund the upgrades at the port, with BTU being charged a tariff to recoup the costs. Westport will apply for funding from the Development West Coast fund which was set up by the NZ Government post the closure of the Timber industry in the late 1990s to help fund sustainable employment and economic benefits in the West Coast region of New Zealand. The fund had NZ$112m as at 31 March 2010.

Lyttelton Port option

There is an existing rail line that runs east from Wesport ~380km to the port of Lyttelton. The railway has ~5Mtpa of capacity and is currently only being used by Solid Energy for its Stockton mine at ~2Mtpa.

BTU and Solid Energy have reached an agreement where Solid Energy will transport up to 25% of BTU's annual coal production to the Port of Lyttelton by rail, building from 200ktpa to 500ktpa. The agreement is for a term of 10 years from first commercial coal production and may allow for increased tonnage after year five.

The agreement, which is not of a take-or-pay nature, is based on commercial transport rates for the 380km rail link from Westport to the Port of Lyttelton.

The remaining 75% of BTU's coal (for the initial 2Mtpa of production) will be shipped through the port of Westport.

While BTU has not disclosed the cost of this transport option, we note that Pike River's agreement was for port and rail charges of ~NZ$40/t, or ~A$31/t.

The rail options constraint of ~5Mtpa is caused by ventilation requirements of the Diesel locomotives through tunnels in the Southern Alps. BTU estimates that if the rail was electrified, capacity would be boosted to ~10Mtpa.

The Lyttelton port of Christchurch has notional capacity of ~2.5Mtpa with 2.0Mt exported in 2010. The port is undertaking an expansion project which is planned to increase capacity to ~10Mtpa by primarily expanding the coal stockpile capacity (currently 250kt). The shiploader at the port can handle 500-1000tph, implying 4.4-8.8Mtpa of capacity at 100% utilisation.

Approvals / licenses and permits

Table 9 provides a summary of the approvals required for the Escarpment project. The two outstanding approvals are access arrangements with the Department of Conservation (which owns the land) and Environmental consent. Of these we believe Environmental consent is a material risk to an investment in BTU.

Table 9: Summary of approvals required

Approval	Status	Comments
Mining Permit	Granted	Now preparing application for Deep Creek
Exploration License Extension	Granted	Extends to 2015
Overseas Investment Office Approval	Granted	
Access Arrangement (Dept of Conservation)	Pending	Application Lodged No Major issues raised Final review in progress
Environmental Consent (Westport and West Coast District councils)	Pending	Application Lodged Public Submission Received (50 for, 6 Neutral, 42 against) Final hearing commenced on 7th June

Source: BTU

The Environmental consent process has moved to public hearings which commenced on the 7th of June. The hearing considered 24 applications for resource consents required from the Buller District Council and West Coast Regional Council, under the provisions of the Resource Management Act 1991.

The Councils appointed three independent commissioners to conduct the hearing, which has now concluded and the process adjourned to allow BTU to provide the commissioners with written responses to certain questions raised during the hearing.

Furthermore, the company has been requested to provide a final draft set of terms and conditions for the resource consents, should they be granted, which incorporate a number of matters raised during the process to date. A decision is expected about three weeks after the hearing closed (which was 7 July 2011).

Almost 100 submissions were made to the Buller District Council and the West Coast Regional Council process, which can be summarised as 50 in favour, 6 Neutral and 42 opposed.

Supporters in the community are primarily focused on economic development opportunities. We believe support for the project has increased post the Pike River mine tragedy which resulted in an increase in unemployment in the area.

The 42 submissions that are opposed to the development are for a variety of reasons. There are 23 residents near the proposed stockpile at Fairdown who are concerned about noise, traffic, dust and impacts on property valuations. Some submissions oppose the slurry pipeline and some submissions oppose the project on global environmental considerations (Greenhouse gas etc).

BTU plans to mitigate airborne dust from the stockpile (a primary theme in opposition) by covering the stockpile, while the slurry pipeline to the stockpile is enclosed.

The summary of support and opposition is not exhaustive and we refer investors to the full submissions which are publically available at the following website.

http://www.wcrc.govt.nz/escarpment/submissions.html

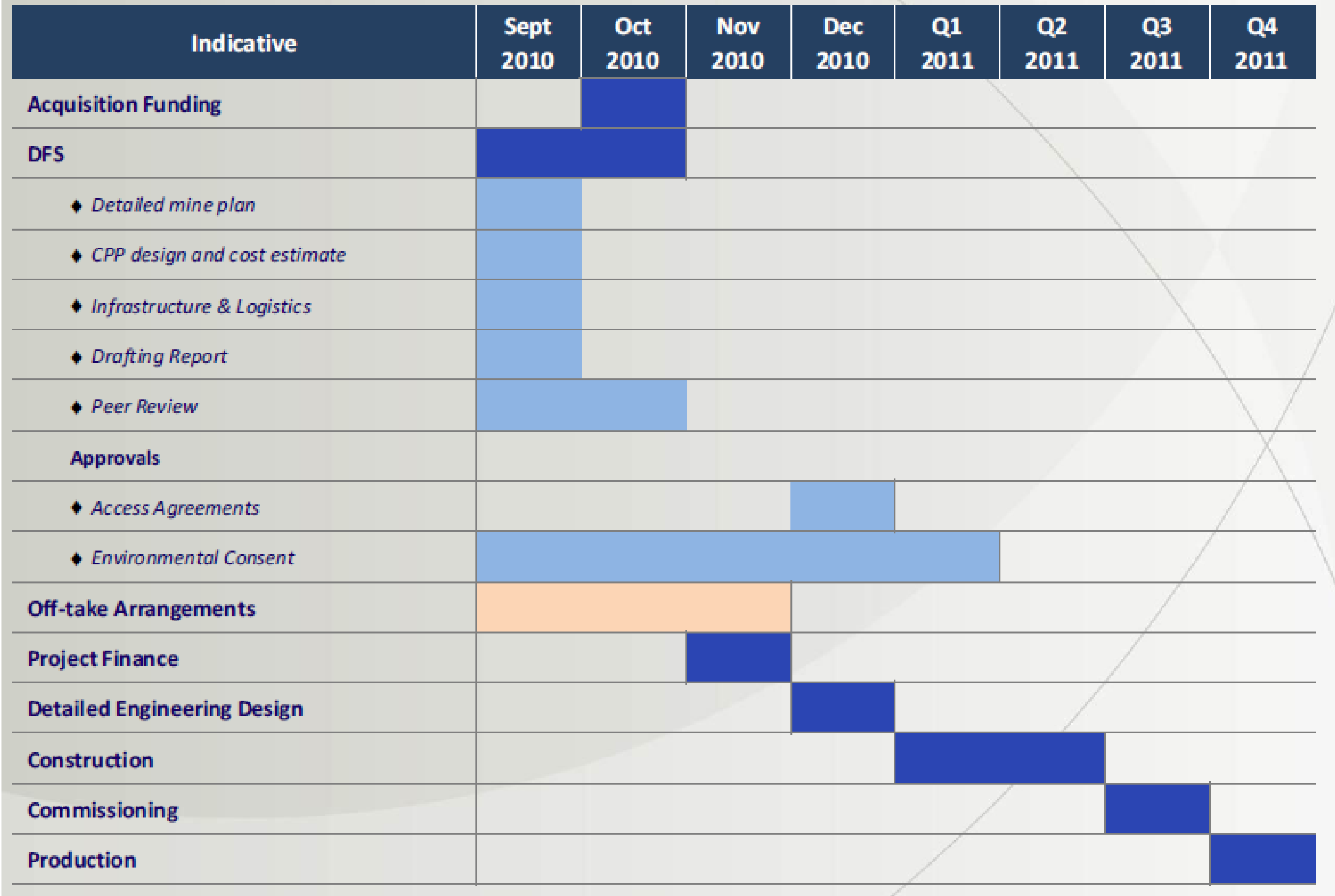
The expected timing on the public hearings is summarised in Chart 5, which indicates that if BTU is successful in gaining approval, BTU may start work on escarpment in September/October 2011.

Chart 5: Indicative process timetable

Source: BTU

We note the timeline provided by BTU in its AGM presentation in November 2010 indicated that approvals may be received by the end of Q1. This has taken longer than anticipated and we believe this justifies our conservative assumption of first production in mid 2012.

