



BUY - \$0.39

Michael Lazar: +61 3 9200 7034
m.lazar@lodgepartners.com.au

Company Data

ASX Code	BTU
Price	\$0.39
12 month price target	\$0.83
12 month dividend yield	-
Implied return	113%
Shares on issue	225m
Market cap	\$88m
12 Month price range	\$0.07 - \$0.43
Monthly turnover (vol)	14m

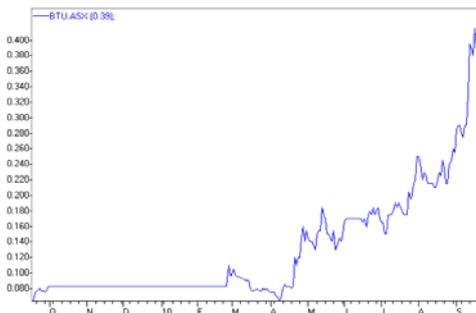
Forecast Changes

	2011F	2012F	2013F
NPAT			
EPS			
DPS			

Earnings Summary

Yr to 31 Dec	2010F	2011F	2012F	2013F
Lodge NPAT	(4.3)	(9.2)	9.0	37.1
Rep. Profit _(pre sig)	(4.3)	(9.2)	9.0	37.1
EPS _{adj} (¢)	(1.9)	(1.6)	1.6	5.9
EPS growth	-	-	-	270%
P/E ratio	-	-	24.6 x	6.6 x
DPS (¢)	-	-	-	-
Yield	-	-	-	-
Franking	-	-	-	-
Payout ratio	-	-	-	-
EV / EBIT	-	-	7.9 x	2.2 x
EV / EBITDA	-	-	4.8 x	1.9 x
CFPS (¢)	(1.9)	(1.6)	1.9	5.4
Price / CF	-	-	20.5 x	7.2 x
NTA per share	\$0.07	\$0.22	\$0.24	\$0.27
Pr / NTA	5.6 x	1.8 x	1.6 x	1.4 x

Share Price Chart



Source: Iress Market Technology

Bathurst Resources Ltd (BTU)

Racing Towards Coking Coal Production

Premium Coking Coal With Exploration Upside

Bathurst Resources has entered into an agreement with L&M Holdings Ltd to acquire the Buller Coal Project located on the West Coast of the South Island of New Zealand. The project has a defined JORC resource of 47.1Mt of essentially premium coking coal, with an overall exploration target of 60-90Mt.

Production Within 18 Months

The foundations for production start-up by the end of 2011 are in place with the DFS completed, and the mining permit granted. The Buller Coal Project is being developed in an area of established coal mining operations, with good access to infrastructure including two ports, Lyttelton and Westport / New Plymouth. The project is based on a low-risk, conventional open cut mining operation producing initially ~1.0Mt/a premium coking coal, and ramping up towards ~2.0Mt/a. The project capex of US\$62M compares exceptionally well with similar projects elsewhere. Operating costs have been estimated by the company at US\$103/t, declining to less than US\$90/t at 2Mt/a rates.

Experienced Management Team

Bathurst Resources has assembled a quality Senior Management Team and Board with the relevant skill base and experience, necessary to deliver the Buller Coal Project within the target budget, schedule, and operating parameters.

Strong Coking Coal Demand and Constrained Supply

The demand for coking coal is expected to remain strong in the medium term, driven by steel consumption in developing countries. However, industry forecasts suggest the supply of coking coal will be constrained during this same period by rail and port infrastructure, and a global scarcity of high quality hard coking coal resources. We therefore expect the coking coal market to remain highly vulnerable to any production disruptions / project delays, with robust pricing in the medium term. Bathurst's high quality coking coal should also sell at a US\$10-25/t premium to the market.

Cheap Relative to the Rest of the Sector

Our DCF Valuation of Bathurst Resources is A\$0.83/share. A sensitivity analysis indicates the valuation is particularly sensitive to the coking coal price. The company compares exceptionally well to its peer group with regards to coking coal quality, target production, capex, infrastructure access, and market capitalization.

We expect Bathurst Resources to attract increasing attention on the strong news flow over the coming months leading into production. We also consider the company an attractive acquisition target.

We initiate coverage with a **BUY** recommendation and a price target of A\$0.83/share.

Target Price: A\$0.83, BUY Recommendation

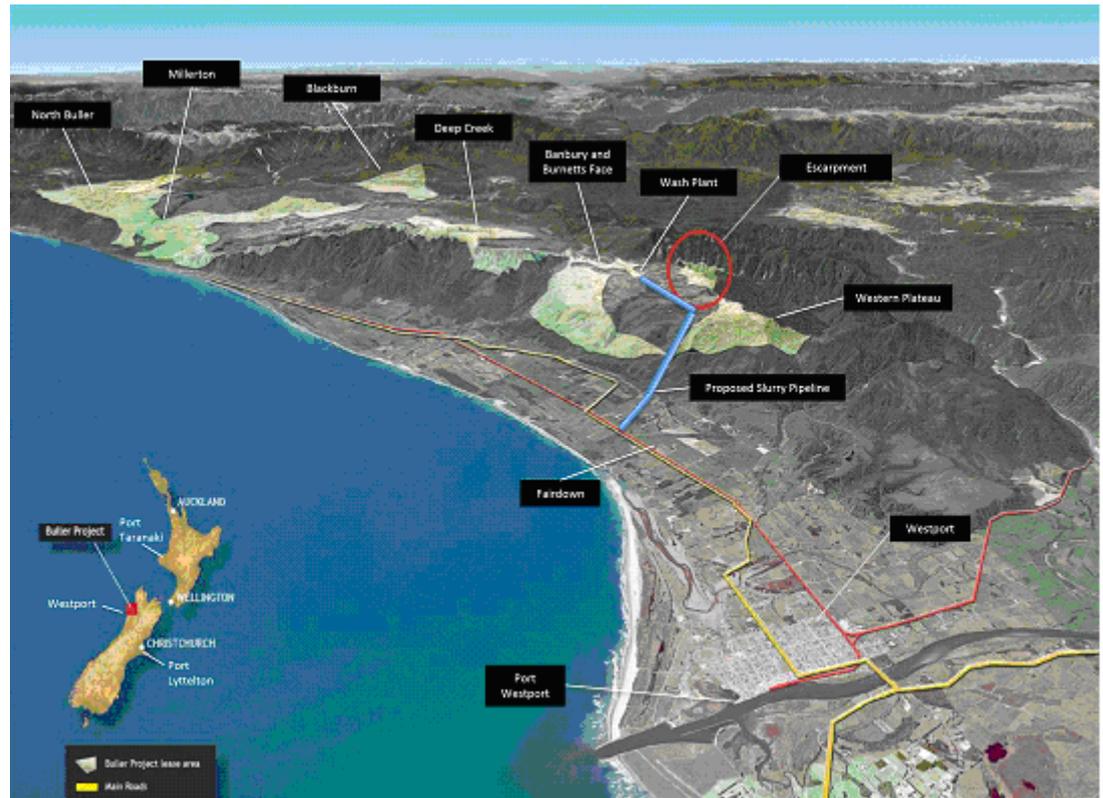
Background to the Buller Coal Project

The Buller Coalfield is located on the West Coast of New Zealand's South Island.

The Buller Coalfield is located north of the coastal town of Westport on the West Coast of New Zealand's South Island. The coalfield produces most of the country's bituminous / high quality coking coal, particularly well known for its low ash, low sulphur, and high swell and fluidity properties, able to command premium prices on world markets. The coal comes from a single thick seam (the Mangatini seam) near the base of the Brunner Coal Measures. The state owned, Solid Energy has an existing position in the coalfield with annual production of ~2Mt/a from its No. 2, Webb, and Mt Frederick open cut mines at Stockton.

Buller Coal Project

The Buller Coalfield produces the majority of the country's bituminous / high quality coking coal.



Source: Bathurst Resources

The Buller Coal Project covers over 100km² of the Buller Coalfield, and includes a portfolio of near-surface coal deposits and advanced exploration prospects with the same high quality coal from the Mangatini seam mined by Solid Energy at Stockton.

