

INITIATION | COMMENT

JANUARY 29, 2013

Bathurst Resources Limited (ASX: BTU; NZSE: BTU)

Initiation of coverage - Outperform; high-quality metallurgical coal exposure

Outperform Above Average Risk

Price:	0.40	Price Target:	0.55
Shares O/S (MM):	696.0	Implied All-In Return:	38%
Dividend:	0.00	Market Cap (MM):	278
NAVPS:	0.53	Yield:	0.0%
BVPS:	0.25	P/NAVPS:	0.8x
		P/BVPS:	1.6x

Priced as at market close on January 29, 2013.

Event

Initiating coverage of Bathurst Resources.

Investment Opinion

Bathurst aims to develop the 100% owned multi-mine Buller project on the Denniston Plateau near Westport on New Zealand's South Island. Bathurst targets first production by year end, rising to 2.35Mtpa ROM production in Year 4 to yield ~1.6Mtpa of high-quality coking coal. Development capex is modest at NZ\$161-201m, and initial opex is estimated at US\$115/t before lowering to an attractive US\$80-90/t once full production is achieved and truck haulage is replaced by an aerial conveyor. Bathurst offers a rare exposure to a quality coking coal development, characterised by high-quality metallurgical coal, access to infrastructure, low capital intensity, competitive unit costs, and a short time frame to first production. We initiate coverage with an Outperform rating.

Resolution nearing on court cases: The key hurdle to development has been appeals against the resource consent granted in August 2011. Two are outstanding. The first relates to whether climate change is a relevant consideration in awarding a consent. A final appeal to the Supreme Court is scheduled for March 12-13, we expect the two prior decisions in Bathurst's favour will be affirmed. The second is an appeal on environmental grounds; the hearing concluded in December and a decision is expected in Q1/13. If Bathurst wins this case, then an appeal cannot be ruled out; however, we think the likelihood of this is low.

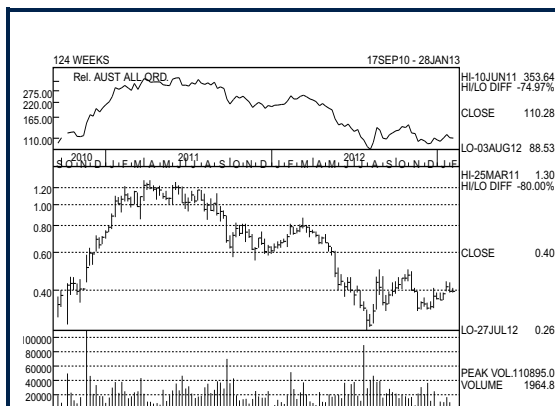
Initial production funded: The initial NZ\$36m required to commence production can be funded out of existing cash; the remaining development capex to achieve full production will be funded from a combination of cash flow, offtake financing (2 MoUs totalling \$90m in place), debt, or equity.

Cheap on South Buller, North Buller offers further upside: Our \$0.53 NAV is conservative and factors in a one-year delay to full production, 15% higher capex, and opex at the top end of guidance. If Bathurst lifts ROM production to 4Mtpa through development of its North Buller projects, then our NAV would increase to \$0.80.

Outperform, \$0.55 price target: We set our price target in-line with our NAV. The key catalysts to drive stock outperformance will be success with the court cases and the transition to production by year end.

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

For Required Conflicts Disclosures, see Page 34.



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FY Jun	2012E	2013E	2014E	2015E
Adj EPS - FD	(0.01)	0.00	0.01	0.03
P/AEPS	NM	NM	40.0x	13.3x
EBITDA (MM)	(10.0)	0.0	21.0	38.0
EV/EBITDA	NA	NA	14.0x	10.3x
Prod.	0	0	1	1

All values in AUD unless otherwise noted.

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Investment thesis

Bathurst Resources is developing the Buller Coal project on the Denniston Plateau near Westport in the South Island of New Zealand. Bathurst initially aims to ramp production to 2.35mtpa (ROM) of high-quality coking coal and has a longer-term target of 4mtpa (ROM). First coal from the project is hoped for by the end of 2013. The initial 2.35mtpa is expected to cost approximately NZ\$161–201 million, and we expect the expansion to 4mtpa to be relatively inexpensive at nearly NZ\$30 million due to no requirement for additional infrastructure. Operating costs are expected to be between US\$110–120/t FOB for the first two years, and from year three onward, costs should fall to an attractive US\$80–90/t FOB as conveyance is introduced, thereby replacing trucking.

Bathurst offers a rare exposure to a quality coking coal development, characterised by high-quality metallurgical coal, access to infrastructure, low capital intensity, competitive unit costs, and a short time frame to first production. We initiate with an Outperform rating, Above Average risk, and \$0.55 price target.

The key short-term uncertainty relates to court cases. There are two rulings outstanding; one relates to an appeal against the resource consent (the New Zealand equivalent of a mining license) on environmental grounds. The hearing concluded on December 19, 2012, with a ruling expected in the first quarter of 2013. An appeal could be possible if Bathurst wins. The second case relates to whether climate change factors should have been considered in awarding the resource consent. Bathurst has already won two hearings on this—both rulings were appealed. The matter has now been advanced directly to the Supreme Court, and it will be heard on March 12 and 13, 2013. No further appeals on this matter will be possible.

Valuation: Base case NAV \$0.53

Our base case NAV for Bathurst is \$0.53. This is based on the 2.35mtpa ROM stage-one development (1.6mtpa product). We expect resolution on the appeals processes by mid-2013 to allow first production from the end of 2013. The climate change appeal concludes in March 2013 with no avenues for further appeals; the environmental appeal decision is due in early 2013, and we do not rule out potential appeals but think that the prospects of this are relatively low given the hurdles required to appeal successfully. To remain conservative, our base case assumes a one-year delay in achieving full production, capex of NZ\$230 million (15% above guidance) and operating costs of US\$90/t (the top end of the US\$80–90/t guidance range).

Share price target: \$0.55; Outperform and Above Average Risk ratings

We set our share price target in-line with our base case NAV.

We assume an Above Average Risk rating. While Bathurst's balance sheet is currently strong, with A\$40 million in cash and little debt (A\$2 million), we believe raising equity is one of the options that it is likely to consider for funding its project. This would be considered alongside the two existing offtake financing agreements that are under consideration as well as debt financing.

We initiate with an Outperform rating. The key catalyst will be success on the court cases. Following on from this, the company should be able to transition into production rapidly. We believe the risks of losing the court cases are minimal, and returns for those willing to look at the stock now look attractive.

Scenario analysis

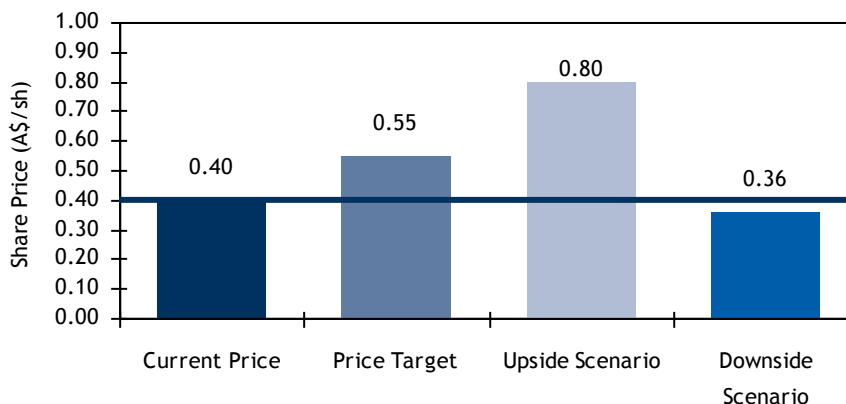
Upside scenario

Our upside case introduces the 4mtpa ROM scenario (2.8mtpa product), for the incremental tonnes, we increase opex by US\$5/t given the additional transport required, and we assume development capex of NZ\$30 million. The capex requirement is low because the initial infrastructure and wash plant have been designed to accommodate the North Buller development. Mine development costs will be limited given the nature of the deposits. We assume first production from this in 2018 (BTU target 2016). On this basis, our NAV lifts to \$0.80

Downside scenario

Our downside scenario of \$0.36 assumes a 12-month delay to our base case assumption for first production from Buller to end 2014 and long-term operating costs of US\$100/t, which is well above guidance of US\$80–90/t.