Chart 6: Timeline to production from AGM presentation Nov 2010



Source: BTU

Financials

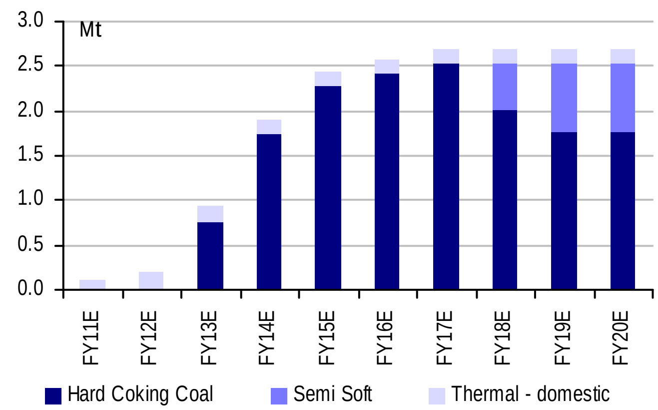
Production

Our Production assumptions are shown in Chart 7, where we assume BTU ramps up to 2.5Mtpa from the South Buller Project. This is above BTU's guidance of 2.0Mtpa, but we believe that with the recent acquisitions post the issue of guidance, BTU will be able to produce more out of South Buller. The Washplant capacity is 1.4-2.0Mtpa, with a significant proportion of coal bypassing the washplant to be sold Raw. We assume a further A$20m of capex for production capacity to be upgraded at the washplant for extra tonnage. We also note that through its recent acquisitions BTU also has approvals for ~0.5Mtpa of coal to be trucked off the plateau.

We assume that due to delays in BTU receiving approvals, we anticipate a delay to the DFS ramp-up schedule as shown in Chart 8. As mentioned, the DFS predated the acquisition of the Brookdale and Eastern tenements, which we believe will lead to production from South Buller exceeding 2.0Mtpa.

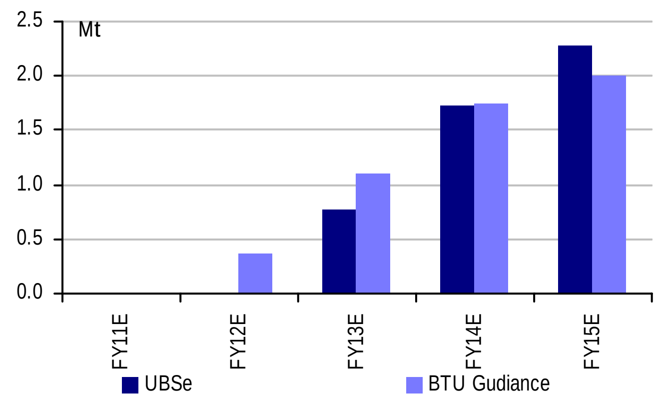
Although immaterial, we assume that production continues at ~165ktpa at the Takitimu domestic thermal mine.

Chart 7: Yearly production ramp-up by coal type



Source: UBSe.

Chart 8: Comparison of BTU guidance on Buller vs UBSe.



Source: BTU and UBSe.

We have assumed 100Mt life of mine production at Buller, well in excess of BTU's current product reserves of 14Mt and the current resource of 73Mt. This is a risk to our assumptions and our valuation.

We justify our 100Mt life of mine production by assuming BTU can expand its resource base (BTU's exploration target is 125-167Mt) and assuming a high conversion rate. We note the high conversion of resource into reserve at Escarpment and Deep Creek of ~80%.

Prices and currency

Our price assumptions are summarised in Table 10. Our long-term hard coking coal price assumption is US$130/t, semi soft is US$100/t and our long-term domestic thermal coal price is NZ$80/t. Our long-term AUD assumption is US$0.80, while our long term NZDUSD assumption is NZ$1.42.

BTU believes that it may be able to obtain a 5-15% premium to the benchmark hard coking coal price due to its favourable blending characteristics. We take a conservative approach and model BTU with no assumed premium.

Table 10: Coal price, forex and inflation assumptions

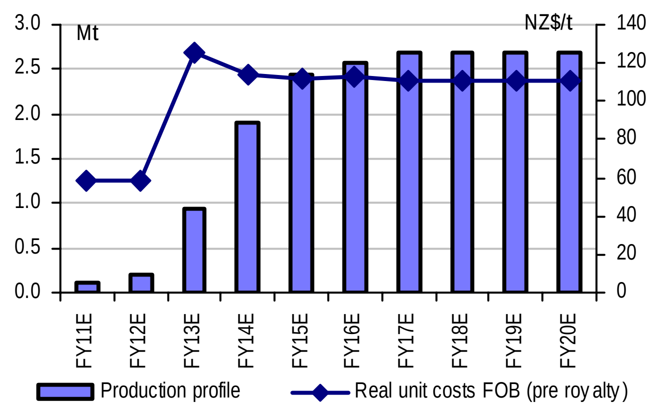
Assumptions		FY10A	FY11E	FY12E	FY13E	FY14E	FY15E	LT
Hard Coking Coal benchmark	:US$/t	147	247	245	184	164	153	130
PCI benchmark	:US$/t	110	196	198	153	130	125	110
Semi Soft Benchmark	:US$/t	102	190	189	148	121	115	100
Export Thermal Coal benchmark	:US$/t	106	129	121	107	97	94	85
Domestic Thermal Coal price	:NZ$/t		78	81	84	86	88	80
A$:US$	:US$	0.88	0.99	1.05	1.04	0.96	0.89	0.80
AUDNZD	:NZ$	1.26	1.31	1.27	1.26	1.23	1.19	1.14
NZUS	:NZ$	1.42	1.32	1.21	1.22	1.28	1.35	1.42
Inflation Index	:Index	1.00	1.00	1.02	1.04	1.07	1.10	2.5%p.a.

Source: UBS estimates

Costs

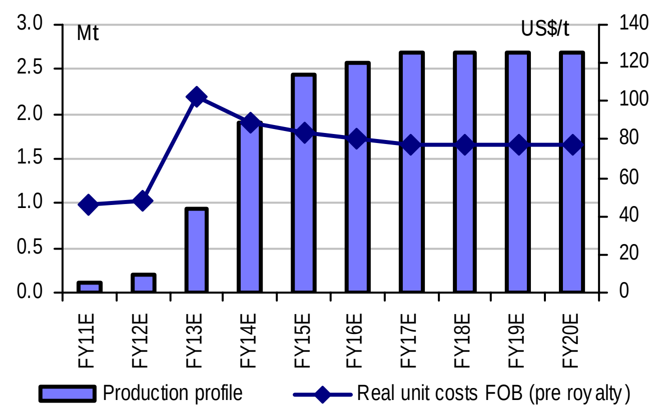
Our groupwide cost profile is summarised in Chart 9 (NZ$/t) and Chart 10 (US$/t). Our long-term cash cost assumptions (pre royalty) are NZ$116/t at Buller and NZ$69/t at Takitimu, or US$80/t and US$48/t, respectively. The Buller cost assumption compares to US$83-88/t estimate from the BFS (but included ~NZ$3/t in NZ Government royalties).

Chart 9: Cost (RHS) and ramp-up profile (LHS) – NZ$



Source: UBSe.

Chart 10: Cost (RHS) and ramp-up profile (LHS) – US$



Source: UBSe.

In addition to these costs, we assume the following royalty rates:

- Coking coal government royalty – NZ$1.40/t;
- Thermal coal government royalty – NZ$0.80/t;
- Energy resource levy – NZ$2.00/t; and

- Vendor royalties – 2.0%. BTU disclosed that L&M have a 1.75% royalty, the Eastern acquisition did not have a royalty, while the Brookdale Acquisition has a royalty – but it is not disclosed.

Profit and loss

Our profit and loss summary is shown in Table 11. Some key observations and assumptions include:

- Profitability ramps up in FY13-15E in line with ramp-up in production at Buller South.
- We assume finance costs at 5.0% p.a.
- Corporate tax rate is 28%, there are no material tax losses at BTU.
- Dividends first declared in FY14E, with a 50% payout ratio.