Ground relinquished by Solid Energy in 2003 forms the basis of Bathurst Resources' Buller Coal Project. L&M Holdings Ltd, a privately owned Christchurch based entity, applied for Exploration Permit 40628 in 2003 after it was left vacant by Solid Energy due to low coal prices. The permit was granted in 2005. L&M subsequently also lodged Exploration Permit Application 51078 to the north of EP 40628. The two permits, covering over 100km² of the Buller Coalfield, include a portfolio of near-surface coal deposits and advanced exploration prospects with the same high quality coal from the Mangatini seam mined by Solid Energy at Stockton.

Bathurst Resources entered into an agreement with L&M Holdings Ltd in February 2010 to acquire the Buller Coal Project. The agreement entailed a number of staged payments based on set project milestones:

- Option payment of US\$5M by 30 June 2010 (paid)
- Acquisition settlement payment of US\$35M by 5 November 2010, i.e., once the Definitive Feasibility Study has been completed
- Performance payment of US\$40M once 25,000t saleable coal has been shipped
- A second performance payment of US\$40M once 1Mt saleable coal has been shipped
- L&M being granted 5% of the listed equity in Bathurst once these target levels have been reached and subject to shareholder approval
- A 1.75% royalty on gross coal revenue over the life of mine

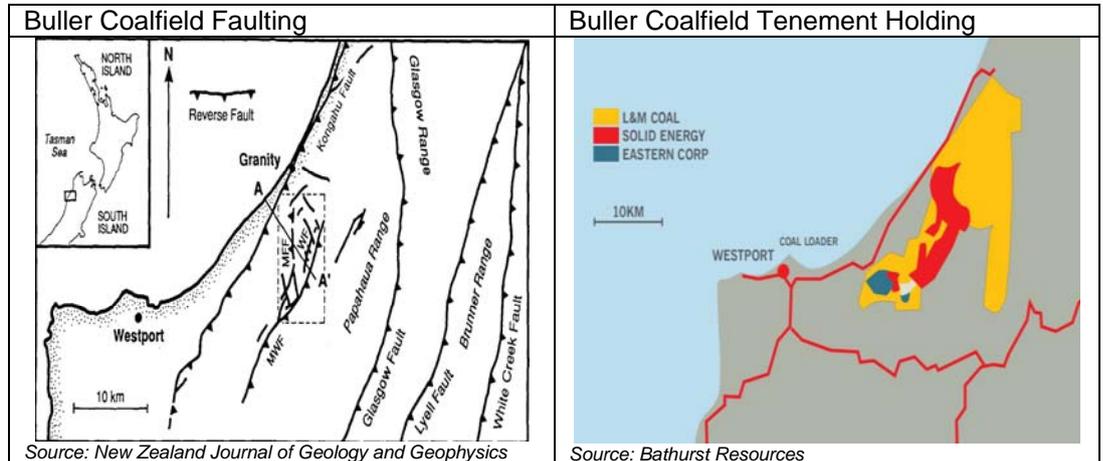
Bathurst Resources entered into an agreement with L&M Holdings Ltd in February 2010 to acquire the Buller Coal Project.

As per the agreement, Bathurst has paid L&M Holdings Ltd the US\$5M deposit due on 30 June 2010.

Resource Definition and Exploration Program

The West Coast coal region of the South Island comprises coalfields formed during the Late Cretaceous and Early Tertiary period within a narrow, fault-bound basin (the Paparoa trough).

Solid Energy currently dominates the Buller coalfield with annual production of ~2Mt/a from its No. 2, Webb, and Mt Frederick open cut mines.



A marine incursion from the Eocene to Oligocene period resulted in marine sediments being deposited into the trough over the coal-bearing sediments. The coalfield is on a tilted basement block, bounded to the west by vertical uplift along the Kongahu fault, which resulted in the formation of the Papahaua Range and erosion of the tertiary marine sediments overlying the coal measures. This tectonic activity also caused the formation of a pattern of north-east trending normal and reverse faults, which are characteristic of the coalfield.

The Mangatini coal seam is 4 – 10m thick and covered by sandstone and mudstone overburden 30 – 60m thick, resulting in an average strip ratio of ~9:1.

The Buller Coalfield comprises the northern end of the Paparoa trough with most of the coal resources occurring within the near horizontal Mangatini seam. The 4 – 10m thick seam is covered by sandstone and mudstone overburden 30 – 60m thick, resulting in an average strip ratio of ~9:1. The seam shows good continuity both in terms of width and coal quality, with minimum faulting. The coal is characterized by relatively high ash and sulphur levels in the roof and floor, with very low ash and sulphur content within the middle plies. The low ash content ensures more energy and less waste is produced in the coke making process.

Buller Coal Project – Coking Coal Quality

Property	Measure
Ash (%)	5.5
Volatile Matter (%)	37
Free Swelling Index	9+
Fluidity (ddpm)	>10,000
Mean Max Reflectance / Ro _{max} (%)	1.05
Sulphur (%)	0.7
Phosphorus (%)	0.014
Calorific Value (ar) (kcal/kg)	7,660
Total Moisture (%)	10
Calorific Value (adb) (kcal/kg)	8,238

The coal is characterized by low ash, high swell and fluidity, low sulphur, and low phosphorus levels, making it ideal for the production of coking coal.

The Buller Coal Project has a historic data set consisting of ~360 drill holes.

Bathurst Resources has been able to rapidly convert the extensive Solid Energy and L&M drill data (i.e., ~360 historic drill holes in the Buller Coal Project area) to JORC compliant status, with an initial Buller Coal Project resource of 47.1Mt, and a total conceptual

exploration target of 60 – 90Mt. Bathurst’s exploration objective is to define sufficient resources to support a 20+ year operational mine life.

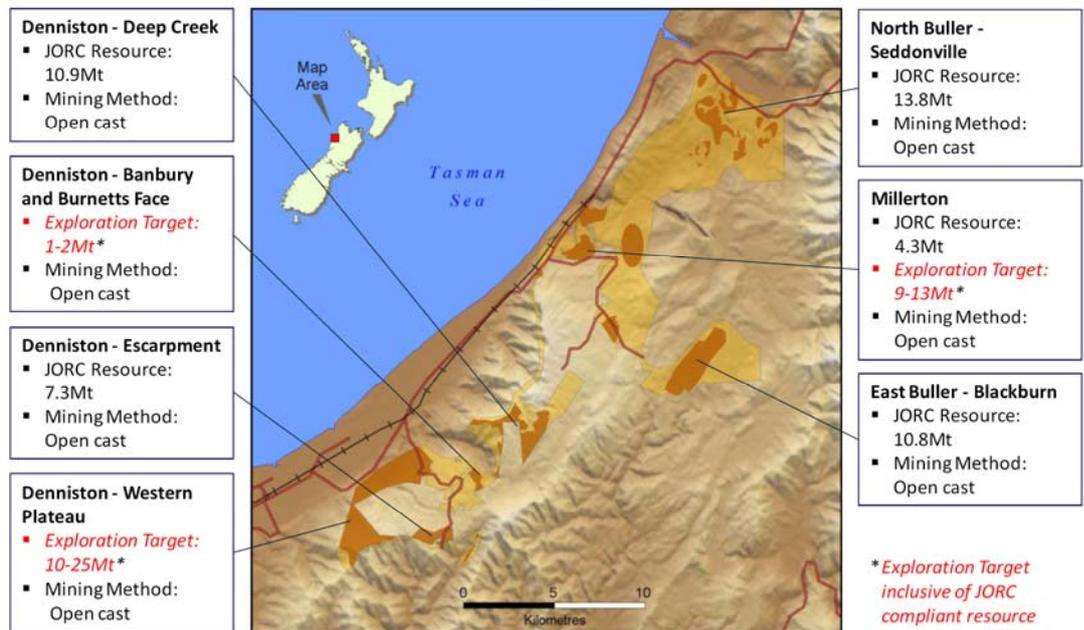
Buller Coal Project - JORC Compliant Resource

The Buller Coal Project has a JORC compliant resource of 47.1Mt.

Status	Prospect	Mt	Total (Mt)
Measured	Escarpment	3.8	10.0
	Deep Creek	6.2	
Indicated	Escarpment	1.6	24.6
	North Buller	4.8	
	Blackburn	10.8	
	Millerton North	4.3	
	Deep Creek	3.1	
Inferred	Escarpment	1.9	12.5
	North Buller	9.0	
	Deep Creek	1.6	
Total			47.1

Buller Coal Project - Exploration Targets

The Buller Coal Project has a total conceptual exploration target of 60 – 90Mt.