Exhibit 1: Bathurst scenario analysis



Source: RBC Capital Markets estimates (Priced as of market close January 29, 2013)

Positives, Catalysts, Risks

Key positives

Coal quality: Coking coal remains a scarce resource. Supply is growing from basins in Mozambique and Mongolia, but these will take years to reach scale, and we expect they will be absorbed by steady market demand growth. Bathurst coal is unusual—it is extremely high in fluidity (more than 10,000 dial divisions per minute or ddpm). This makes it an attractive blending coal, with further appeal coming from its low ash and sulphur.

Low capex: At less than A\$100/t capital intensity for stage-one production, Bathurst's Buller project has appealingly low capex. This is a function of its New Zealand location, the lack of infrastructure investment required, and the limited mine development necessary to commence operations.

Near-term production: Once the court cases are resolved, we expect a rapid transition into production for Bathurst. Equipment and labour is readily available, mine development is limited for the open-cut operations, and the infrastructure chain is already operational.

No major infrastructure hurdles: The Buller project mines are located within 15km of the port at Westport. The transshipment to New Plymouth, while resulting in additional handling, is already in operation. Unlike many coal projects requiring large-scale rail and/or port development, the Bathurst logistics chain is already in place, operational, and has capacity.

Potential catalysts

Resolution of court cases: With the ruling on the environmental appeal due shortly and the final appeal on the climate change case set for March 12-13, Bathurst should soon be able to move out from under the cloud of having these court cases hanging over it. The main concern is that an appeal on the resource consent hearing could cause further delays; if necessary, Bathurst hopes to be able to negotiate to avoid this.

Funding: Bathurst has Memorandum of Understandings (MoUs) in place for offtake financing agreements in place, one each with Stemcor (up to US\$50 million) and CITIC Resources Australia (US\$40 million). Combined these agreements would see 60% of Bathurst's offtake spoken for. We believe it would be strategically advantageous if Bathurst could find alternative means of financing to enable offtake to remain available. This would make Bathurst a more attractive takeover target, or leave room to introduce a strategic partner into the project.

Key risks and price target impediments

Further appeals: The major short-term risk for Bathurst is further appeals on the Environment Court hearing. We would be very surprised if Bathurst lost this case; however, an attempted appeal would not be surprising. This could delay the project by a further six months. If the case successfully goes to appeal (which we believe would be unlikely) Bathurst is likely to attempt to negotiate a mutually acceptable outcome with the Royal Forest & Bird Protection Society (RFBPS) to avoid this. There can be no more appeals on the climate change hearing.

Logistics chain: Bathurst has shown that its logistics chain works at small-scale. Scaling up should not be an excessive risk; however, as with most such operations, there may be commissioning problems.

Weather: The Denniston Plateau receives a significant amount of rainfall (more than 6,000mm per annum), and this is likely to affect the open-cut mining operations periodically. Similarly, the Westport coastline is relatively windy and rugged. Ocean swells are likely to restrict barging up to New Plymouth at times. The extent that these will affect the operation is impossible to predict accurately, but we have attempted to allow for it in our conservative production forecasts.

Development risks: As with all developments, cost overruns and delays can never be ruled out. With the growing cutbacks in the coal sector in Australia and the labour and equipment available in the region, we expect that Bathurst should be able to mitigate risks of overruns to some degree.

Exhibit 2: Buller development timetable

Timetable	Date	Comment
Environmental decision	Jan 13	Environment Court decision on Royal Forest & Bird Protection Society environmental appeal expected.
Final appeal for climate change	12 and 13 Mar 2013	The Supreme Court is the last appeal court to consider whether climate change is a relevant consideration.
Environmental appeals conclude	Jun 13	We estimate all appeal processes for the RFBPS matter to conclude six months after the initial Environment Court decision.
Coalbrookdale production starts	Q4/13	Phase 2 of the Buller development commences with first coal production at Coalbrookdale (200,000tpa ROM).
Escarpment production starts	Q4/13	Phase 3 of the Buller development commences with first coal production at Escarpment (500,000tpa ROM initially).
Washplant and conveyor complete	H2/15	Escarpment expands to 1mtpa ROM (Phase 4) with the completion of the coal handling and processing plant (CHPP) and aerial conveyor system.
Whareatea West production starts	2016	Phases 5 and 6 of the Buller development commence with first coal production from Whareatea West (1mtpa ROM).

Source: Company reports, RBC Capital Markets estimates

Key Questions	Our View
Will Bathurst win the Environment Court case against its resource consent?	Mining has occurred on the Buller coal fields since the 1860s. Bathurst has outlined a comprehensive environmental plan with leading mining methods and environmental practices. The Royal Forest and Bird Society lost a similar case in 2005 against an expansion of the nearby Stockton mine. We believe the Environment Court is likely to approve the resource consent for the Buller project; however, this may come with additional development conditions. These may include further environmental mitigation measures, stricter rehabilitation conditions, and/or the establishment of a national park.
Will there be an appeal?	We believe there is a high likelihood that the RFBPS will seek leave to appeal from the High Court should the Environment Court rule in Bathurst's favour. We would, however, note that an appeal may only be granted on a point of law (e.g., the decision applies the wrong law, misinterprets the law, or fails to apply the relevant law) and not on fact (e.g., misinterpretation of evidence). This reduces the chances of the process moving to an appeal in our view.
Will Bathurst win the climate change court case?	We believe the Supreme Court will uphold the original decision in the Environment Court (and affirmed in the High Court) that climate change is not a relevant consideration when granting resource consents. Because the Supreme Court is the final appeal court, the decision in March will conclude the climate change matter. In addition to the two prior rulings in Bathurst's favour, the case has further precedent with Genesis winning against Greenpeace at a Court of Appeal case dealing with the same matter.
Is the project funded?	Bathurst had A\$40 million cash as of September-end 2012 and has since spent NZ\$7 million (approximately A\$5 million) on the final payment for its land acquisition adjacent to Takitimu and the remainder of the NZ\$5 million (nearly A\$4 million) for construction of the storage shed at Westport. This leaves Bathurst funded for the remainder of the first stage of development (NZ\$30 million or approximately A\$24 million). The remaining development costs (NZ\$125–165 million) are expected to be funded through internal cash generation and the financing agreements with its offtake partners (yet to be finalised): US\$50 million with Stemcor, and US\$40 million with CITIC with potentially debt and equity.
When will it be in production?	Cascade currently produces small volumes (around 150,000tpa ROM) as does Takatimu; however, the timing for the main Buller development is dependent on the conclusion of the court cases. We assume the appeals processes are finalised by mid-2013, which should allow for first production by the end of 2013.
What will demand for this type of coal be like?	The Buller project is expected to produce a high-quality hard-coking coal; initial studies indicate a high crucible swell number (CSN), low ash and sulphur, and medium to high volatile matter. Most importantly, the fluidity is exceptionally high, which makes it an attractive blending coal. We expect this to drive strong demand for the product.