Table 11: Profit and loss summary

Profit and Loss		FY10A	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Sales Revenue	:A$m	0	7	14	148	307	403	450	484
Other revenue	:A$m	0	0	0	0	0	0	0	0
Total Revenue	:A$m	0	7	14	148	307	403	450	484
Cash operating costs	:A$m	0	-5	-10	-98	-188	-252	-283	-301
Unit cash costs - ex royalties - real	*:NZ$/t*		*59*	*58*	*125*	*114*	*112*	*113*	*110*
Unit cash costs - ex royalties - real	*:A$/t*		*44*	*46*	*99*	*93*	*94*	*98*	*97*
Unit cash costs - ex royalties - real	*:US$/t*		*46*	*48*	*102*	*89*	*83*	*80*	*78*
Royalties - for acquisitions	:A$m	0	0	0	-3	-6	-8	-9	-9
Government royalties	:A$m	0	0	0	-3	-6	-8	-8	-9
Unit cash costs - real	*:NZ$/t*		*60*	*61*	*132*	*121*	*119*	*120*	*117*
Unit cash costs - real	*:A$/t*		*46*	*48*	*104*	*98*	*100*	*104*	*103*
Unit cash costs - real	*:US$/t*		*46*	*50*	*108*	*95*	*88*	*85*	*83*
SG&A	:A$m	-3	-22	-9	-8	-9	-9	-9	-9
EBITDA	:A$m	-3	-20	-6	37	99	128	140	155
D&A	:A$m	0	0	-1	-5	-10	-13	-14	-15
EBIT	:A$m	-3	-21	-7	32	89	114	126	141
Finance costs	:A$m	0	2	1	-3	-4	-3	-1	1
Pre tax profit	:A$m	-3	-19	-5	29	85	111	125	141
Tax	:A$m	0	0	0	-8	-24	-31	-35	-40
NPAT	:A$m	-3	-19	-5	21	61	80	90	102
EPS	:Acps	-7.7	-3.8	-0.8	3.0	8.9	11.7	13.1	14.8
DPS	:Acps	0.0	0.0	0.0	0.0	3.0	5.0	6.0	6.0

Source: Company data, UBSe.

Balance sheet

Table 12 shows the balance sheet summary for BTU.

Table 12: Balance sheet summary

Balance Sheet		FY10A	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Current assets									
Cash and cash equivalents	:A$m	8	80	62	39	34	90	146	214
Trade and other receivables	:A$m	0	1	1	16	29	35	38	40
Inventories	:A$m	0	1	1	11	19	23	25	26
Other current assets	:A$m	0	0	0	0	0	0	0	0
Total current assets	:A$m	9	82	64	67	82	148	208	280
Non-current assets									
Property Plant and equipment	:A$m	0	1	82	80	97	91	86	80
Exploration and evaluation assets	:A$m	0	277	297	297	297	297	297	297
Other Non current assets	:A$m	6	2	2	2	2	2	2	2
Total non-current assets	:A$m	6	280	381	379	396	391	385	380
Total assets	:A$m	15	362	445	446	478	539	594	660
Current liabilities									
Trade and other payables	:A$m	0	1	1	11	19	23	25	26
Short Term Debt	:A$m	0	0	0	0	0	0	0	0
Other current liabilities	:A$m	0	0	0	6	15	16	18	20
Total current liabilities	:A$m	0	39	1	17	33	39	43	46
Non-current liabilities									
Long Term Debt	:A$m	0	0	86	86	86	86	86	86
Other non current liabilities	:A$m	0	160	201	165	126	128	131	133
Total non-current liabilities	:A$m	0	160	287	251	212	214	216	219
Total liabilities	:A$m	0	199	288	268	245	254	259	265
Net assets	:A$m	14	163	158	178	233	286	334	395
Equity									
Total equity	:A$m	14	163	158	178	233	286	334	395
Gearing Ratios:									
Gross Debt	:A$m	0.0	0.0	85.7	85.7	85.7	85.7	85.7	85.7
Net Debt / (Cash)	:A$m	-8	-80	24	46	52	-4	-60	-128
Net Debt / Equity	:%	NM	NM	15%	26%	22%	NM	NM	NM
Interest cover (EBIT/Interest)	:x	NM	NM	4.5	10.6	24.2	NM	NM	NM
Net Debt to EBITDA	:x	2.6	3.9	-4.1	1.3	0.5	0.0	-0.4	-0.8

Source: Company data, UBSe

Cash flow statement

Our cash flow statement is summarised in Table 13.

- We estimate capex of A$80m to reach 2Mtpa of production in line with guidance.
- We have assumed an extra A$20m of capex in FY14 to facilitate an increase in production to 2.5Mtpa (from 2.0Mtpa).
- We assume maintenance capex of A$3/t.
- BTU is to make US$80m in deferred consideration payments, structured such that US$40m is due after 25kt of coal is shipped and US$40m is due after 1Mt is shipped. We assume this will be A$39m for each payment and occur in FY12E and FY13E.
- We assume BTU draws down on its US$40m and US$50m finance facilities with Stemcor and CITIC respectively in FY12E to assist with capital spending and to pay down the upcoming deferred acquisition costs.

Table 13: Cash flow summary

Cash flow		FY10A	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Cash flows from operating activities									
Receipts from Customers	:A$m	3	8	14	133	294	398	447	481
Payments to supplier and employees	:A$m	-8	-16	-16	-109	-206	-274	-307	-326
Tax expense	:A$m	0	0	0	-2	-15	-30	-33	-37
Interest received / paid	:A$m	0	2	1	-3	-4	-3	-1	1
Net cash from operating activities	:A$m	-5	-7	-1	18	70	91	105	118
Cash flows from investing activities									
Payments for property, plant and equipment	:A$m	0	-1	-82	-3	-27	-8	-9	-9
Payments for exploration, evaluation, development and mine properties	:A$m	-6	0	-20	0	0	0	0	0
Payments for other assets	:A$m	0	-81	0	0	0	0	0	0
Net cash from investing activities	:A$m	-6	-82	-102	-3	-27	-8	-9	-9
Cash flows from financing activities									
Proceeds from issues of shares	:A$m	20	160	0	0	0	0	0	0
Proceeds from external borrowings	:A$m	0	0	86	0	0	0	0	0
Deferred Consideration	:A$m	0	0	0	-38	-41	0	0	0
Dividends	:A$m	0	0	0	0	-7	-27	-41	-41
Other	:A$m	0	0	0	0	0	0	0	0
Net cash from financing activities	:A$m	20	160	86	-38	-48	-27	-41	-41
Net increase/(decrease) in cash and cash equivalents	:A$m	9	71	-18	-23	-5	56	56	68
Cash and cash equivalents at beginning of period	:A$m	0	8	80	62	39	34	90	146
Exchange rate impact	:A$m	0	0	0	0	0	0	0	0
Cash and cash equivalents at end of period	:A$m	8	80	62	39	34	90	146	214

Source: Company data, UBSe

Valuation

DCF valuation

We value BTU based on a DCF analysis, which indicates a net present value for the equity of the company of A$730m, or A$1.07ps. A breakdown of our valuation is shown in Table 14.

Table 14: DCF valuation of BTU

	A$m	A$ps
Buller (incl. Cascade, Wareatea West & Brookdale)	750	1.10
Takitimu	18	0.03
NPV - Operating Assets	768	1.12
NPV - corporate costs and deferred consideration	-118	-0.17
Cash at bank (Net debt) - bop	80	0.12
NPV - Equity Value	730	1.07

Source: UBS estimates

Table 15: Coal price, forex and inflation assumptions

Assumptions		FY11E	FY12E	FY13E	FY14E	FY15E	LT
Hard Coking Coal benchmark	:US$/t	247	245	184	164	153	130
PCI benchmark	:US$/t	196	189	153	130	125	110
Semi Soft Benchmark	:US$/t	190	189	148	121	115	100
Export Thermal Coal benchmark	:US$/t	129	121	107	97	94	85
Domestic Thermal Coal price	:NZ$/t	78	81	84	86	88	80
A$:US$	:US$	0.99	1.05	1.04	0.96	0.89	0.80
AUDNZD	:NZ$	1.31	1.27	1.26	1.23	1.19	1.14
NZUS	:NZ$	1.32	1.21	1.22	1.28	1.35	1.42
Inflation Index	:Index	1.00	1.02	1.04	1.07	1.10	2.5%p.a.

Source: UBSe.

Valuation sensitivities

The following sensitivity table highlights how our base case valuation of BTU is affected by changes in our assumptions: namely, the discount rate, the long-term US dollar exchange rate, long-term coal price, opex and capex assumptions.