Source: Bathurst Resources

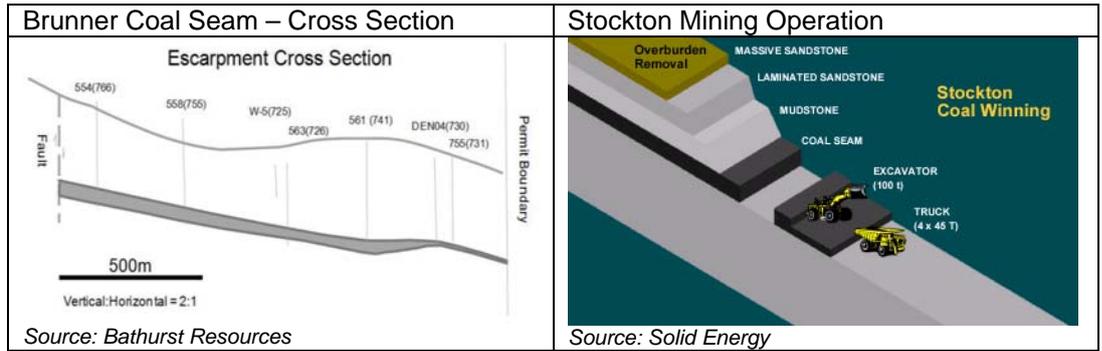
Project Scope

The Definitive Feasibility Study is based on mining the Escarpment and Deep Creek areas within the Denniston sector before moving on to other targets.

The Buller Coal Project Definitive Feasibility Study (DFS) is based on mining the Escarpment and Deep Creek areas within the Denniston sector before moving on to other targets. These two areas contain a JORC compliant resource of 18.2Mt. The Escarpment area is expected to have an average strip ratio of 9 : 1 and a coal seam thickness of ~5m, whilst the Deep Creek area has an estimated strip ratio of 5.6 : 1 and a coal seam thickness of ~6m.

The coal seam will be mined using an open cut mining method and washed at the Coal Preparation Plant (CPP) located near Denniston at the plateau’s edge. We expect the operation to manage any variability in coal quality through run of mine blending. The CPP will produce a high quality coking coal product with low ash, low sulphur, and low phosphorus levels, and high swell and fluidity. The CPP yield is estimated at 65% initially, before increasing towards 75%. More recent test work suggests yields exceeding 80% may be possible.

The Escarpment area is expected to have an average strip ratio of 9 : 1 and a coal seam thickness of ~5m, whilst the Deep Creek area has an estimated strip ratio of 5.6 : 1 and a coal seam thickness of ~6m.



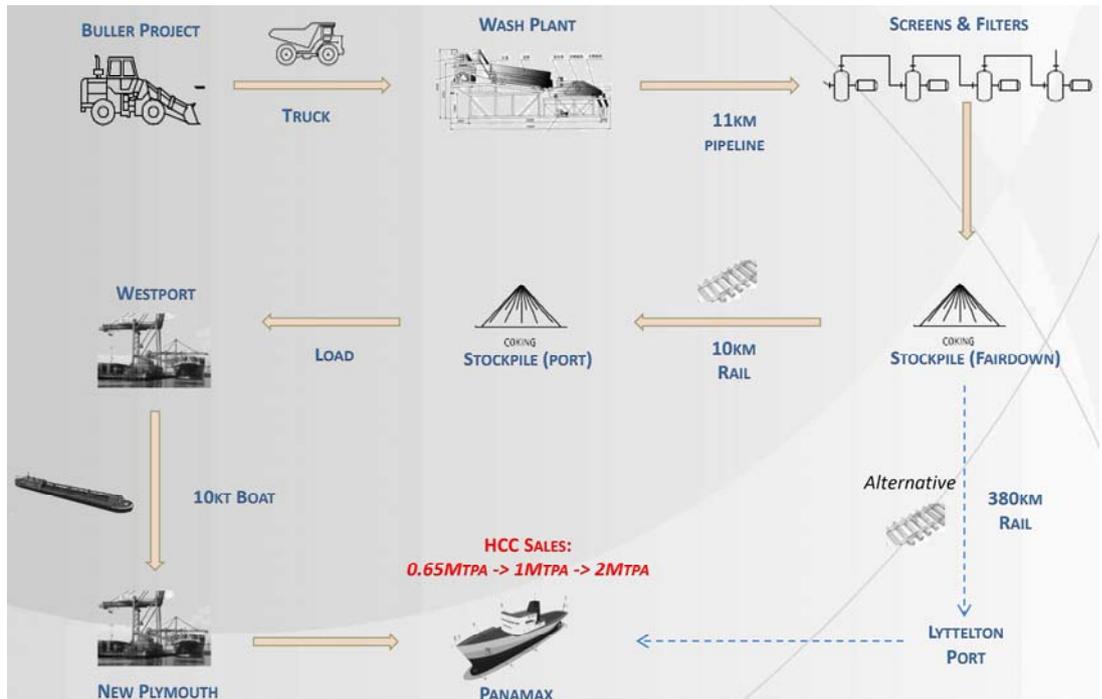
Bathurst is planning to commence production in late 2011 based on a 1Mt/a operation, expanding to 2Mt/a as successive mining areas are brought online.

The coal slurry will be transported ~11km down the plateau through a pipeline to a filter and de-watering plant adjacent to the rail line at Fairtown. This facility will also include a stockpiling and rail loadout station, and a water treatment plant. The dewatered coal product will then be railed to either:

- Lyttelton Port of Christchurch (~380km east), as currently happens with ~3Mt/a coal from the Solid Energy and Pike River Coal operations (the rail line to Lyttelton has a current capacity of ~5Mt/a).
- Westport (~10km south) and then trans-shipped to New Plymouth (preferred option).

Bathurst is planning to commence production in late 2011 based on a 1Mt/a operation, expanding to 2Mt/a as successive mining areas are brought online.

Production Flowsheet



The DFS with an addendum on the Deep Creek resource is expected to be completed in the September Quarter 2010.

The Buller Coal Project has been awarded a Mining Permit for the Escarpment area.

The DFS with an addendum on the Deep Creek resource is expected to be completed in the September Quarter 2010. Bathurst has also appointed an independent technical group to undertake a peer review of the DFS, which we expect will be completed in the December Quarter 2010. An initial JORC compliant reserve will be completed as part of the DFS, sufficient to establish an initial 10 year operational mine life within the Denniston sector of the exploration permits.

The Buller Coal Project has been awarded a Mining Permit for the Escarpment area by the Ministry of Economic Development. The mining permit is granted for a term of 12 years and

requires that mining start at Escarpment within 5 years. The project also requires an Access Arrangement from the Department of Conservation, and an Environmental Consent from the West Coast Regional Council, both of which were applied for by L&M in 2008, but subsequently put on hold whilst L&M investigated alternative options for transporting the coal down the plateau (i.e., trucking, conveying, aerial ropeway, and slurry pipeline). Bathurst Resources has now submitted its application based on the slurry pipeline option which it considers to have the lowest environmental impact.

Permitting Process

The Buller Coal Project also requires an Access Arrangement from the Department of Conservation, and an Environmental Consent from the West Coast Regional Council.

APPROVAL	STATUS	COMMENTS
MINING LEASE	GRANTED	• FOR ESCARPMENT MINE
EXPLORATION LICENCE EXTENSION	GRANTED	
OIO APPROVAL	PENDING	• APPLICATION LODGED
ACCESS ARRANGEMENT (DOC)	PENDING	• APPLICATION COMMENCED OCT 2008
ENVIRONMENTAL CONSENT	PENDING	• APPLICATION COMMENCED OCT 2008

Source: Bathurst Resources

Bathurst Resources has also initiated progress on project finance, product off-take, and services provision including labour and equipment, power, and rail and port operations.

Project Schedule

Bathurst Resources has also initiated progress on project finance, product off-take, and services provision including labour and equipment, power, and rail and port operations.