Legal saga coming to an end

Bathurst has been engaged in ongoing legal disputes regarding the resource consents for the development of Escarpment since it received its approvals in August 2011. Three appeals were lodged against the consents by local groups comprising the Fairdown Whareatea Residents Association (FWRA), the West Coast Environment Network (WCEN), and the RFBPS.

1. Location of proposed infrastructure resolved

The FWRA appeal related to the originally proposed location of the coal handling and processing plant on the Denniston plateau and the pipeline to transport coal off the plateau to the stockpile in Fairdown. This appeal was withdrawn in April 2012 following mediation and Bathurst conducting a comprehensive review of the project. The review resulted in the relocation of the CHPP to the coastal plain and the construction of an aerial conveyor system to a site north of Fairdown; both adjustments to the development plans have been accepted by local residents.

Exhibit 3: FWRA appeal history

16-Sep-11	Appeal lodged by FWRA.
19-Dec-11	Mediation process commenced.
27-Apr-12	Comprehensive review completed; mediation process successful with FWRA withdraw appeal.

Source: Company reports

2. Consideration of climate change effects

The appeal lodged by WCEN (later joined by RFBPS) was on the basis that the West Coast Regional Council and Buller District Council should have considered the climate change effects of coal use in their decision to grant the Escarpment resource consents under the Resource Management Act 1991 (NZ). Submissions were heard in the Environment Court in March 2012, and the court declared in Bathurst's favour that this was not a relevant consideration; RFBPS lodged an appeal to the High Court against the decision in May. The High Court considered the appeal in July (Bathurst was unsuccessful in proceeding directly to the Court of Appeal), and Bathurst received a positive decision with the court upholding the original decision. A second appeal was lodged by WCEN in September to the Court of Appeal; however, in November, Bathurst was successful in bypassing this court and moving the appeal directly to the Supreme Court, which is the final court of appeal. The hearing is set for March 12 and 13. Given the outcomes of the appeals process to date, we expect the Supreme Court to uphold the lower court's decision that climate change effects are not a relevant consideration when considering resource consents.

Exhibit 4: West Coast Environment Network appeal history

9-Sep-11	Appeal lodged by WCEN.
13-Feb-12	Pre-hearing conference. Environment Court to consider climate change in March.
27-Mar-12	Environment Court hears submissions as to the relevance of climate change to the process of granting resource consents.
1-May-12	Bathurst receives positive decision that climate change is not a relevant consideration.
17-May-12	RFBPS appeal decision to the High Court.
18-Jul-12	Bathurst unsuccessful in bypassing the High Court and moving appeal directly to the Court of Appeal.
30-Jul-12	High Court appeal hearing.
24-Aug-12	High Court upholds the Environment Court's decision that climate change is not a relevant consideration.
11-Sep-12	WCEN appeal decision to the Court of Appeal.
29-Nov-12	Bathurst successfully bypasses the Court of Appeal and moves the hearing to the Supreme Court.
12 and 13-Mar-13	Scheduled date for the Supreme Court hearing. We expect the court to uphold the Environment Court's original decision.

Source: Company reports

3. Environmental grounds

The RFBPS (later joined by WCEN) lodged its appeal against the Escarpment consents on environmental grounds—namely that development of the Escarpment mine would have significant, adverse affects on the precious ecosystem on the Denniston plateau. The plateau has unique ecosystems that provide a habitat for a number of rare and endangered floras and fauna, which the RFBPS put forward, would be destroyed if the Escarpment were to be developed. The Environment Court received submissions from Bathurst, and RFBPS and WCEN in June and August 2012, respectively; and through September, a group of experts considered the evidence and narrowed the issues for the court to consider. The hearing lasted 19 days, commencing on October 29 and concluding on December 18, which was two-weeks later than the scheduled December 3–7 final week of hearing. As part of its submissions, Bathurst put forward a number of environmental mitigation measures around rehabilitation of the proposed mining area and long-term predator control; the company additionally proposed the establishment of a dedicated conservation reserve. The RFBPS view these measures as unsatisfactory to offset the effect to the environment and have stated its intention to continue to oppose the mine strongly.

The court may uphold the appeal, allow the development to proceed unchanged, or attach additional development conditions. A decision on the case is likely to be received in the first quarter of 2013; however, whatever the Court's decision, we believe that there is a strong likelihood of further appeals. If Bathurst wins the case, then it is important to note that RFBPS would first have to seek leave to appeal, and that the appeal could only be on a point of law not simply a misinterpretation of evidence. If the RFBPS is successful, which we do not consider likely, Bathurst will look to appeal the case.

Exhibit 5: RFBPS appeal history

19-Sep-11	Appeal lodged by RFBPS.
12-Jun-12	Environment Court sets appeal timetable.
18-Jun-12	Bathurst lodge evidence.
28-Jun-12	Hearing date set for October 29.
20-Aug-12	RFBPS and WCEN lodge evidence.
21-Aug-12	Experts consider evidence and narrow down issues for the hearing.
29-Oct-12	Hearing commences.
18-Dec-12	Hearing concludes two weeks later than scheduled. Bathurst proposes a number of environmental initiatives involving rehabilitation, long-term predator control, and the establishment of a dedicated conservation reserve.
Jan-13	Environment Court decision expected.

Source: Company reports

Project comparison

Coal quality

A key feature of the Denniston plateau is the high quality of the coal. Solid Energy's existing 1.5mtpa Stockton mine is located adjacent to the Buller projects and produces a high-quality, hard-coking coal with a coke strength after reaction (CSR) of 68 and a CSN of 9.0; these are below benchmark quality of Peak Downs' CSR of 74 but slightly higher than its CSN of 8.5. Bathurst is yet to conduct coke strength tests on its coal; however, initial coal quality studies indicate high CSN levels, low ash and low sulphur content, but medium to high volatile matter; this is broadly in-line with the Stockton product.

A further, and key, attraction of the Buller product is its high fluidity at more than 10,000ddpm, and up to 100,000ddpm in places. This is well above most coking coals that generally have fluidity levels of less than 1,000ddpm. Fluidity is an important coking property, which enhances its use (and value) as a blending coal.

Given the high quality of the coal, and in particular the high fluidity, we expect that the Buller product would price at the top end of the hard-coking coal spectrum and likely to be at a premium for customers that value the fluidity.

Exhibit 6: Buller coal quality comparisons

Project		CSR	CSN	Ash (%)	Volatile Matter (%)	Sulphur (%)	Fluidity (ddpm)	Dec 12 Ave Price (US\$/t)
Escarpment			8	8.2	28.4	0.6	>10,000	
Deep Creek			>9	5.0	37.0	2.5		
Whareatea West			9	10.5	29.7	0.8		
Coalbrookdale			5.5	7.9	32.0	1.0		
Cascade			4.5	2.0	34.9	1.5		
Stockton	Solid Energy	68	9	2.5	32.0	2.0		
HCC brands								
Premium Low Vol	Benchmark	71		9.3	21.5	0.5	500	159
Peak Downs	BMA	74	8.5	10.5	20.7	0.6	400	159
Saraji	BMA	72	8.5	10.5	18.5	0.6	160	158
Elkview	Teck	72	7.0	9.5	21.0	0.4	40	156
Wollomobi	Xstrata	70		9.0	21.5	0.6	500	159
Oaky Creek	Xstrata	66	8.5	9.0	24.5	0.7	4,000	157
Moranbah North	AngloCoal	65	7.5	8.5	24.5	0.5	1,700	155
HCC 64 Mid vol	Benchmark	64		9.0	25.5	0.6	1,700	145
Curragh	Wesfarmers	60	8.0	7.0	21.0	0.6	100	143
Lake Vermont	Jellinbah	62	6.5	7.5	21.5	0.4	120	143
Tahmoor	Xstrata	60	7.0	9.0	28.0	0.4	3,000	143
Burton	Peabody	58	8.0	8.0	22.9	0.5	250	141

Source: Company reports, Platts, AME

Project capex and opex

The Buller project compares favourably to metallurgical coal developments in Australia in terms of capital intensity. Assuming the high end of capital costs (NZ\$201 million) and that the production does not expand beyond the initial target of 2.35mtpa ROM (1.6mtpa product at 70% yields), the project has a relatively low capital intensity of A\$98/t. If Bathurst expands production to 4mtpa ROM (2.8mtpa product) through the development of the North Buller projects at a capital cost of NZ\$30 million (relatively low given that the existing infrastructure has sufficient capacity to support over 4mtpa), then the capital intensity lowers further to A\$66/t. Both are well below the median capital intensity of A\$130/t of recently completed or upcoming metallurgical coal developments. The key driver for the lower capital intensity is Buller's access to existing rail and port facilities, which have spare capacity, as well as limited mine development requirements, given the relatively shallow and accessible coal deposits.