Table 16: NPV sensitivity

	Flex	Base Assumption	Valuation [A$ps]	Impact on Valuation
Base case			A$1.07	
Discount rate	+/-1%	10%	A$1.20-A$0.96	11%
Long term NZDUSD	+/-5c	NZ$1.42	A$1.00-A$1.13	-6%
LT Hard Coking Coal Price	+/-US$10/t	US$130/t	A$0.86-A$1.27	19%
Opex	+/-US$5/t	US$80/t	A$0.90-A$1.23	16%
Capex	+/-25%	A$80m	A$1.04-A$1.09	2%

Source: UBS estimates

As shown, our valuation is very sensitive to both long-term benchmark hard coking coal prices and our opex assumptions. We have flexed these in Chart 11. We note that consensus hard coking coal price is US$145/t, running this through our model would imply a valuation of $1.39ps.

Chart 11: Sensitivity of valuation to long-term coking coal price and opex (A$ps)

Long term Buller opex (US$/t)	Long term Hard Coking Coal Price (US$/t) 120	130	140	150	160
75	1.03	1.23	1.44	1.64	1.84
80	0.86	**1.07**	1.27	1.47	1.67
85	0.70	0.90	1.10	1.30	1.51
90	0.53	0.73	0.94	1.14	1.34
95	0.36	0.57	0.77	0.97	1.17

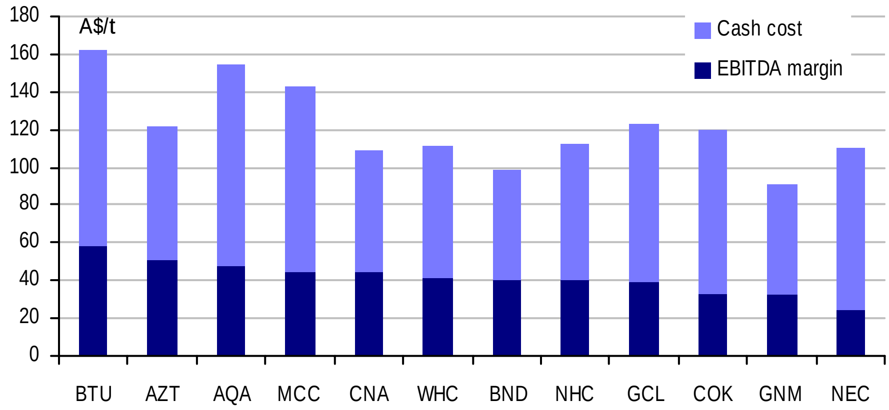
Source: UBS estimates

Peer comparison

Margins and met coal exposure

In Chart 12, we compare BTU and ASX listed peers based on cash margin. The analysis suggests that BTU will have a high margin business relative to peers at long-term coal prices and assuming BTU is successful in reaching its cash cost guidance of ~US$83-88/t at full ramp-up.

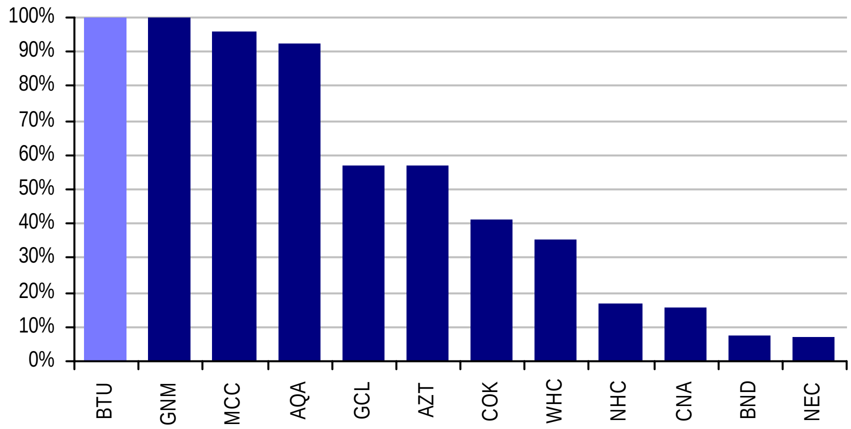
Chart 12: Comparison of BTU long-term costs and margin compared to peers



Source: Company filings and UBSe.

One of the reasons for the higher margin relative to peers is BTU's coking coal exposure. As shown in Chart 13, BTU has the highest exposure to metallurgical coal, which we view as having superior long-term supply demand dynamics and therefore pricing and margin potential.

Chart 13: ASX listed coal producers metallurgical coal proportion of total shipments



Source: UBSe, company filings. Based on UBS assessment of full development of project options to 2015.

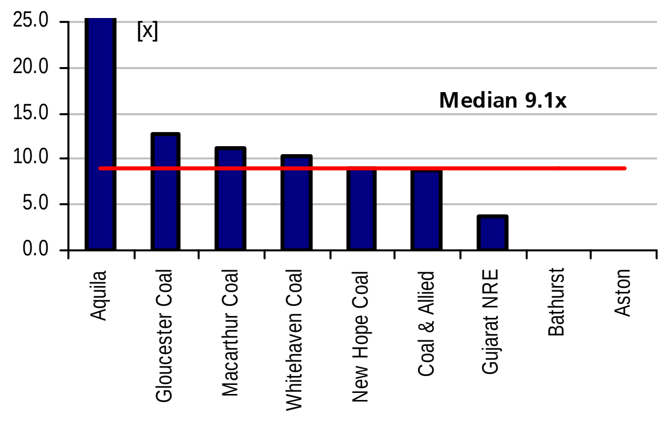
Valuation multiple comparison

Earnings multiples

As BTU is a number of years away from its stated production targets, we believe looking at near-term earnings multiples may be misleading as the significant growth in earnings is not capitalised.

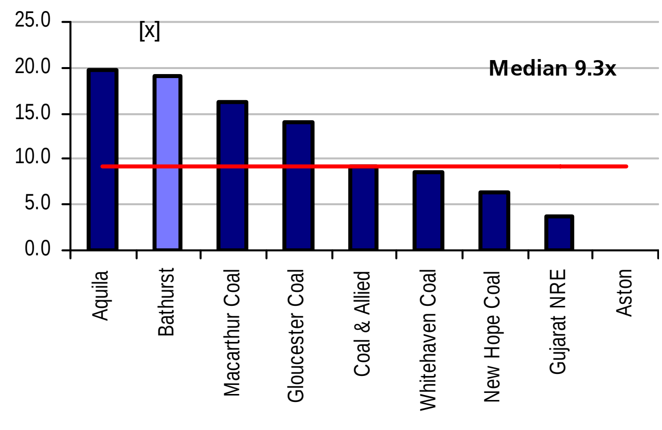
As shown in Charts 14-17, on an EV/EBITDA and P/E basis, BTU is trading towards the upper end of peers.