INDICATIVE	JULY 2010	AUG 2010	SEPT 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
ACQUISITION FUNDING								
DFS								
◆ DETAILED MINE PLAN								
◆ CPP DESIGN AND COST ESTIMATE								
◆ INFRASTRUCTURE & LOGISTICS								
◆ DRAFTING REPORT								
◆ PEER REVIEW								
APPROVALS								
◆ MINING	✓							
◆ ENVIRONMENTAL								
OFF-TAKE ARRANGEMENTS		PHASE 1			PHASE 2			
BOARD APPROVAL FOR PROJECT								
PROJECT FINANCE								
DETAILED ENGINEERING DESIGN								
CONSTRUCTION								
COMMISSIONING								
PRODUCTION								

Source: Bathurst Resources

Coking Coal Demand And Supply

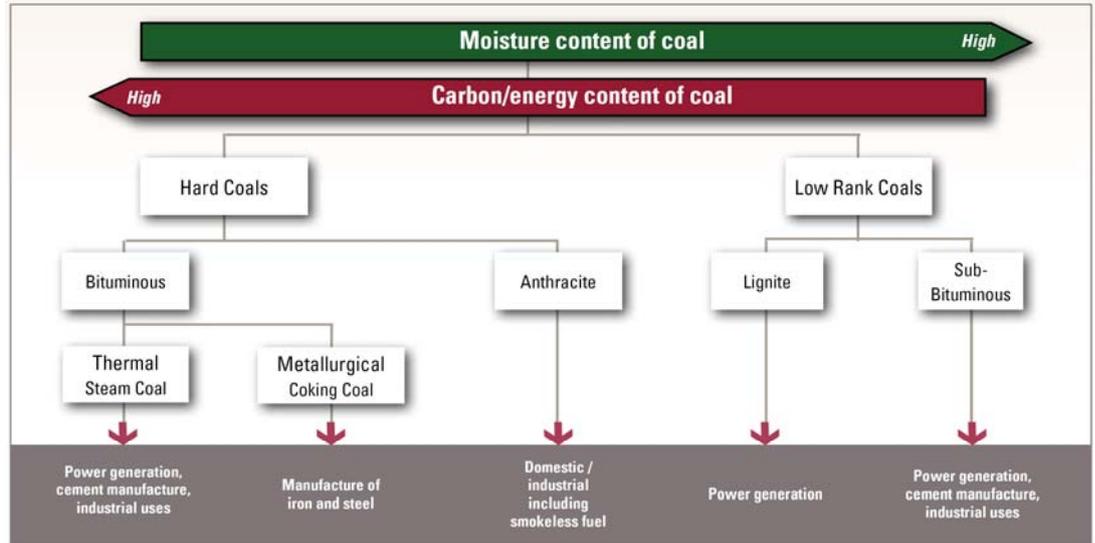
Coking coal demand is driven by steel demand.

Coking coal is used in iron production whereby the iron ore, occurring as an oxide in the earth's crust, is reduced using carbon to produce molten iron metal (pig iron). The molten iron is then further processed to produce crude steel. The overall process requires approximately 0.63t coke per tonne steel, i.e., coking coal demand is driven by steel production.

Coking coal is a sub-category of bituminous coals with specific criteria pertaining to ash, moisture, sulphur, volatile matter, plasticity / fluidity, and caking properties. The steel industry will often blend the different types of coking coal to produce acceptable quality parameters.

Coking Coal

Coking coal is a sub-category of bituminous coals.



Source: World Coal Institute

Coking Coal Demand

Over the medium term, steel consumption is projected to grow steadily, as further growth in the industrialising economies is expected to be supported by recovering OECD economic conditions.

The demand for coking coal is determined by steel production, which is in turn driven by the demand for consumer durables, urban housing, and infrastructure (i.e., roads, rail, and electricity networks).

Whilst the global economic downturn has resulted in a decline in steel consumption in Europe, Japan, and North America, this has essentially been replaced by increasing volumes from the industrialising nations such as China, India, and Brazil. Over the medium term, steel consumption is projected to grow steadily, as further growth in the industrialising economies is expected to be supported by recovering OECD economic conditions. Therefore, by 2015 world steel consumption is projected to be around 1.8Bt (up from 1.2Bt in CY 2009), which represents an average annual growth of ~6% over this period.

By 2015 world steel consumption is projected to be around 1.8Bt (up from 1.2Bt in CY 2009), which represents an average annual growth of 6% over this period.

China is expected to maintain a significant position in the seaborne coking coal market following its recent emergence as an importer, driven by:

- Continued growth in domestic steel production, and particularly in the eastern seaborne provinces
- Consolidation in the coal mining industry, with government pressure to close smaller, inefficient, and unsafe coal mines
- A domestic shortage of high-rank high-quality coking coal resources

Indian demand is also expected to be important, driven by an ambitious steel industry expansion program targeting an increase in steel production from a current 60Mt/a to at least 120Mt/a by 2012. Unlike China, India is completely dependent on coking coal imports with domestic production estimated at ~6Mt/a (cf. China's 570Mt/a).

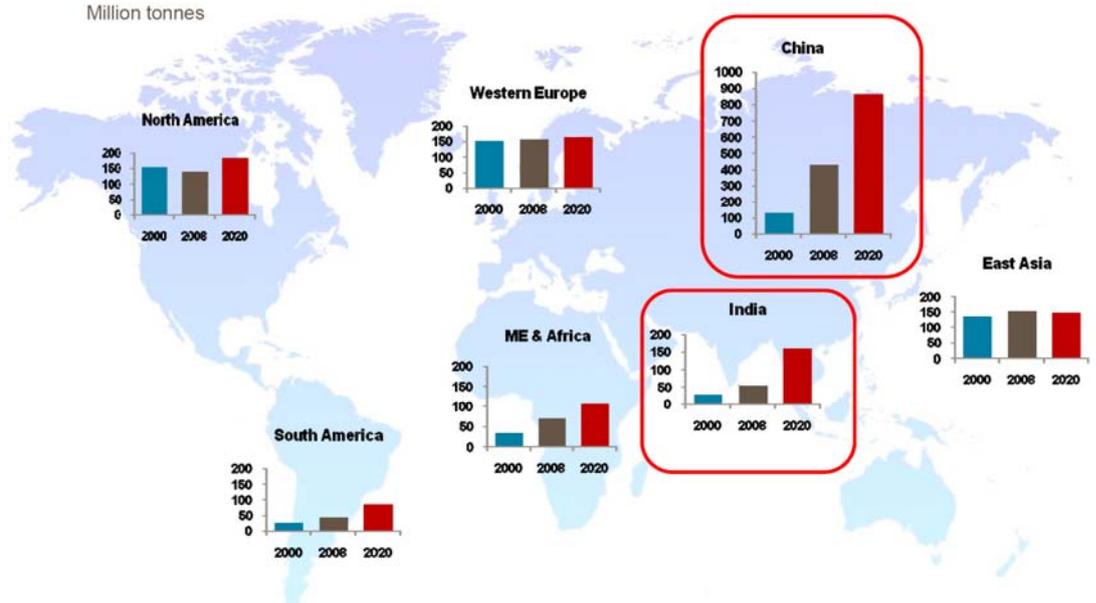
Brazil's iron ore industry provides a low-cost crude steel production base, but one which is dependent on imported coking coal. With some 30Mt/a in advanced coastal steel mill projects, the coking coal supply options all involve long freight distances.

Steel Consumption Growth

China is expected to maintain a significant position in the seaborne coking coal market following its recent emergence as an importer.

India has an ambitious steel industry expansion program targeting an increase in steel production from a current 60Mt/a to at least 120Mt/a by 2012.

Brazil has some 30Mt/a in advanced coastal steel mill projects.



Source: Rio Tinto

Coking Coal Supply

Industry forecasts suggest that whilst iron ore supply will keep pace with steel demand, coking coal supply is expected to be somewhat more constrained in the medium term. Reasons include:

- Rail and port infrastructure constraints in Australia, China, and North America, as well as the emerging coking coal producing regions of Mongolia, and Mozambique
- A global scarcity of high quality hard coking coal resources
- An increasing production cost profile

Over 90% of the world's imported coking coal is represented by seaborne trade (currently estimated at ~234Mt/a). The expectation is seaborne trade will continue to meet a substantial proportion of the future demand growth.