Exhibit 7: Capital intensity comparisons

Company	Project	Coal	Mine	Type	Capex A\$m	Target Prdn mtpa	Capital Intensity A\$/t	Comment
Bathurst	South Buller	HCC	O/C	Greenfield	161	1.6	98	Assumes top end of capex guidance of NZ\$201 million and no expansion.
Bathurst	South Buller + North Buller	HCC	O/C		185	2.8	66	Assumes NZ\$30 million to develop the North Buller mines.
Aquila	Eagle Downs	HCC	O/C	Greenfield	1,254	8.0	157	Study from May 2011; costs likely to have risen given project delays.
BHP	Appin Area 9	HCC	U/G	Brownfield	804*	3.5	230	Extension to maintain production at 3.5mtpa. Expected completion in 2016.
BHP	Caval Ridge	HCC	O/C	Greenfield	3,559*	5.5	647	Project is 52% complete and on schedule for completion in 2014. Planned capacity is 10mtpa, initial mining fleet supports 5.5mtpa.
BHP	Daunia	HCC/SSCC	O/C	Greenfield	1,522*	4.5	338	On budget and schedule for completion in 2013.
Carabella	Grosvenor West	HCC	O/C	Greenfield	905	3.8	238	Owner operator. \$500 million if contractor mining.
Cockatoo	Baralaba	PCI	O/C	Brownfield	413	2.8	150	BFS completed in September 2012; project is currently unfunded.
Cokal	Bumi Barito	HCC	O/C	Greenfield	100	2.0	50	Based on October 2012 prefeasibility study; project targets raw coal production from Q2 2014.
Gujurat	No.1 & Wongawilli	HCC	U/G	Brownfield	500	5.0	100	Expansion of existing underground mines over next two years.
Macarthur	Codrilla	PCI	O/C	Greenfield	350	3.2	109	
Whitehaven	Narrabri	PCI	U/G	Greenfield	500	6.0	83	Development completed in late 2012.
Whitehaven	Maules Creek	SSCC	O/C	Greenfield	766	10.5	73	Scheduled to be completed early 2014.
Whitehaven	Vickery	SSCC	O/C	Greenfield	350	4.0	88	Longer dated development.
Median							130	

*Converted at Australian to US dollar of 1.051 as of January 24.

Source: Company reports, RBC Capital Markets estimates

The operating costs for the Buller project are elevated at US\$110–120/t (excluding royalties) for the initial two years and then should lower to US\$80–90/t thereafter once the aerial conveyor system is constructed and ROM production expands to the targeted 2.35mtpa rate. The long-term operating costs sit at the high end of comparable metallurgical projects in Australia, with the logistics chain and smaller scale factors. We note the trend of rising operating costs in Australia is likely to result in some of the projects listed below having higher operating costs than initially anticipated.

Exhibit 8: Operating cost comparisons

Company	Project	LT Opex*	Comment
Bathurst	Buller	US\$80-90/t	Bathurst assumes NZ\$0.78 exchange rate in cost guidance.
Aquila	Eagle Downs	US\$94/t	Not confirmed as project is yet to secure a logistics solution.
Carabella	Grosvenor West	-US\$75/t	Costs elevated due to a high LOM strip ratio of 12:1.
Cockatoo	Baralaba	US\$84/t	High costs a function of the high LOM strip ratio of 10.5:1.
Cokal	Bumi Barito	US\$68/t	Relatively low due to raw coal production.
Peabody	Codrilla	US\$70/t	Likely to be similar to adjacent Coppabella operating costs.
Whitehaven	Narrabri	US\$40-44/t	Low costs due to high yield (>95%) and relatively large-scale (6mtpa) production.
Whitehaven	Maules Creek	US\$50/t	Relatively low operating costs due to low strip ratio (6:4:1) and high yield (~86%).
Whitehaven	Vickery	US\$64/t	Similar to Maules Creek however strip ratio is higher (10:1).

* Costs based on an Australian to US dollar exchange rate of \$0.80 and are quoted excluding royalties.

Source: Company reports, RBC Capital Markets estimates

Logistics and Infrastructure

The logistics for Bathurst to transport its coal to export markets are more complicated than its Australian peers but not unique. Bathurst plans to construct a 5.5km aerial conveyor to transport product from its mines on the plateau to its stockpile on the coastal plain where the wash plant will be located, (to be constructed by year three). From the wash plant, the coal will be transported to export markets in two ways. The first involves product being railed approximately 375km to Port Lyttelton where it will be exported via panamax vessels. The alternative route involves railing the coal to the nearby Port Westport (~15km), shipping product in small vessels (approximately 10,000t) from Westport to Port Taranaki (~370km) on the North Island where it will be stockpiled, then reloaded for export via panamax vessels. Transportation costs under either scenario are expected to be around US\$30/t.