Chart 14: ASX-listed producers' FY12E EV/EBITDA



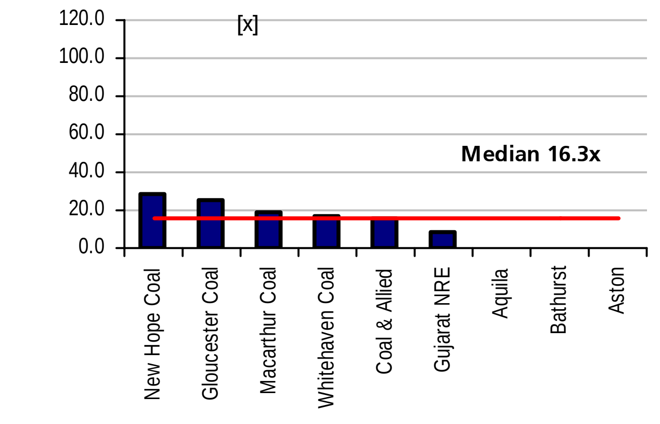
Source: UBSe, IRESS

Chart 15: ASX-listed producers' FY13E EV/EBITDA



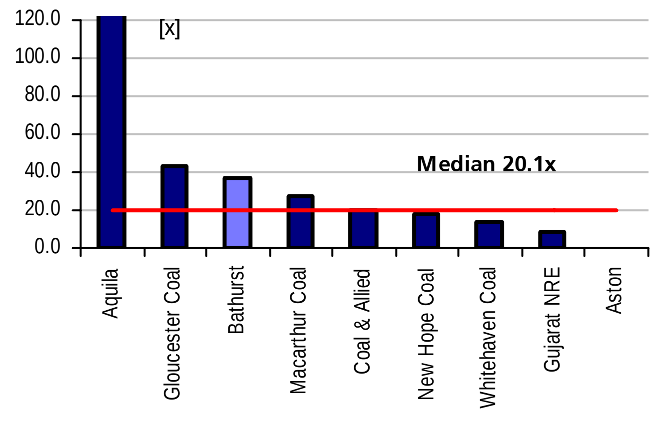
Source: UBSe, IRESS

Chart 16: ASX-listed producers' FY12E P/E



Source: UBSe, IRESS

Chart 17: ASX-listed producers' FY13E P/E



Source: UBSe, IRESS

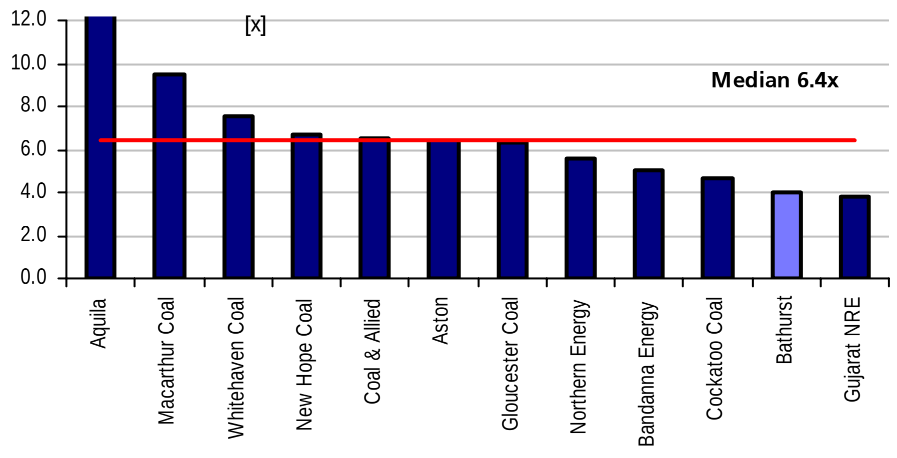
As mentioned, given the significant growth in production, we believe that the aforementioned earnings multiples may be misleading. As a result, we have also undertaken a full ramp-up long-term EV/EBITDA multiple analysis to try to compare the different coal companies which are at different stages of development. Key assumptions in this analysis include:

- EVs are current market cap + current net debt as at 31 December 2010 + capex required to reach full capacity. So BTU's EV is uplifted by $80m to account for the stage 1 capex (to 2.0Mtpa), $80m for stage 2 capex (to 4.0Mtpa) and $80m for deferred compensation payments to come to reach 4.0Mtpa of capacity;
- All companies are assumed to reach full capacity for their publically announced growth plans, i.e. Aston is assumed to reach 10.8Mtpa of product; Whitehaven Coal is assumed to reach ~15Mtpa of product;

- Revenue is based on our long-term coal price and currency assumptions (US$130/t for hard coking coal, US$85/t for thermal, US$0.80 currency); and
- Costs are based on our assessment of cash costs at full ramp-up.

As shown in Chart 18, based on this analysis, BTU is trading at a discount to peers. Applying the median multiple to BTU would imply a valuation of A$1.93ps.

Chart 18: Full ramp-up long-term EV/EBITDA



Source: UBSe and company filings

Resource, reserve and production multiples

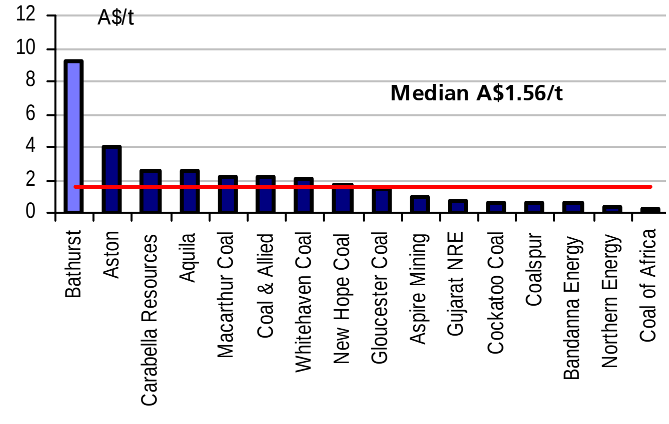
Because BTU is a number of years away from its stated production targets, we believe looking at near-term earnings multiples may be misleading.

As a rule of thumb therefore, we compare our BTU valuation on an EV/t of resource, reserve and production across listed Australian peers and metallurgical coal peers. We highlight that EV/t of resources, reserve and production is an imperfect method of comparison due to differences in coal quality/pricing, operating costs, capital costs, development timeline, etc.

As shown in Chart 19 and Chart 20, Australian listed coal producers are trading on an EV/t of resource and reserve of A$1.56/t and A$8.36/t, respectively. Applying the median EV/t of reserve and resource multiples to BTU, would value the company at A$0.20ps and A$0.23ps, respectively.

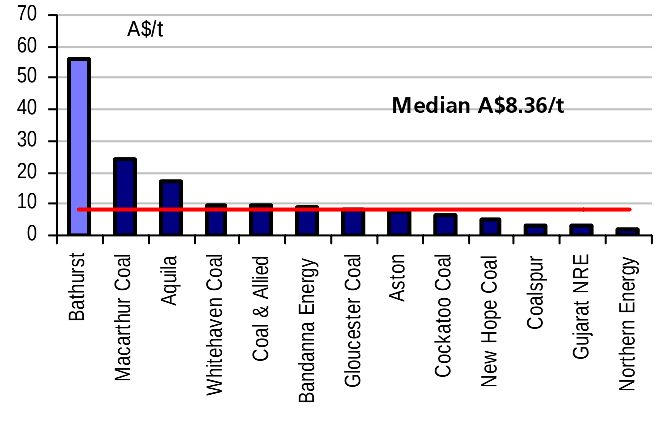
This highlights in our view that further work needs to be done by BTU on the resource and the reserve base. BTU's current resource base is 76Mt, and it has an incremental exploration target of a further 55-94Mt, this would put BTU on an EV/t of resource of $4.30/t. We assume that BTU ultimately delineates 100Mt of reserves from its tenements, this would put BTU on an EV/t of resource of $7.31/t.

Chart 19: ASX-listed producers' EV/t of resource



Source: UBS estimates and company filings.

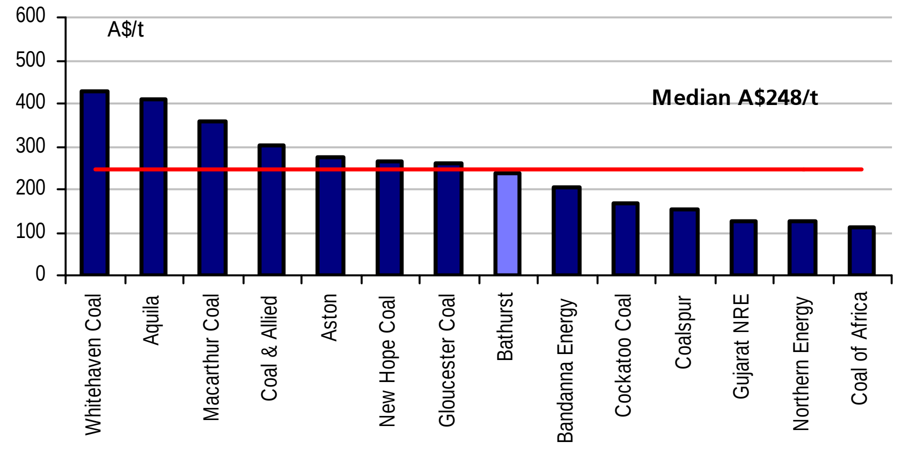
Chart 20: ASX-listed producers' EV/t of reserve



Source: UBS estimates and company filings.

As shown in Chart 21, the ASX-listed coal producers are trading at a median EV/t of production at full ramp-up of A$248/t. Applying this multiple method to BTU would value the company at A$1.18ps.

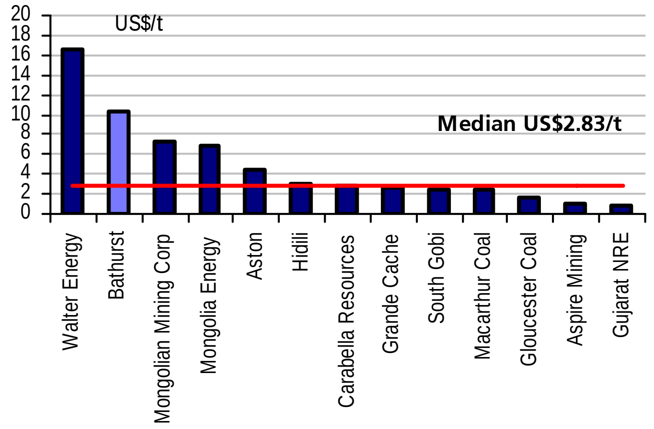
Chart 21: ASX-listed producers' EV/t of future production



Source: UBS estimates, company filings Note: EVs have been adjusted upwards to take account of capital spend to secure growth in tonnage at full ramp-up.