Industry forecasts suggest that whilst iron ore supply will keep pace with steel demand, coking coal supply is expected to be somewhat more constrained in the medium term.

Coking Coal Supply Challenges

Medium-term supply challenged by rising costs and greenfields infrastructure requirements



Source: Coal of Africa

Coking coal supply is likely to be impacted by rail and port infrastructure constraints in Australia, China, and North America, as well as the emerging coking coal producing regions of Mongolia, and Mozambique.

Coking Coal Price Forecast

In addition to the demand – supply fundamentals, coking coal prices will also be impacted by higher production costs:

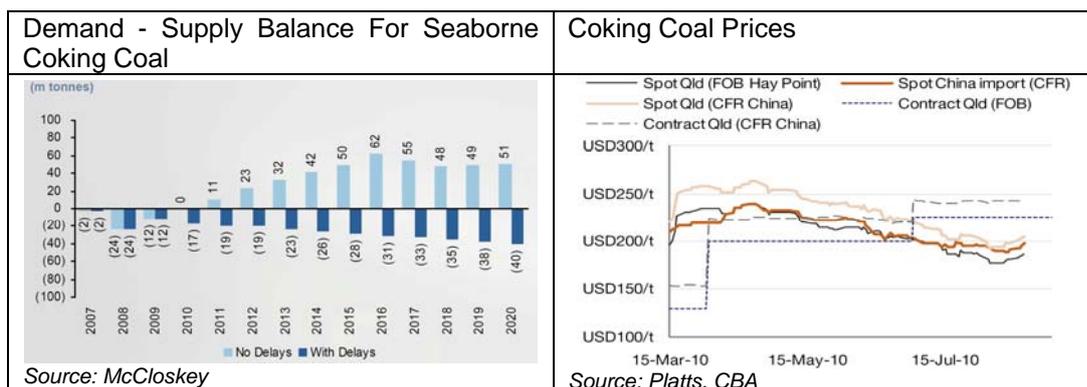
Coking coal prices will also be impacted by higher production costs.

- In China, coking coal will be increasingly sourced from deeper deposits in locations more remote from existing infrastructure
- New mines in Australia are also likely to have higher production and transport costs compared with existing mines
- Capital costs have substantially increased over the last few years, as has the cost of using new infrastructure

We expect the coking coal market to remain highly vulnerable to any supply disruptions, with robust pricing in the medium term.

We therefore expect the coking coal market to remain highly vulnerable to any supply disruptions, with robust pricing in the medium term. The contract price of coking coal for the December Quarter 2010 has been set at US\$209/t FOB. This is down from US\$225/t FOB in the September Quarter 2010. Our expectation is coking coal prices will remain in the US\$175 - 250/t FOB range over the medium term. The potential for increased supply towards 2015 will essentially depend on the unlocking / timely development of the greenfield projects in Mozambique and Mongolia.

The potential for increased supply towards 2015 will essentially depend on the unlocking / timely development of the greenfield projects in Mozambique and Mongolia.



Coking coal prices are also dependent on the coking characteristics of the coal. The high quality coking coal from the Buller Coal Project is likely to trade at a US\$10-25/t premium to the mid range coals. This appears to be confirmed by initial negotiations for off-take agreements.

Coking Coal Types

The high quality coking coal from the Buller Coal Project is likely to trade at a US\$10-25/t premium to the standard hard coking coals.

Coking Coal Type	Ash (%)	Volatile Matter (%)	Free Swelling Index	Fluidity (ddpm)	Coke Strength (%)	Ro _{max} (%)
Bathurst	5.5	37	>9	>10k	-	1.05
Premium Hard	<8.5	19 - 38	8 - 9	500 - 30k	55 - 74	0.80 - 1.60
Standard Hard	<9.7	19 - 38	6 - 9	200 - 25k	>55	0.80 - 1.60
Semi Hard	8.0 - 10.5	17 - 26	4 - 6	200 - 5k	50 - 60	0.80 - 1.70
Semi Soft	8.0 - 11.0	25 - 41	3 - 8	50 - 30k	45 - 55	0.70 - 0.95
Low Volatile PCI	6.0 - 10.5	10 - 19	1 - 2	-	-	1.20 - 3.00
High Volatile PCI	4.0 - 10.0	26 - 42	1 - 5	-	-	0.70 - 0.95

In the longer term, the gradual emergence of relatively low-cost supply from Mongolia and Mozambique, and the easing of infrastructure bottlenecks elsewhere should see coking coal prices moderate.

Project Modelling Assumptions

Resources and Reserves

The Buller Coal Project currently has a JORC compliant resource of 47.1Mt, and an overall conceptual exploration target of 60 – 90Mt.

The Buller Coal Project currently has a JORC compliant resource of 47.1Mt, and an overall conceptual exploration target of 60 – 90Mt. We have assumed an 80% conversion of the current JORC compliant resource into reserves, and a 20% conversion of the conceptual exploration target into reserves, resulting in an overall mineable coal resource of ~46Mt. Assuming an average product yield of 75%, the project is expected to produce ~35Mt saleable product over the project life.

Project Development Profile

We expect the Buller Coal project to be developed in stages as determined by operation ramp-up success and resource growth.

We expect the Buller Coal project to be developed in stages as determined by operation ramp-up success and resource growth. Buller Coal Project – Stage 1 entails a 1Mt/a operation including the construction of key plant and equipment (i.e., coal preparation plant, slurry pipeline, and de-watering plant), and mine development / pre-stripping at the Escarpment area. Successful implementation of Buller Coal Project – Stage 1 will facilitate the expansion of operations to ~2Mt/a, with the key up front expense being the pre-stripping at the Deep Creek area. This production rate will be sustained by the sequential development of the remaining Buller Coal Project resources. Bathurst Resources is ultimately targeting production rates towards 4Mt/a beyond 2015 (i.e., assuming adequate coal reserves and logistics).

Capital Costs

Capital costs associated with the development of the Buller Coal Project – Stage 1 are estimated at US\$62M. The Coal Preparation Plant is being designed with a capacity of 1.4 – 2.0Mt/a product.

Capital costs associated with the development of the Buller Coal Project – Stage 1 are estimated at US\$62M.

Component	US\$M
Pre-production (Pre strip)	14.5
Coal Preparation Plant	18.5
Slurry Systems	21.5
Mine Infrastructure & Other	2.5
Total Capital Expenditure	57.0
Contingency	5.1
Total incl Contingency	62.0

Buller Coal Project – Stage 2 entails the development of the Deep Creek area, with the main cost being the pre-strip. We estimate this cost at ~US\$15M.

Operating Costs

The Buller Coal Project operating costs have been estimated by Bathurst Resources at US\$103/t, declining to less than US\$90/t at 2Mt/a rates.

The Buller Coal Project operating costs are estimated by Bathurst Resources at US\$103/t, declining to less than US\$90/t at 2Mt/a rates.

Component	US\$/t
Mining & Processing costs (Inc D&A)	68
Rail & Port Costs	35
Total FOB Operating Costs	103

Project Inputs Summary

	FY11	FY12	FY13	FY14	FY15
Coking Coal Price (US\$/t)	225	225	200	200	175
Thermal Coal Price (US\$/t)	95	90	90	90	90
Exchange Rate (A\$/US\$)	0.90	0.90	0.90	0.90	0.90
Project Acquisition Cost (US\$M)	35	40	40	-	-
Capital Cost (US\$M)	62	2	2	17	2
Ore Mined (Mt)	-	0.34	1.0	2.0	2.7
Strip Ratio	-	9.0	9.0	7.9	7.3
Yield (%)	-	67	67	70	75
Coking Coal Product (Mt)	-	0.2	0.7	1.3	1.9
Thermal Coal Product (Mt)	-	-	-	0.1	0.2
Operating Cost (US\$/t)	-	119	110	96	90

Project Finance

Bathurst Resources had A\$8.3M cash as at 30 June 2010, and no bank debt. During the June Quarter, the company completed a placement of 125M shares at A\$0.13 per share raising A\$16.25M (pre expenses) in support of its Buller Coal Project acquisition. The

Bathurst Resources had \$8.3M cash as at 30 June 2010, and no bank debt.