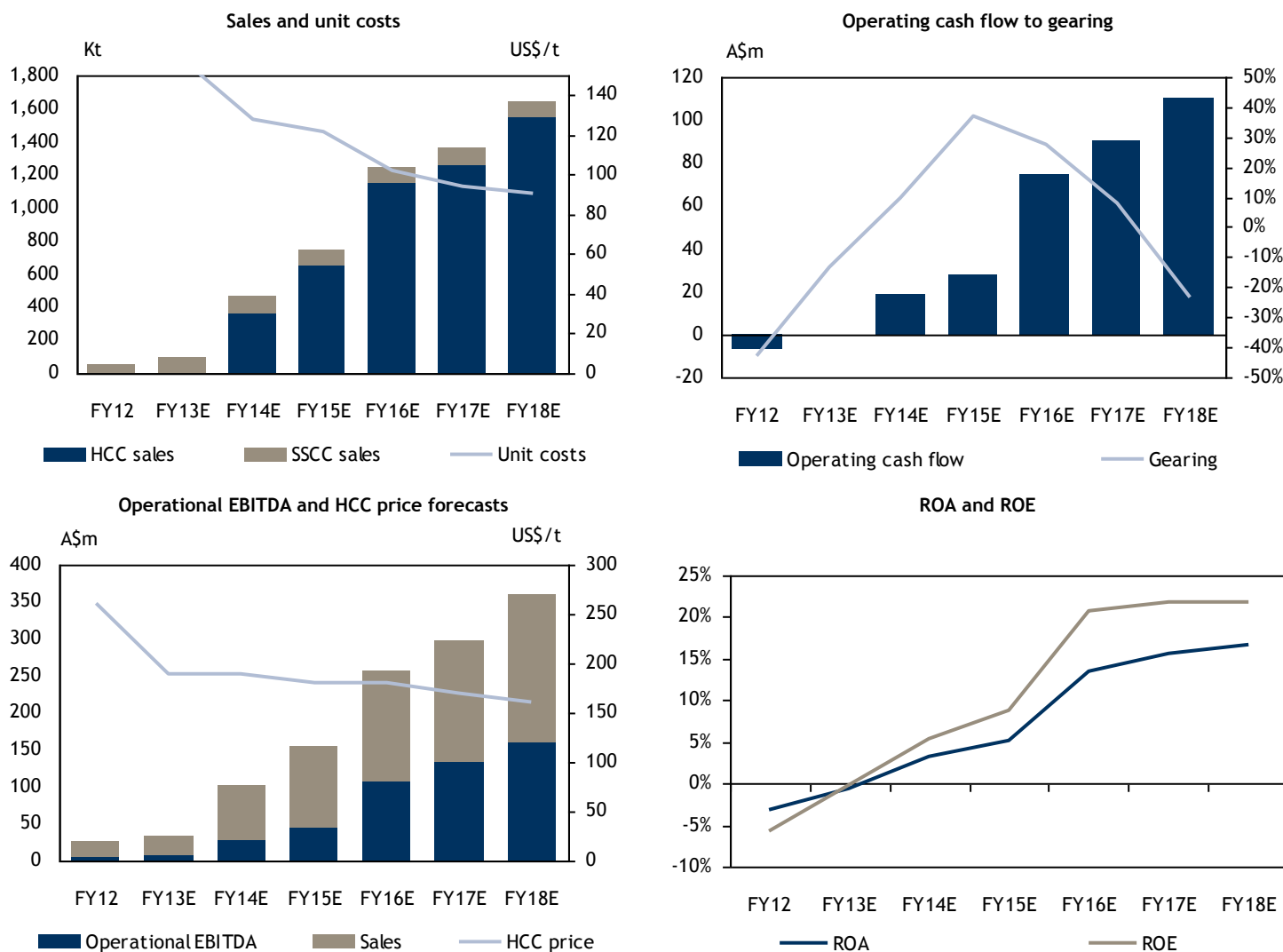
For the first two years of operation, prior to construction of the aerial conveyor and the wash plant, coal will be trucked from the mines down the escarpment to Westport for trans-shipping. This will add approximately \$30/t to initial costs.

By comparison, Solid Energy operates the adjacent Stockton mine and currently utilises a 2.2km aerial ropeway to transport coal to the Ngakawau coal handling facility at sea level. Solid Energy also exports its product by railing coal to Port Lyttelton.

Financial summary

We believe Bathurst has sufficient funding to bring the Buller project into initial production once final approvals for development are received. Management forecast initial development capex to be NZ\$36 million (A\$29 million), this will take production to 750,000tpa ROM; we see no concerns in terms of near-term funding with the cash balance at A\$40 million as of September 30. The remaining capex required to take production to the targeted 2.35mtpa ROM is estimated to be NZ\$125–165 million. On our estimates, we believe this may be funded from the combination of internal cash flows and the US\$90 million in proposed finance facilities. As part of its offtake MoUs, Bathurst has agreed with Stemcor for a US\$50 million coal finance facility and with CITIC for a US\$40 million finance facility repayable within five years. Bathurst would also be likely to consider debt and/or equity financing alternatives.

Exhibit 9: Financial metrics



Source: Company reports, RBC Capital Markets estimates

Under the Escarpment purchase agreement with L&M Holdings, Bathurst is required to make a US\$40 million payment once 25,000t of saleable coal has been shipped and then a second US\$40 million payment when shipments have exceeded 1mt. The terms of the sale agreement provide the option for Bathurst to defer these payments; however, the costs of deferral are quite material. If Bathurst opts to defer either payment, the 5% royalty payable would at that point lift to 10% until the US\$80 million is paid. Once the \$80 million is paid, royalties to L&M drop to the 1.75% LOM level. Assuming that Bathurst defers both payments, full production of 1.65mtpa saleable coal (2.35mt ROM at 70% yields), and a hard-coking coal price of US\$160/t, the royalty payments would be significant at nearly US\$25 million per annum. Given

the cost, it would be prudent for Bathurst to make these payments when the respective milestones are achieved. On our estimates, operational cash flow is largely consumed by the development costs of the project; therefore, we assume that Bathurst raises nearly A\$50 million in debt to fund the L&M payments.

Longer term, we forecast Bathurst to generate strong operating cash flows, once full production (2.35mtpa ROM) is achieved from 2017, of nearly A\$110 million per annum. This should provide sufficient funding for the potential development of the North Buller projects to take production to 4mtpa ROM (2.8mtpa product). With the majority of the currently proposed infrastructure for South Buller development scaled to 4mtpa capacity, the North Buller development is likely to require minimal mine development and upgrades to facilities; we assume NZ\$30 million.