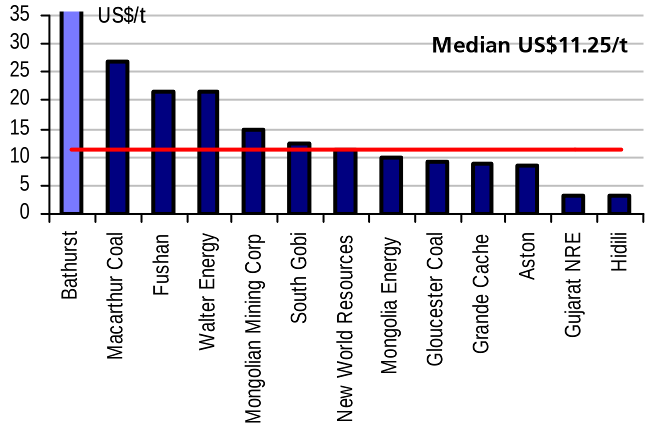
As shown in Chart 22 and Chart 23, BTU's met coal peers are trading at an EV/t of resource and reserve of US$2.83 and US$11.25, respectively. Applying the median EV/t of reserve and resource multiples to BTU, would value the company at A$0.26ps and A$0.37ps, respectively.

Chart 22: Met coal producers' EV/t of resource



Source: UBS estimates, company filings.

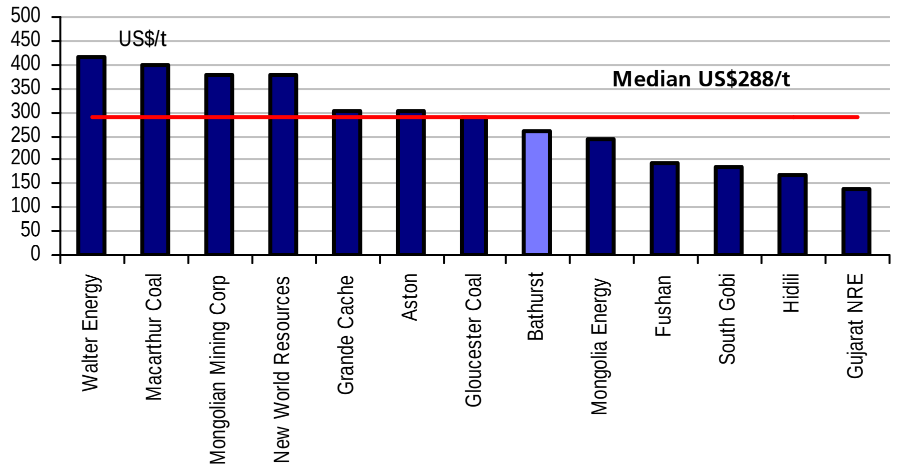
Chart 23: Met coal producers' EV/t of reserve



Source: UBS estimates, company filings.

As shown in Chart 24, BTU's met coal peers are trading at an EV/t full production of US$288/t. Applying this multiple method to BTU would value the company at A$1.42ps.

Chart 24: Met coal producers' EV/t of future production

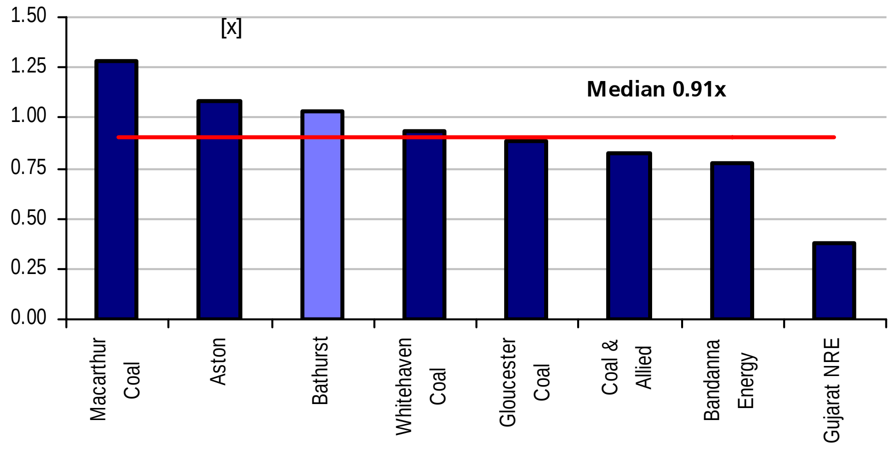


Source: UBS estimates, company filings Note: EVs have been adjusted upwards to take account of capital spend to secure growth in tonnage at full ramp-up.

P/NPV

P/NPV is one of our preferred methods of comparison as it takes into account the timing of expected future cash flows and finite mine lives. Based on this metric, BTU is trading at 1.03x NPV, a premium to most of our covered peers, most of which are trading at a discount to NPV.

Chart 25: ASX-listed producers' P/NPV



Source: UBSe

Bathurst Resources (BTU.AX)

Analyst/s: Daniel Morgan, Glyn Lawcock
Email: daniel.morgan@ubs.com
28-Jul-11

MARKET INFORMATION

Rating:	**Neutral**
Price (as of 27-Jul-11):	1.10
Price Target (12 months):	**1.25**
Issued Capital:	684.9
Market Capitalisation:	753.4
Avg. daily turnover (US$m)	6.0
Year end:	Jun 2011
Website:	http://www.bathurstresources.com/
Major Shareholders:	Matthews Capital 13.0%

COMPANY DESCRIPTION

Bathurst Resources (BTU) has a focus to develop the Buller Coal project in the South Island of New Zealand. The Buller project is to produce a high quality hard coking coal, using open cast mining techniques, ramping up to 2Mtpa by FY15. BTU has made two acquisitions in the past 12 months, which has consolidated its holdings in the South Buller region and expanded the resource base. Conceptually, the Buller project may be able to be expanded to 4Mtpa through duplication of wash plant and mining infrastructure in the Northern tenements.

INVESTMENT SUMMARY

(A$m)	2010	2011E	2012E	2013E
Net profit [reported] ($m)	(9.3)	(18.9)	(5.1)	20.6
Net profit [adjusted] ($m)	(3.1)	(18.9)	(5.1)	20.6
EPS [reported] ($)	**(0.08)**	**(0.03)**	**(0.01)**	**0.03**
EPS [adjusted, diluted] ($)	(0.03)	(0.03)	(0.01)	0.03
EPS Growth (%)	-	(0.2)	73.4	NM
PER [adjusted] (x)	**<0.0**	**<0.0**	**<0.0**	**40.6**
Dividend ($)	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
FCF Yield (%)	(3.9)	(0.3)	(7.6)	10.1
Franking (%)	0.0	0.0	0.0	0.0
Shares [average, diluted] (m)	120.9	743.5	760.5	760.5

VALUATION

Valuation per share [NAV @ 10%	1.07
Share Price Target [12 months]	1.25
Price/NAV [10% disc rate] (x)	1.03

Operating Assets [DH11]	**A$m**	**¢**
Buller (incl. Cascade, Wareatea West & Brookdale	750	110
Takitimu	18	3
Gross Assets	**768**	**112**
NPV - corporate costs	(118)	(17)
Cash at bank (Net debt) - bop	80	12
Net Asset Value @ 10% discount rate	**730**	**107**

ENTERPRISE VALUE

(A$m)	2010	2011E	2012E	2013E
Enterprise Value	**3**	**702**	**805**	**828**
EV/EBITDA (x)	<0	<0	<0	22.6
EV/Operating Free Cash Flow (x	<0	<0	<0	20.6

EPS SENSITIVITIES

Commodity	**Base Change**	**2011E**	**2012E**	**2013E**
			EPS Change	
Hard Coking Coal	+/-US$10/t	NM	NM	25%
AUDUSD	+/-US$0.05	NM	NM	25%