Bathurst Resources requires total financing of ~US\$177M consisting of US\$62M for capital, and US\$115M for project acquisition. We expect this to be made up of ~75% equity and ~25% debt.

agreement between Bathurst Resources and L&M Holdings Ltd entails the following outstanding schedule of payments:

- US\$35M by 5 November 2010 (i.e., once the DFS has been completed)
- US\$40M once 25,000t saleable coal has been shipped (i.e., we estimate early 2012)
- US\$40M once 1Mt saleable coal has been shipped (i.e., we estimate late 2013)

Therefore, Bathurst Resources requires total financing of ~US\$177M consisting of US\$62M for capital, and US\$115M for project acquisition. We expect this to be made up of ~75% equity and ~25% debt.

Bathurst Resources Valuation Summary

Using a WACC of 10%, we derive a DCF valuation for the Buller Coal Project of A\$365M, and for Bathurst Resources of A\$0.83/share.

Using a discount rate of 10%, we derive a valuation for Bathurst Resources of A\$0.83/share.

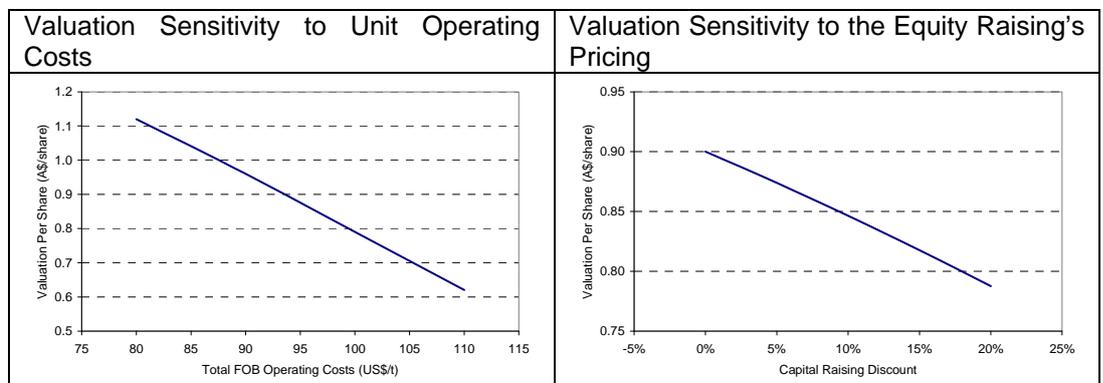
Component	Likely Case Valuation
Buller Coal Project (A\$M)	365
Net Cash (A\$M)	8
Capital Raising at 35c (A\$M)	120
Corporate (A\$M)	-21
Equity Value (A\$M)	472
No Shares Post Capital Raising (M)	568
Value Per Share (A\$/share)	0.83

Our valuation of Bathurst Resources is particularly sensitive to the coking coal price, exchange rate, and operating costs at the Buller Coal Project.

Valuation Sensitivity to the Coking Coal Price and Exchange Rate

	Exchange Rate (A\$/US\$)					
		0.70	0.80	0.90	1.00	1.10
Coking Coal Price (US\$/t)	125	0.35	0.31	0.27	0.25	0.23
	150	0.82	0.72	0.64	0.58	0.53
	175	1.29	1.13	1.01	0.91	0.83
	200	1.76	1.55	1.38	1.24	1.13
	225	2.23	1.96	1.74	1.57	1.43
	250	2.70	2.37	2.11	1.90	1.73

Our valuation of Bathurst Resources is particularly sensitive to the coking coal price, exchange rate, and operating costs at the Buller Coal Project.



Generally, investors in early stage projects often require higher rates of return than investors in mature projects. We therefore expect the current discount attributed to the valuation of Bathurst Resources to decline as the Buller Coal Project is de-risked and transitions into production.

Bathurst Resources SWOT Analysis

Bathurst Resources' key strengths include:

- Experienced management team and board
- Open cut mining
- Low capex
- Premium coking coal resource
- Some of the higher quality coal seams will not require washing, thereby by-passing the CPP
- Project development in a location with established operations and infrastructure
- Low country risk
- No MRRT

Strengths	Weaknesses
<ul style="list-style-type: none"> • Experienced management team and board • Open cut mining • Low capex • Premium coking coal resource • Some of the higher quality coal seams will not require washing, thereby by-passing the CPP • Project development in a location with established operations and infrastructure • Low country risk • No MRRT 	<ul style="list-style-type: none"> • Above average operating costs compared to existing producers • Rail and port capacity constraints • Likely disruptions to operations by high levels of annual precipitation
Opportunities	Threats
<ul style="list-style-type: none"> • Reduction in transport costs as a result of economies of scale and Westport upgrade • Selective CPP processing (i.e., only the relatively higher ash components in the seam roof and floor) • Improved product yield • Resource / reserve addition • Production expansion beyond 2Mt/a (i.e., Bathurst Resources target production beyond 2015 is ~4Mt/a) • M&A activity 	<ul style="list-style-type: none"> • Scope growth (e.g., environmental mitigation initiatives such as sand filtration at the de-watering plant) • Seam faulting • Disruptions by environmental activists • Aggressive project schedule

Coking Coal Peer Group Comparative

Bathurst Resources' market capitalisation compares favourably to its peer group, and in particular recent start-ups such as Caledon Resources Plc and Pike River Coal Ltd.

Bathurst Resources' market capitalisation compares favourably to its peer group, and in particular recent start-ups such as Caledon and Pike River Coal.

Company	Mkt Cap (A\$M)	Reserves	Resources	FY10 Production	FY15 Target Production	Cash Costs (US\$/t)
Bathurst Resource	88	-	47	-	1.9Mt coking 0.2Mt thermal	90 - 103
Aquila*	2,825	217	1,331	0.7Mt coking 0.6Mt thermal	4.8Mt coking 0.6Mt thermal	70
Caledon	190	-	748	0.2Mt coking 0.04Mt thermal	3.3Mt coking 0.7Mt thermal	>100
Gloucester	1,020	75	278	0.6Mt coking 1.3Mt thermal	1.5Mt coking 1.3Mt thermal	69
Gujarat NRE	547	100	572	1.3Mt coking	6.0Mt coking	85
Pike River Coal	350	11	59	-	1.0Mt coking	105

* Aquila Group assets include iron ore

Share Price Drivers

The potential share price catalysts for Bathurst Resources in the short to medium term are:

- Feasibility Study addendum with a Deep Creek mine plan and Reserve Statement (September Quarter 2010)
- Environmental approvals (December Quarter 2010)
- Project financing (December Quarter 2010)
- Heads of Agreement on off-take including any premium (December Quarter 2010)
- Listing on the New Zealand Stock Exchange (December Quarter 2010)

Bathurst Resources has many potential share price catalysts over the next 6 – 18 months.

- Construction start (March Quarter 2011)
- First production (December Quarter 2011)
- Resource additions and resource to reserve conversions (ongoing)
- Strong coking coal prices (ongoing)

Environmental Project Risks

Buller Coal Project's permitting is not expected to be an issue.

The Buller Coal Project area is not covered by "Schedule 4" of the Crown Minerals Act 1991 which restricts mineral-related activity in specified public conservation areas. Therefore project access for mining is not expected to be an issue at the government level. However, Solid Energy's Stockton operations have been the target of protests by environmental activist movements for a range of reasons including, acid mine drainage, impact on the native flora and fauna, and climate change. The resource consents granted to Solid Energy in 2005 for the development of the Cypress mine (adjacent to the Stockton operations) were challenged by environmental groups, and required a combination of negotiations and favourable court rulings for the project to proceed. The conditions attached to Solid Energy's environmental management and rehabilitation plan include a variety of controls and protections to ensure the development has the least possible impact on native animal species, flora, and water quality.

Fauna And Flora

The Buller Coal Project is likely to impact two native animal species of particular conservation interest which were also encountered within Solid Energy's Stockton operations:

- A small number of Roroa (Great Spotted Kiwis)
- An endangered carnivorous snail community called Powelliphanta

Bathurst Mining will need to ensure the least possible impact on native animal species. As required, these will need to be relocated into predator-controlled habitats.

Acid Mine Drainage

Bathurst will need to develop appropriate mitigation and remediation strategies for Acid Mine Drainage.