Exhibit 10: Financial summary

Bathurst Resources															
ASX: BTU		Share Price: (A\$ps)	0.40	Year end:		Jun	Stock Rating:	Outperform		Price Target:		A\$0.55			
		Mkt Cap: (A\$MM)	278	Issued shares (m)		696	Risk Qualifier:	Above Average		NAV:		A\$0.53			
ASSUMPTIONS								ATTRIBUTABLE MINE STATS							
		FY12	FY13E	FY14E	FY15E	FY16E	FY17E			FY12	FY13E	FY14E	FY15E	FY16E	FY17E
Exchange Rate	A\$/US\$	1.03	1.02	0.99	0.96	0.93	0.86	Total saleable coal production							
Thermal	US\$/t	126	111	98	90	90	90	Buller	mt	0.1	0.1	0.5	0.8	1.3	1.4
SSCC	US\$/t	179	130	125	115	115	113	Takitimu	mt	0.1	0.1	0.2	0.2	0.2	0.2
Coking	US\$/t	261	189	190	180	180	170	Total saleable coal production	mt	0.2	0.2	0.6	0.9	1.4	1.5
RATIO ANALYSIS								Total Coal Sales by type							
		FY12	FY13E	FY14E	FY15E	FY16E	FY17E								
Shares on Issue	m	696	696	696	696	696	696	HCC	mt	-	-	0.4	0.6	1.1	1.3
EPS reported	A¢	-3	-0	1	3	7	10	SSCC	mt	0.1	0.1	0.1	0.1	0.1	0.1
EPS (pre sig. items)	A¢	-1	-0	1	3	7	10	Thermal - Domestic	mt	0.2	0.1	0.2	0.2	0.2	0.2
P/E	x	nmf	nmf	29.0x	15.8x	5.3x	4.0x	Total coal sales	mt	0.2	0.2	0.6	0.9	1.4	1.5
CFPS	A¢	-1	0	3	4	11	13								
P/CF	x	nmf	>50x	14.7x	9.9x	3.7x	3.1x								
DPS	A¢	-	-	-	-	-	-								
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								
Franking Level	%	0%	0%	0%	0%	0%	0%								
Book value per share	A\$ps	0.25	0.25	0.26	0.29	0.36	0.46								
P/Book value	x	1.6x	1.6x	1.5x	1.4x	1.1x	0.9x								
R.O.E. (pre sig items)	%	-6%	0%	5%	9%	21%	22%								
R.O.A. (pre sig items)	%	-3%	-1%	3%	5%	13%	16%								
Interest Cover	x	3.7x	1.1x	12.6x	7.3x	8.9x	12.5x								
EBITDA per share	A\$ps	-0.01	0.00	0.03	0.06	0.14	0.18								
EV/EBITDA	x	nmf	nmf	14.0x	10.3x	3.8x	2.5x								
EARNINGS															
		FY12	FY13E	FY14E	FY15E	FY16E	FY17E								
Sales Revenue	A\$m	26	32	103	155	257	297								
Other Revenue	"	1	-	-	-	-	-								
Total Revenue	"	26	32	103	155	257	297								
Operating costs	"	(21)	(25)	(74)	(109)	(151)	(164)								
Operational EBITDA	"	5	8	29	46	106	132								
Exploration Expense/Write-offs	"	-	-	-	-	-	-								
Corporate & Other Costs	"	(10)	(8)	(8)	(8)	(8)	(8)								
EBITDA	"	(10)	(0)	21	38	98	124								
D&A	"	(2)	(2)	(6)	(9)	(14)	(16)								
EBIT	"	(13)	(2)	15	29	84	109								
Net Interest	"	3	2	(1)	(4)	(9)	(9)								
Profit Before Tax	"	(9)	(0)	14	25	74	100								
Tax Expense	"	(1)	0	(4)	(8)	(22)	(30)								
Minorities	"	-	-	-	-	-	-								
Net Profit After Tax	"	(10)	(0)	10	18	52	70								
Significant Items (post tax)	"	(12)	-	-	-	-	-								
Reported NPAT	"	(22)	(0)	10	18	52	70								
CASHFLOW															
		FY12	FY13E	FY14E	FY15E	FY16E	FY17E								
Operational Cash Flow	A\$m	(10)	(0)	21	38	98	124								
Net Interest	"	4	2	(1)	(4)	(9)	(9)								
Tax Paid and Other	"	(1)	(2)	(1)	(6)	(14)	(25)								
Net Operating Cashflow	"	(7)	0	19	28	75	90								
Exploration	"	-	(1)	(1)	(1)	(1)	(1)								
Capital Expenditure	"	(9)	(21)	(18)	(82)	(52)	(24)								
Investments	"	-	-	-	-	-	-								
Sale of PPE and Other	"	(20)	(10)	(40)	(43)	-	-								
Net Investing Cashflow	"	(29)	(32)	(58)	(126)	(52)	(24)								
Dividends Paid	"	-	-	-	-	-	-								
Debt	"	(1)	3	50	91	-	-								
Equity Issuance	"	3	-	-	-	-	-								
Other	"	-	-	-	-	-	-								
Net Financing Cashflow	"	2	3	50	91	-	-								
Net change in cash	"	(34)	(28)	11	(6)	22	66								
BALANCE SHEET															
		FY12	FY13E	FY14E	FY15E	FY16E	FY17E								
Cash & Equivalents	A\$m	54	26	36	30	53	119								
PP&E & Mine Development	"	13	42	93	209	246	254								
Exploration	"	314	315	316	316	317	317								
Total Assets	"	391	392	455	565	625	700								
Debt	"	2	5	55	147	147	147								
Total Liabilities	"	219	220	274	366	374	379								
Total Net Assets / Equity	"	172	172	181	199	251	321								
Net Debt / (Cash)	"	(52)	(20)	19	116	94	28								
Gearing (net debt/(nd + equity))	%	(43%)	(13%)	9%	37%	27%	8%								
Gearing (net debt/equity)	%	(30%)	(12%)	10%	58%	37%	9%								
FY14E EPS SENSITIVITIES															
				FY14E HCC Coal Avg											
				-40%	-20%	0%	20%	40%							
FY14E	0.95	-179%	-79%	21%	121%	221%									
AUD	1.05	-216%	-125%	35%	56%	146%									
Avg	1.10	-232%	-145%	59%	27%	114%									
CASHFLOW															
		FY12	FY13E	FY14E	FY15E	FY16E	FY17E								
Net Op Cashflow	A\$m	(10)	(0)	19	28	75	90								
Net Inv Cashflow	"	(29)	(32)	(58)	(126)	(52)	(24)								
Dividends	"	-	-	-	-	-	-								
Debt	"	(1)	3	50	91	-	-								
Equity	"	3	-	-	-	-	-								
Net Debt	"	(52)	(20)	19	116	94	28								
EQUITY DCF VALUATION															
Projects		A\$m	A\$ps												
Buller		369	0.53												
Takitimu		49	0.07												
L&M Holdings payments		-67	-0.10												
Corporate		-36	-0.05												
Net Cash / (Debt)		52	0.07												
Net Equity Value (@ 8% real d.r.)		366	0.53												
Shares on issue (m)		696													
P / NPV															

Source: Company reports, RBC Capital Market estimates (Priced as of market close January 29, 2013)



Valuation and share price target

Our NAV for Bathurst is derived using the following assumptions:

- The conclusion of the appeals processes by mid-2013.
- Total capital expenditure of NZ\$230 million to develop the Buller mine portfolio and infrastructure to 2.35mtpa ROM production (70% yield for 1.65mt saleable coal). Our capex estimate is conservative and sits 15% above the top end of management's guidance range of NZ\$161–201 million.
- First production at Coalbrookdale and Escarpment in the fourth quarter of 2013 and Whareatea West to commence production in the third quarter of 2016.
- South Buller achieving its target ROM production rate of 2.35mtpa from year five, a one-year delay relative to management's target.
- Long-term operating costs excluding royalties of US\$90/t, which sits at the top end of management's long-term cost guidance range of US\$80–90/t. Including the New Zealand coal (NZ\$3/t) and L&M royalties (1.75% of revenue), our long-term operating cost would be US\$93/t.
- 100% hard-coking coal product mix from Coalbrookdale, Escarpment, and Whareatea West; Cascade production is semi-soft coking coal, and Takitimu is domestic thermal coal.
- Long-term, hard-coking coal price of US\$160/t, with Bathurst receiving a 5% premium to benchmark to reflect the high-quality characteristics of the coal.
- Long-term Australian dollar of US\$0.80 and NZ\$1.25.

Under these conservative assumptions, our NAV for Bathurst comes to \$0.53. If we were to use the low end of management's assumptions (capex NZ\$161 million, full ROM production of 2.35mtpa in year four, and long-term operating costs of US\$80/t), then our NAV would increase to \$0.76. If we were to include the development of the North Buller projects, which add 1.65mt ROM production (total Buller ROM production of 4mtpa and saleable coal of 2.8mtpa) at an incremental capital cost of nearly NZ\$30 million, then our NAV would be \$0.80.

Exhibit 11: NPV analysis

Projects	Base Case		Expanded Case	
	A\$m	A\$ps	A\$m	A\$ps
Buller	369	0.53	556	0.80
Takitimu	49	0.07	49	0.07
L&M Holdings payments	-67	-0.10	-67	-0.10
Corporate	-36	-0.05	-36	-0.05
Net Cash / (Debt)	52	0.07	52	0.07
Equity valuation - Base case	366	0.53	553	0.80
Shares on issue (m)	696			

Source: RBC Capital Markets estimates

Share price target

Given the upcoming resolution of the appeals process and rapid development of the Buller project, we set our price target at \$0.55, which is in-line with our South Buller and Takitimu NAV. This is consistent with how we value coal companies. North Buller adds upside potential to our NAV; however, we exclude this from our price target at this stage given its early stage of development.

Valuation sensitivity analysis

The relatively short life of the Buller project (approximately 10 years on current reserves) means that our BTU NAV is not as highly levered to long-term assumptions as other coal stocks under our coverage. Exhibit 11 illustrates NAV sensitivity to changes in our long-term price assumptions as well as the Australian dollar. A US\$10/t higher, long-term, hard-coking coal price would lift our NAV by 15% to \$0.61, while a \$0.05 uplift in currency would lower our NAV by 15% to \$0.45.