CASH FLOW

(A$m)	2010	2011E	2012E	2013E
Operating income [EBIT, UBS]	(3)	(21)	(7)	32
Depreciation & Amortisation	0	0	1	5
Net change in working capital	(0)	1	(0)	15
Other (operating)	(2)	16	23	40
Pre-tax op cash flow	**(5)**	**(3)**	**17**	**92**
Interest (paid) / received	0	2	1	(3)
Tax paid	0	0	0	(2)
Other	0	0	0	0
Operating cash flow	**(5)**	**(1)**	**18**	**87**
Capital expenditure	(0)	(1)	(82)	(3)
Free cash flow	**(5)**	**(2)**	**(64)**	**84**
Net (acquisitions) / disposals	0	0	0	0
Dividends paid (Common)	0	0	0	0
Shares issued/(repurchased)	20	160	0	0

OPERATIONAL ASSUMPTIONS

(Prices in US$/t)	1H11	2H11E	2010	2011E	2012E	2013E
Hard Coking	217	278	147	247	245	184
PCI	165	228	110	196	189	153
Semi Soft	158	223	102	190	189	148
Thermal - benchmark	98	114	78	106	129	121
Thermal - Newcastle spot	100	124	86	112	121	121
Currency and inflation						
USA	0.95	1.03	0.88	0.99	1.05	1.04
AUDNZD	1.28	1.33	1.26	1.31	1.27	1.26
NZUS	1.35	1.29	1.42	1.32	1.21	1.22
Cost inflator	1.00	1.00	1.00	1.00	1.02	1.04
Coal Shipments (Mt)						
Buller						
Hard Coking Coal	0.0	0.0	0.0	0.0	0.0	0.8
Semi Soft	0.0	0.0	0.0	0.0	0.0	0.0
Thermal	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.8**
Takitimu	**0.0**	**0.1**	**0.0**	**0.1**	**0.2**	**0.2**

DIVISIONAL BREAKDOWN [EBIT]

(A$m)	1H11	2H11E	2010	2011E	2012E	2013E
Buller	0.0	0.0	0.0	0.0	0.0	37.9
Takitimu	0.0	1.3	0.0	1.3	2.4	1.8

PROFIT & LOSS

(A$m)	1H11	2H11E	2010	2011E	2012E	2013E
Sales Revenue	0	7	0	7	14	148
Operating Cash Profit	**0**	**2**	**0**	**2**	**5**	**55**
Depn & Amortisation	(0)	(0)	(0)	(0)	(1)	(5)
Operating Profit	**0**	**2**	**0**	**2**	**4**	**50**
Exploration	0	0	0	0	0	0
SGA	(16)	(6)	(3)	(23)	(10)	(19)
EBIT	**(16)**	**(4)**	**(3)**	**(21)**	**(7)**	**32**
Net interest	1	1	0	2	1	(3)
Profit before tax	**(16)**	**(3)**	**(3)**	**(19)**	**(5)**	**29**
Tax expense	0	0	0	0	0	(8)
Equity Associated NPAT	0	0	0	0	0	0
Minority Interests	0	0	0	0	0	0
Dividends [preferred]	0	0	0	0	0	0
Net Profit [reported]	**(16)**	**(3)**	**(9)**	**(19)**	**(5)**	**21**
Abnormal Gain/(Loss) after Ta:	0	0	(6)	0	0	0
Net Profit [adjusted]	**(16)**	**(3)**	**(3)**	**(19)**	**(5)**	**21**
EBITDA margin (%)			*NM*	*(276.0)*	*(42.7)*	*24.8*
Net Interest Cover [EBIT] (x)			*(35.8)*	*(11.9)*	*(4.5)*	*(10.6)*
Tax Rate (%)			*NM*	*NM*	*NM*	*28%*
EBIT/Total Assets (%)			*(21.5)*	*(5.7)*	*(1.5)*	*7.1*
NPAT/Equity (%)			*(21.6)*	*(11.6)*	*(3.3)*	*11.5*

BALANCE SHEET [Selected Items]

(A$m)	2010	2011E	2012E	2013E
Net Working capital	0	(37)	1	10
Fixed Assets	0	1	82	80
Net Other	6	120	99	135
Capital Employed	**6**	**83**	**182**	**225**
Net Cash / (Debt)	8	80	(24)	(46)
Total Equity [incl. minorities]	**14**	**163**	**158**	**178**
Minorities	0	0	0	0
Net Debt / Equity (%)	*(58.4)*	*(48.8)*	*15.1*	*26.0*
Book Value per Share($)	*0.06*	*0.64*	*0.62*	*0.70*

Source: Company, UBS estimates

Appendices

Board of Directors and Management

Craig Munro FCPA, FAusIMM – Non-Executive Chairman

Craig Munro is a Certified Practicing Accountant with over 35 years experience in the mining industry. He was most recently Senior Vice President Corporate & Finance and Chief Financial Officer of Anvil Mining Limited. He has been both an Executive Director and Non Executive Director of a number of listed companies since 1990. He is currently a Director of Total Staffing Solutions Limited and was previously a Director of Gallery Gold Limited.

Hamish Bohannan BEng (Hons), MBA, FAusIMM – Managing Director and Chief Executive Officer

Hamish Bohannan is a Mining Engineer with 30 years experience in the resources industry, starting as a miner with Goldfields in South Africa before completing a degree at the Royal School of Mines. He has been actively involved in many areas of the industry including dredging and open cut mining, processing and smelting having worked around the globe in various metals from Copper and Gold to Nickel and Mineral Sands. Previously CEO of Braemore Resources, Hamish has also held executive positions with Cyprus Minerals, WMC Ltd, Iluka and IAMGold.

Gerald Cooper – Executive Director

Gerald Cooper was most recently Bathurst's VP Operations USA. Mr Cooper, who is a qualified Marine Engineer, served for a number of years as a seagoing engineer before moving onto the power generation field. He has held engineering and maintenance roles for Monadelphous Engineering, Cyprus Gold, Arimco, Copper Mines of Tasmania, Pegasus Gold, Acacia Resources and WMCF Phosphate Hill.

Gerald Cooper has worked internationally for AshantiGold in Guinea and Iluka Resources in the United States. He was Group Engineering Manager for IAMGold before returning to Australia in 2007 and taking up a position as VP Engineering & Maintenance with Braemore Resources.

Rob Lord – Non Executive Director

Rob Lord was most recently the Managing Director and Chief Executive Officer of Gloucester Coal Ltd a successful ASX 200 publically listed company specialising in coal mining and marketing.

Prior to his appointment at Gloucester Coal, Rob Lord worked in the pulp and paper industry for 19 years, most recently as Executive Vice President responsible for the Australasian operations of Norwegian-based Norske Skog. Rob Lord has also worked in a variety of senior international marketing and sales roles including head of marketing and sales roles at Norske Skog Australasia, Fletcher Challenge Paper Australasia and Tasman Pulp and Paper in New Zealand.

Malcolm Macpherson – Non Executive Director

Malcolm Macpherson has had many career highlights, including his successful seven year tenure as Managing Director and Chief Executive Officer of Iluka Resources Limited, where he led the growth of Iluka into a leading global producer of mineral sands.