Acid rock drainage is an environmental problem caused by the oxidation of sulphide-bearing minerals (such as pyrite), releasing sulphuric acid. Whilst acid rock drainage can occur naturally within some environments as part of the rock weathering processes, it is exacerbated by large-scale earth disturbances characteristic of mining where the sulphide-bearing minerals are exposed to air and water. This process, known as Acid Mine Drainage (AMD), has been associated with the West Coast of the South Island in New Zealand, and its undulating terrain, temperate climate, abundant precipitation, and a number of old and present gold and coal mines. The problem is particularly prevalent within the Buller region where the Brunner Coal Measures are enriched with pyrite but low in carbonate rocks.

The effect of AMD on the local environment and waterways can be significant, and Bathurst will need to develop appropriate mitigation and remediation strategies. The company has been proactive in this regard, and is in fact proposing to also remediate land impacted by AMD from previously abandoned operations within its mining lease.

Solid Energy is capping waste rock dumps at its Stockton operations with:

- Weathered granite to slow the oxygen ingress (and thereby reduce the oxidation of pyrite in the rock and the resulting AMD)
- Limestone to neutralise the oxidation products

The West Coast Regional Council has also granted consents for Solid Energy to use waste cement kiln dust from Holcim's Westport works as a capping layer which not only creates an oxygen seal, but also provides a significant amount of alkalinity to neutralise the acidity.

Senior Management Team and Board of Directors

Bathurst Resources has assembled a very strong senior management team, and experienced Board of Directors.

Bathurst Resources has assembled a very strong senior management team, and experienced Board of Directors.

Hamish Bohannan (Managing Director and Chief Executive Officer): Mr 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 involved in many areas of the industry including open cut mining, processing, and smelting, and worked around the globe in various commodities including copper, gold,

nickel, and mineral sands. Previously CEO of Braemore Resources, Mr Bohannan has also held executive positions with Cyprus Minerals, WMC Ltd, Iluka, and IAMGold.

Steve O'Dea (Executive General Manager - Planning and Technical Services): Mr O'Dea is a mining engineer with over 20 years' experience in underground and open cut mining operations throughout Australasia. Mr O'Dea also has a sound background in financial modelling, processes, technologies, markets, and business issues of mining and processing both precious and bulk commodities.

Les McCracken (Project Manager – Buller): Mr McCracken is an independent consultant specialising in project construction management within the mining and civil earthworks fields. He has experience across all facets of project management including construction, estimating, operations management, contractual matters, and conceptual mine design and planning. He has been responsible for a range of projects in these fields, including overall project management responsibility for the \$250M Pike River Coal Project.

Tim Manners (CFO and Joint Company Secretary): Mr Manners is a qualified Chartered Accountant with over 17 years' commercial experience in senior financial positions within the resources industry – most recently as Chief Financial Officer at Perilya Ltd. Mr Manners has experience in the debt and equity capital markets, project finance, financial risk management, accounting, and taxation.

Max Brunsdon (General Manager Marketing): Mr Brunsdon has a Bachelor of Economics Degree with a double major in Statistics and Psychology and more than 30 years experience in marketing and finance within the resources industry. Mr Brunsdon has previously held senior positions with Perilya Ltd, BHP, and Western Metals Ltd, and worked as an independent marketing/commercial consultant.

Craig Munro (Non-Executive Chairman): Mr Munro is a Certified Practising Accountant with over 35 years experience in the mining industry. He was most recently Senior Vice President Corporate & Finance and CFO of Anvil Mining Ltd.

Gerald Cooper (Executive Director): Mr Cooper is a qualified Marine Engineer who served for a number of years as a seagoing engineer before moving into 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. Mr Cooper has worked internationally for AshantiGold in Guinea and Iluka 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): Mr Lord joined Bathurst in August 2010 from Gloucester Coal Ltd where he was Managing Director and CEO. He has also 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.

Graham Anderson (Joint Company Secretary): Graham Anderson is a Chartered Accountant who operates his own specialist accounting and management consultancy practice. He is currently a director and company secretary of a number of ASX listed companies.

APPENDIX

Coal Characteristics

Generally the most important factors to determine the quality of a coal are energy content, mineral matter content (i.e. ash, sulphur, nitrogen, and trace elements) and moisture levels. In the case of metallurgical coal, specific coking characteristics, such as fluidity, are also important.

Ash

Ash is the inorganic residue that remains after combustion. High ash content reduces the efficiency in the blast furnace.

Volatile Matter

Volatile matter refers to the organic compounds that are given off in a gaseous or vaporous form when the coal is heated in the absence of air so that it doesn't burn. High volatile matter content will result in a lower coke yield.

Fixed Carbon

The fixed carbon content of the coal is the carbon found in the material which is left after the volatile materials are driven off. Fixed carbon is used as an estimate of the amount of coke that will be yielded from a sample of coal. Fixed carbon is calculated by subtracting from the original mass the ash, moisture, ash, and volatile matter.

Sulphur

Sulphur causes corrosion and atmospheric pollution, increases coke consumption and energy requirements, creates unwanted blast furnace slag, and impacts the quality of steel.

Caking Properties

Caking properties refers to the ability of a coal to soften, swell and fuse when heated, and then to bind into a hard porous mass (i.e. coke) upon cooling. A key measure of caking properties is the Free Swelling Index (FSI). FSI is the degree of free swelling of a one gram sample of crushed coal heated under elevated conditions (>800°C) in a specialised silica crucible. Higher index values (ranging from 1 - 9) equate to superior caking and/or swelling properties of the coal, required for coke making.

Plasticity / Fluidity

The formation of coke requires a coking coal's organic constituents (macerals) to melt when the coal is heated over its plastic range (usually 350 - 550°C). A caking coal behaves as if it were a pseudo-liquid when this takes place, and the viscosity (or fluidity) of this material at various temperatures plays an important role in coking operations. Gieseler maximum fluidity is a measure of a coal's plasticity/fluidity during carbonisation, where a coal changes from a solid material to a fluid (plastic) state, and then to a fused porous solid (coke) during cooling. High fluidity is beneficial in the coke making process. Coals with high maximum fluidity and a wide plastic range have a greater blending potential than most others and are beneficial in the coke making process.

Bathurst Resources (BTU: \$0.39)

Mkt Cap: \$88m



Resource

Year ending Jun	2010	2011F	2012F	2013F
Buller Coal Project				
Measured (Mt)	3.8	10.0	10.0	9.7
Indicated (Mt)	21.5	24.6	24.6	24.6
Inferred (Mt)	16.9	12.5	12.5	12.5
Total (Mt)	42.2	47.1	47.1	46.8

Production

Year ending Jun	2010	2011F	2012F	2013F
Buller Coal Project				
Coal Mined (Mt)	-	-	0.3	1.0
Coking Coal Sales (Mt)	-	-	0.2	0.7
Thermal Coal Sales (Mt)	-	-	-	-
Operating Cost (US\$/t)	-	-	119	110

Major Shareholders

	% Of Issued Capital
Regent Pacific Group Limited	19.8%
Hamish Bohannan	2.5%

Assumptions

Year ending Jun	2010F	2011F	2012F	2013F
Coking Coal Price (US\$/t)	145	225	225	200
Thermal Coal Price (US\$/t)	80	95	90	90
Exchange Rate (A\$/US\$)	0.88	0.90	0.90	0.90

Valuation Summary	A\$M	A\$/share
Project		
Buller Coal Project	365	0.64
Financials		
Net Cash	8	0.01
Capital Raising (at 35c)	120	0.21
Corporate	(21)	(0.04)
Sub-Total Financials	108	0.19
Valuation	472	0.83

Sensitivity Analysis

	Exchange Rate (A\$/US\$)					
		0.70	0.80	0.90	1.00	1.10
Coking Coal Price (US\$/t)	125	0.35	0.31	0.27	0.25	0.23
	150	0.82	0.72	0.64	0.58	0.53
	175	1.29	1.13	1.01	0.91	0.83
	200	1.76	1.55	1.38	1.24	1.13
	225	2.23	1.96	1.74	1.57	1.43
	250	2.70	2.37	2.11	1.90	1.73

Bathurst Resources (BTU: \$0.39)