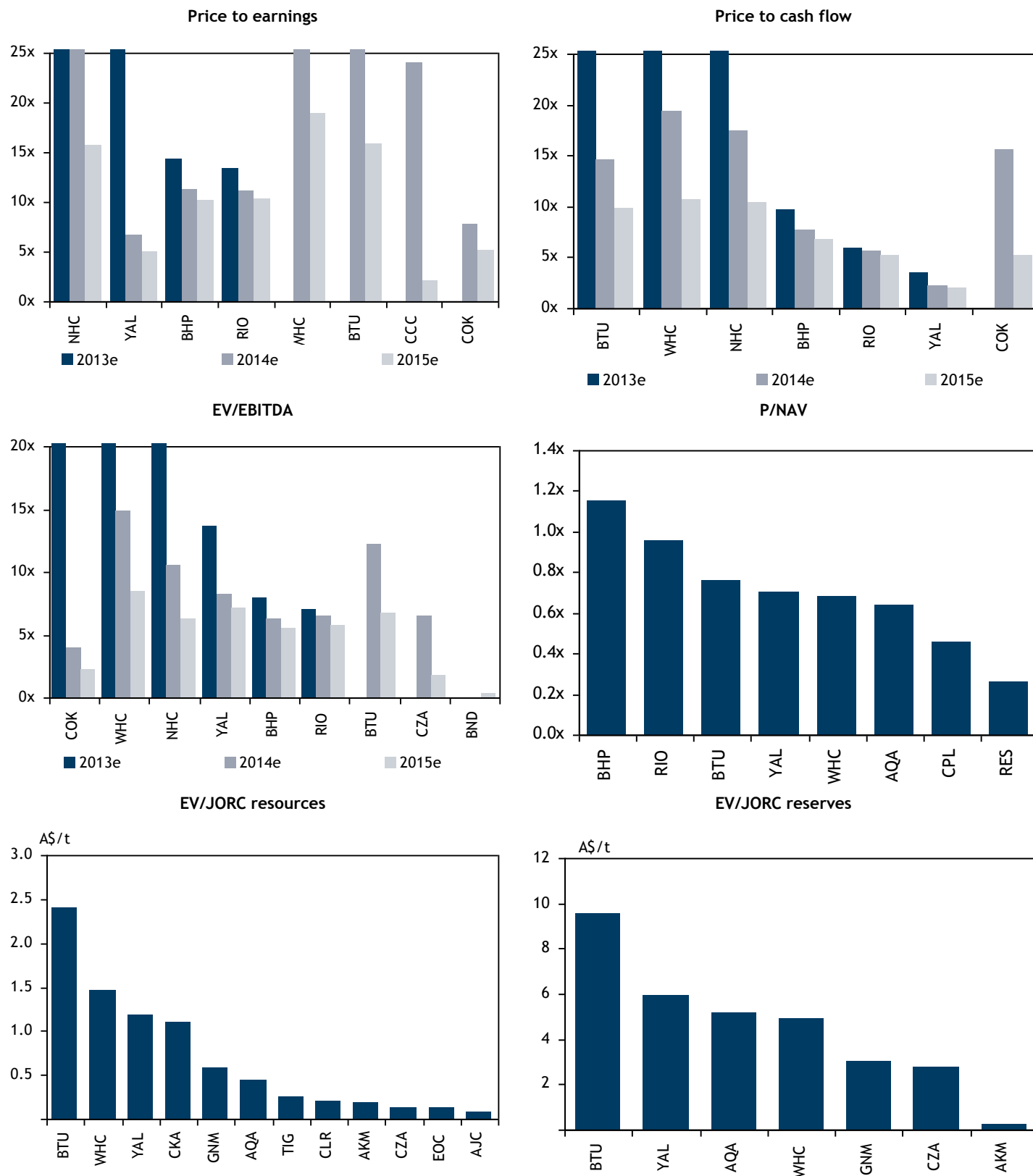
Exhibit 12: Bathurst NAV sensitivity to long-term HCC and AUD assumptions

		LT Hard Coking Coal (US\$/t)					% Change			
		150	160	170	180		150	160	170	180
	0.75	0.53	0.62	0.70	0.79	0.75	1%	17%	33%	49%
LT	0.80	0.45	0.53	0.61	0.69	0.80	-15%	0%	15%	30%
AUD	0.85	0.37	0.45	0.52	0.60	0.85	-29%	-15%	-1%	14%
	0.90	0.31	0.38	0.45	0.52	0.90	-42%	-28%	-15%	-1%

Source: RBC Capital Markets estimates

Peer comparison charts

Exhibit 13: Valuation comparisons



Priced as of market close January 29, 2013

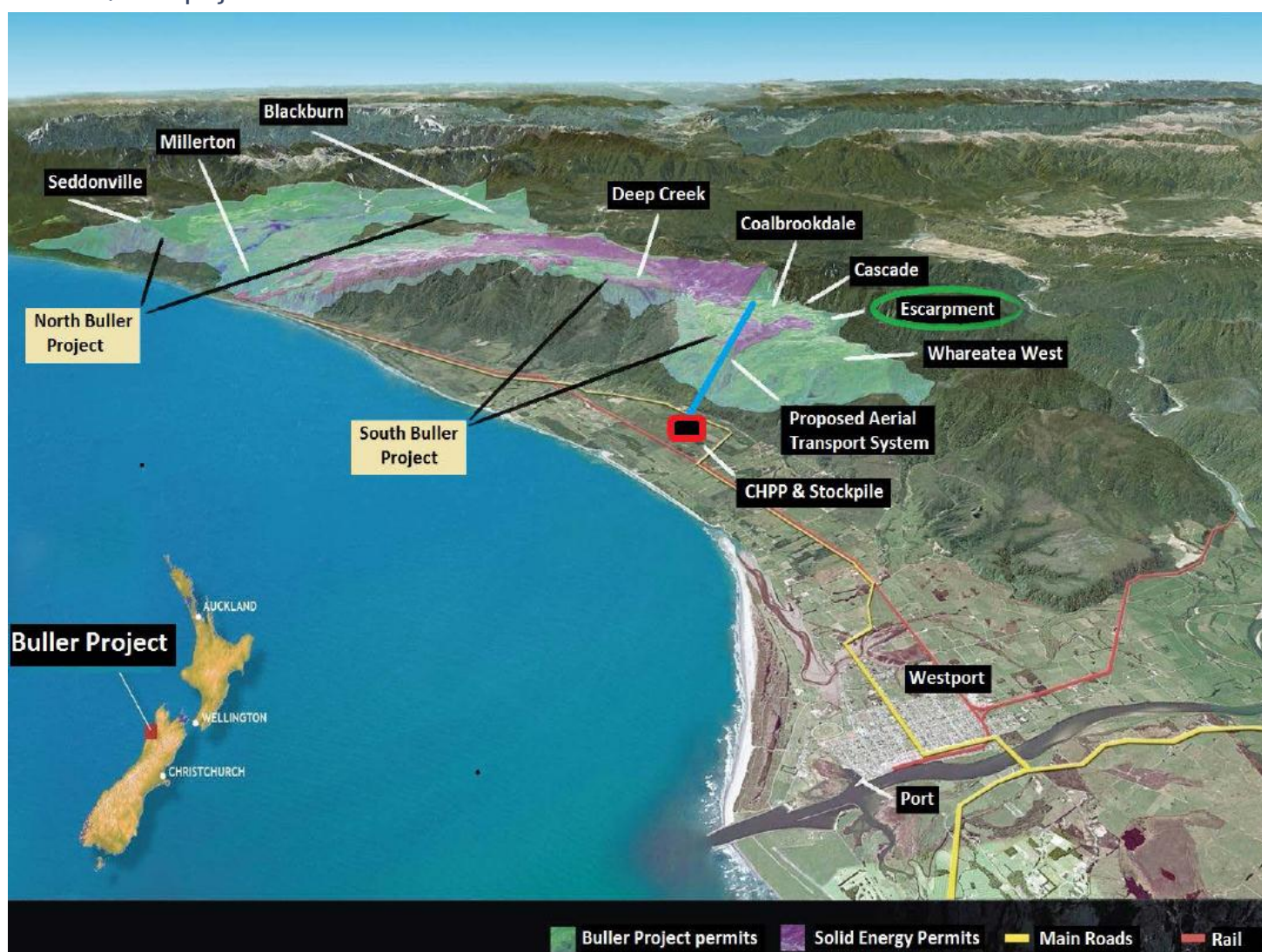
Source: Company reports, Bloomberg, RBC Capital Markets estimates (AQA, BHP, BTU, CPL, RES, RIO, WHC, and YAL)