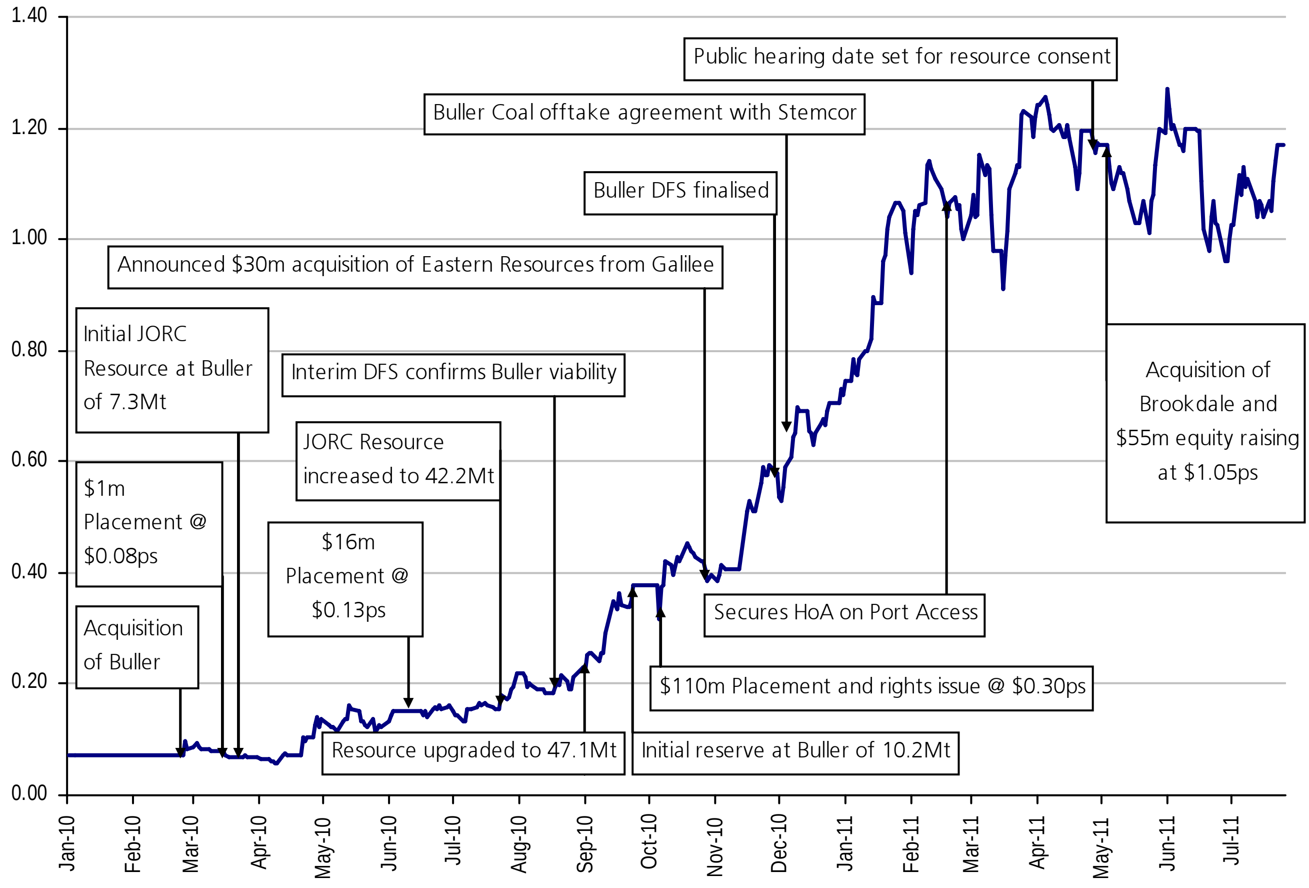
Malcolm Macpherson has held board positions with other notable companies and organisations such as Portman Limited, Eltin Limited and Western Power Corporation (as Chairman). Malcolm Macpherson has also had active roles in research and innovation, including an advisory role to CSIRO.

Tim Manners – Chief Financial Officer and Company Secretary

Tim Manners is a Chartered Accountant and qualified Company Secretary with over 17 years commercial experience in senior finance positions within the resources sector. He is also the Chief Financial Officer of the Company.

Trading history

Chart 26: Share trading History (A$ps)



Source: IRESS and company disclosures

Substantial shareholders

The following institutions have filed substantial shareholder notices:

- Matthews Capital 13.0%
- Bank of America 8.9%
- JPMorgan 6.3%
- L1 Capital 6.0%

The Top 20 shareholders according to BTU are shown in Table 17, on a nominee rather than beneficial basis.

Table 17: Top 20 Shareholders (as at 14 June 2011)

Rank	Name	Units	% of Units
1.	NATIONAL NOMINEES LIMITED	78,297,343	11.6
2.	J P MORGAN NOMINEES AUSTRALIA LIMITED	73,334,654	10.9
3.	HSBC CUSTODY NOMINEES <AUSTRALIA>	66,641,410	9.9
4.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	59,071,078	8.8
5.	CITICORP NOMINEES PTY LIMITED	35,673,607	5.3
6.	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	26,125,546	3.9
7.	HSBC CUSTODY NOMINEES <AUSTRALIA>	18,293,484	2.7
8.	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIPOOLED A/C>	12,357,550	1.8
9.	FOCUS ASSET MANAGEMENT PTY LTD <KEY GRAND SUPER FUND A/C>	11,395,000	1.7
10.	COGENT NOMINEES PTY LIMITED	9,372,791	1.4
11.	UBS NOMINEES PTY LTD	9,262,696	1.4
12.	MR HAMISH BOHANNAN + MS JULIE BOHANNAN <PUTSBOROUGH SUPER FUND A/C>	7,950,000	1.2
13.	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	7,270,315	1.1
14.	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	6,607,007	1.0
15.	JOHN WARDMAN & ASSOCIATES PTY LTD <THE WARDMAN SUPER FUND A/C>	5,300,000	0.8
16.	HSBC CUSTODY NOMINEES <AUSTRALIA> GSCO GBA	4,832,138	0.7
17.	BOND STREET CUSTODIANS LTD <MACQUARIE SMALLER CO'S A/C>	4,504,931	0.7
18.	MR JOHN DESMOND MARTIN	3,715,000	0.6
19.	MR CLIVE THOMAS	3,622,000	0.5
20.	PASSIO PTY LTD <G WESTON & ASSOC S/F A/C>	3,500,000	0.5
Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL)		447,126,550	63.3
Total Remaining Holders Balance		225,470,146	36.7

Source: BTU.

■ Bathurst Resources

Bathurst Resources (BTU) has a focus to develop the Buller Coal project in the South Island of New Zealand. The Buller project is to produce a high quality hard coking coal, using open cast mining techniques, ramping up to 2Mtpa by FY15. BTU has made two acquisitions in the past 12 months, which has consolidated its holdings in the South Buller region and expanded the resource base. Conceptually, the Buller project may be able to be expanded to 4Mtpa through duplication of wash plant and mining infrastructure in the Northern tenements.

■ Statement of Risk

Investment risk inherent in the resource sector includes, but is not limited to movement of commodity price and currency which may differ materially from the assumptions used in this report. Furthermore the sector is subject to political, financial and operational risks, each of which has the potential to significantly impact industry performance.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities Australia Ltd, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures. The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission.

UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	54%	39%
Neutral	**Hold/Neutral**	39%	35%
Sell	**Sell**	7%	14%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	33%
Sell	**Sell**	less than 1%	25%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with the NASD and NYSE and therefore are not subject to the restrictions contained in the NASD and NYSE rules on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

UBS Securities Australia Ltd: Daniel Morgan; Glyn Lawcock.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Bathurst Resources[2, 3, 4, 5a, 5b, 13]	BTU.AX	Not Rated	N/A	A$1.10	27 Jul 2011

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.
3. UBS AG, Australia Branch is acting as Corporate Adviser to Bathurst Resources Limited and will be receiving a fee for acting in this capacity.
4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.

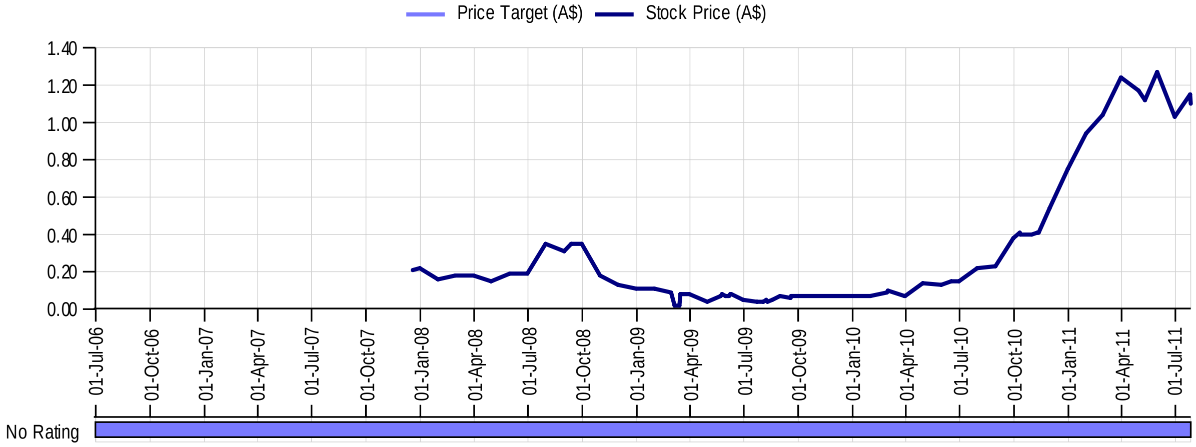
5a. UBS AG, Australia Branch or an affiliate expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.

5b. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.

13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company`s common equity securities as of last month`s end (or the prior month`s end if this report is dated less than 10 days after the most recent month`s end).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Bathurst Resources (A$)



Source: UBS; as of 27 Jul 2011

Global Disclaimer

UBS