Mkt Cap: \$88m



Valuation data

Year ending Jun	2009	2010F	2011F	2012F	2013F
Lodge adj profit	(11.3)	(4.3)	(9.2)	9.0	37.1
Reported profit (pre sig)	(11.3)	(4.3)	(9.2)	9.0	37.1
EPS_{adj} (¢)	(17.0)	(1.9)	(1.6)	1.6	5.9
EPS growth	-	-	-	-	270%
P/E ratio	-	-	-	24.6 x	6.6 x
DPS (¢)	-	-	-	-	-
Yield	-	-	-	-	-
Franking	-	-	-	-	-
Payout ratio	-	-	-	-	-
EV / EBIT	-	-	-	7.9 x	2.2 x
EV / EBITDA	-	-	-	4.8 x	1.9 x
CFPS (¢)	(1.5)	(1.9)	(1.6)	1.9	5.4
Price / CF	-	-	-	20.5 x	7.2 x
NTA per share	\$0.12	\$0.07	\$0.22	\$0.24	\$0.27
Pr / NTA	3.3 x	5.6 x	1.8 x	1.6 x	1.4 x

Balance sheet (\$M)

Year ending Jun	2009	2010F	2011F	2012F	2013F
Cash	0.2	8.3	11.3	15.6	3.3
Receivables	0.2	0.0	0.0	4.6	12.4
Inventories	0.0	0.0	0.0	9.8	26.0
Other	1.1	0.0	0.0	0.0	0.0
Current assets	1.5	8.3	11.3	30.0	41.7
Net PPE	19.0	7.7	115.4	152.7	189.8
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangibles	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Non-current assets	19.0	7.7	115.4	152.7	189.8
Total assets	20.5	16.0	126.8	182.8	231.5
Debt	8.0	0.0	0.0	40.0	40.0
Provisions	0.4	0.4	0.4	0.4	0.4
Other	4.3	0.0	0.0	7.0	18.6
Total liabilities	12.8	0.4	0.4	47.4	59.0
Equity / reserves	19.3	31.4	151.4	151.4	151.4
Retained profits	(11.6)	(15.8)	(25.0)	(16.0)	21.1
Total s/h funds	7.8	15.6	126.4	135.4	172.5
Minorities	0.0	0.0	0.0	0.0	0.0
Total funds emp.	15.6	7.3	115.1	159.8	209.2

Ratio analysis

Year ending Jun	2009	2010F	2011F	2012F	2013F
EBITDA / sales	-	-	-	41.4%	43.4%
EBITAg / sales	-	-	-	25.1%	37.1%
EBIT / sales	-	-	-	25.1%	37.1%
Return on assets	-	-	-	8.5%	24.5%
Return on equity	-	-	-	6.7%	21.5%
Return on funds emp.	-	-	-	10%	30%
Net debt / (cash) (\$M)	7.8	(8.3)	(11.3)	24.4	36.7
Debt / equity	104%	0%	0%	29.5%	23.2%
Net debt / equity	100%	-53%	-9%	18.0%	21.3%
Interest cover	-	-	-	-10.8 x	-19.1 x

Profit and loss (\$M)

Year ending Jun	2009	2010F	2011F	2012F	2013F
Sales revenue	20.5	0.0	0.0	56.5	150.8
EBITDA	(7.5)	(3.6)	(13.3)	23.4	65.4
Dep'n and amort'n	(3.8)	0.0	0.0	(9.2)	(9.4)
EBITAg	(11.3)	(3.6)	(13.3)	14.2	55.9
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(11.3)	(3.6)	(13.3)	14.2	55.9
Net interest expense	(0.0)	0.7	(0.2)	1.3	2.9
Pre-tax profit	(11.3)	(4.3)	(13.1)	12.9	53.0
Tax	0.0	0.0	3.9	(3.9)	(15.9)
Preference dividends	(1.0)	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Lodge adjustments	0.0	0.0	0.0	0.0	0.0
Lodge adj profit	(11.3)	(4.3)	(9.2)	9.0	37.1
Reported profit (pre sig)	(11.3)	(4.3)	(9.2)	9.0	37.1
One-off items (post tax)	0.0	0.0	0.0	0.0	0.0
Reported net profit	(11.3)	(4.3)	(9.2)	9.0	37.1

Cashflow (\$M)

Year ending Jun	2009	2010F	2011F	2012F	2013F
EBIT	(11.3)	(3.6)	(13.3)	14.2	55.9
Net interest paid	(0.2)	(0.7)	0.2	(1.3)	(2.9)
Dep'n and amort'n	3.8	0.0	0.0	9.2	9.4
Tax paid	0.0	0.0	3.9	(3.9)	(15.9)
Gross cash from op'ns	(7.7)	(4.3)	(9.2)	18.2	46.6
(Inc) / dec in wk'g cap	4.1	0.1	0.0	(7.4)	(12.4)
(Inc) / dec in provisions	0.4	0.0	0.0	0.0	0.0
Other	2.2	(0.1)	0.0	0.0	0.0
Operating cashflow	(1.0)	(4.2)	(9.2)	10.8	34.2
Investing cashflows					
Capital expenditure	0.0	0.0	(68.9)	(2.1)	(2.1)
Asset sales	0.0	0.0	0.0	0.0	0.0
Investments	(1.7)	(6.0)	(38.9)	(44.4)	(44.4)
Divestments	0.0	0.0	0.0	0.0	0.0
Other	(1.8)	0.0	0.0	0.0	0.0
Financing cashflows					
Equity raised	1.6	19.7	120.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Chg in loans	0.4	0.0	0.0	40.0	0.0
Other non-op flows	0.5	0.0	0.0	0.0	0.0
Net chg in cash	(1.9)	9.4	3.0	4.3	(12.3)

Interims (\$M)

Half yearly	2H08	1H09	2H09	1H10	2H10
Sales revenue	0.10	12.81	7.70	0.08	0.00
EBITDA	-0.07	-1.65	-1.99	-1.03	-2.53
EBIT	-0.07	-3.55	-7.49	-1.04	-2.53
Lodge adj profit	-0.07	-4.13	-7.17	-1.04	-2.53
Reported profit (pre sig)	-0.07	-4.13	-7.17	-5.54	-2.53
EBIT / sales	-	-	-	-	-
EPS (¢)	-	-	-	-	-
EPS growth on pcp	-	-	-	-	-
DPS (¢)	-	-	-	-	-
% of FY EBIT	-	-	-	-	-

Disclaimer

In accordance with section 949A of the Corporations Act 2001, any recipient of the information contained in this document should note that information is general advice in respect of a financial product and not personal advice. Accordingly the recipient should note that: (a) the advice has been prepared without taking into account the recipient's objectives, financial situations or needs; and (b) because of that, the recipient should, before acting on the advice, consider the appropriateness of the advice, having regard to the recipient's objectives, financial situation and needs.

Although Lodge Partners Pty Ltd ("Lodge") consider the advice and information contained in the document is accurate and reliable, Lodge has not independently verified information contained in the document which is derived from publicly available sources. Lodge assumes no responsibility for updating any advice or recommendation contained in this document or for correcting any error or admission which may become apparent after the document has been issued. Lodge does not give any warranty as to the accuracy, reliability or completeness of advice or information which is contained in this document. Except in so far as liability under any statute cannot be excluded, Lodge, its employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Lodge, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Act 2001 may receive commissions from transactions involving financial products referred to in this document and may hold interests in financial products referred to in this document.

Explanation of Lodge Partners recommendation system:

Recommendations are assessments of each Lodge Partners Analyst's view of potential total returns over a 1 year period.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main categories:

Buy: Expected Total Return in excess of 10% over a 1 year period.

Hold: Expected Total Return between 0% and 10% over a 1 year period.

Sell: Expected Total Return less than 0% over a 1 year period.

Analyst Verification

I verify that I, **Michael Lazar (Lazarevic)**, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

Contact Lodge Partners:

Melbourne

Level 5, 60 Collins St
Melbourne Vic, 3000

Phone: +61 3 9200 7000

Fax: +61 3 9200 7077

www.lodgepartners.com.au

Sydney

Level 30, 9 Castlereagh St
Sydney NSW 2000

Phone: +61 2 8224 5000

Fax: +61 2 8224 5055