Assets

Buller project

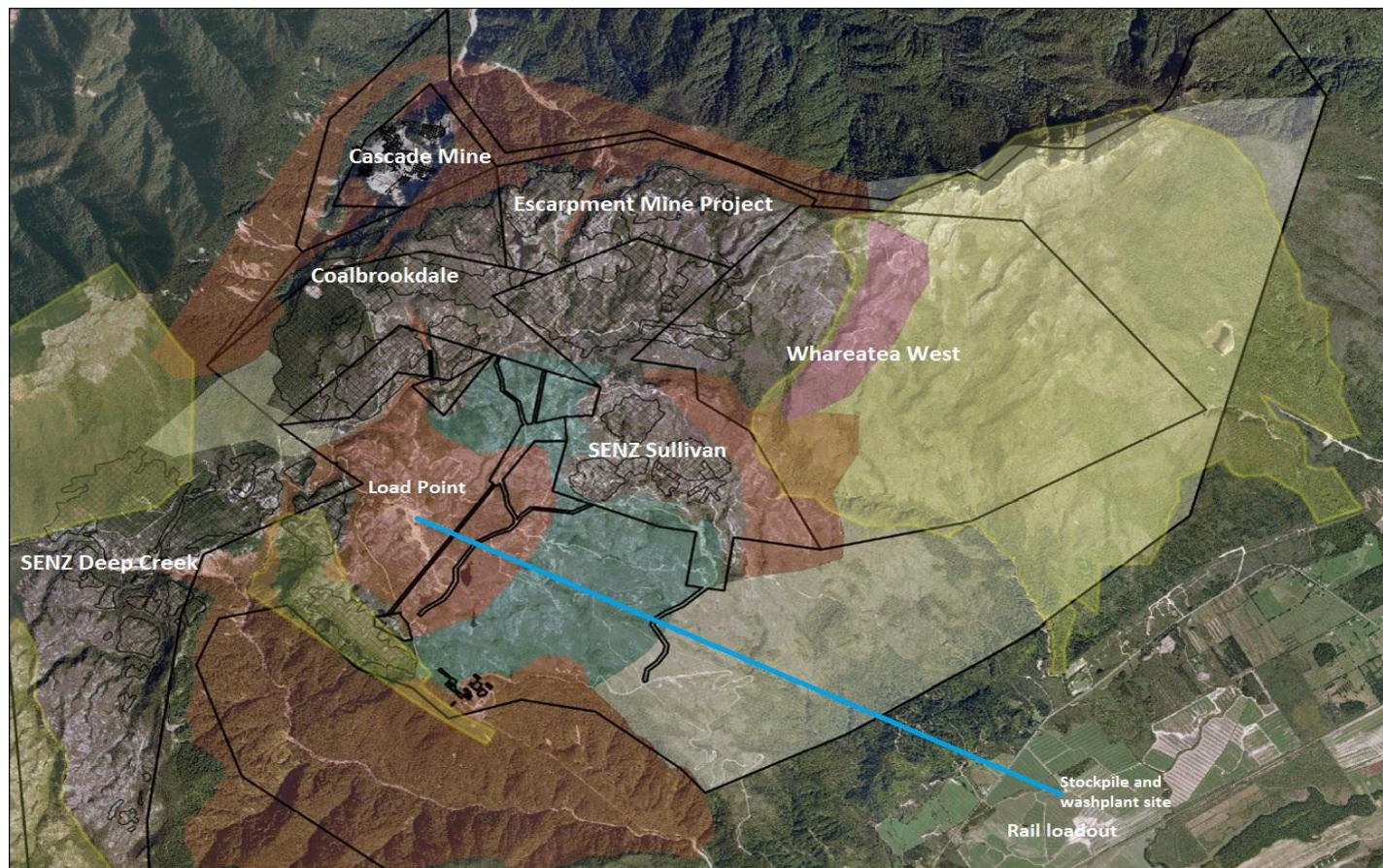
Bathurst is primarily focused on the development of its multi-mine Buller coal project located on the Denniston Plateau, inland from the town of Westport on the west coast of New Zealand's South Island. The proposed mines are nearby existing mines, notably Solid Energy's open-cut Stockton mine, which is the largest in New Zealand. The Buller project originally consisted of the Escarpment and Deep Creek projects; however, the Eastern Resources acquisition in March 2011 added the adjacent Whareatea West project and the producing Cascade mine. The Coalbrookdale project was acquired in July 2011. These projects comprise the South Buller development, which aims to produce 2.35mtpa ROM and 1.65mtpa product of high-quality coking coal; project capital costs are estimated to be NZ\$161–201 million with development expected to start in early 2013 (contingent on resolution of the current appeals processes). Management has highlighted the potential to lift production after year four with the development of the North Buller projects; we estimate that this will require a relatively modest investment of NZ\$30 million to take ROM production up to nearly 4mtpa.

Exhibit 14: Buller project location



Source: Company reports

Exhibit 15: South Buller tenements



Source: Company reports

Cascade

Cascade is the only producing asset in the Buller project suite and was acquired by Bathurst as part of the Eastern Resources transaction in March 2011. It is located next to the Coalbrookdale, Escarpment, and Whareatea West projects and produces a high-value, low-contaminant, semi-soft, coking coal that is primarily sold to domestic industrial consumers on long-term contracts. In 2012, Bathurst extended the existing Mining Permit to include additional coal resources identified in the adjacent exploration licence; this has enabled Bathurst to lift its production target for Cascade to nearly 150,000tpa going forward from around 60,000t of saleable product in FY12. The additional tonnes have allowed Bathurst to test its export logistics chain with the first shipment running from Westport to New Plymouth in November 2012. Total Cascade coal resources were 1.5mt as of December 2012.

Coalbrookdale

The Coalbrookdale project (formerly Brookdale) was acquired in July 2011 from Westport businessman Robert Griffiths and Brookdale Mining for a consideration of US\$12 million cash, 15 million Bathurst shares, and a LOM royalty based on a fixed percentage of FOB revenue. The project covers an area of 342 hectares and is located above the Cascade mine and adjacent to the Escarpment project. Bathurst aims to develop this project as phase two of the Buller development and is targeting ROM production of nearly 200,000tpa of hard and semi-soft coking coal from year one. The current permits allow for two underground mines with the option to be converted to open-cut permits. Bathurst originally planned to develop an underground operation in early 2012; however, we now expect Coalbrookdale to be developed as an open-cut operation in conjunction with Escarpment. Total coal resources were 7.2mt as of December 2012.

Escarpment

The Escarpment project, located in between the Whareatea West and Coalbrookdale projects, was the first project acquired by Bathurst. The company acquired a 100% interest in Escarpment in November 2010 pursuant to its joint-venture agreement with L&M Holdings that was signed in February 2010. The joint venture was originally formed to identify high-grade metallurgical coal deposits in New Zealand with the plan for Bathurst to increase its interest in the projects to 100% at a later stage through the acquisition of L&M Holdings. Bathurst made an initial US\$5 million option payment and a US\$35 million payment on completion of the Definitive Feasibility Study (DFS) (November 2010). Further staged payments to L&M are as follows:

- US\$40 million once 25,000t of saleable coal has been shipped (may be deferred if required but would lift initial royalty to 10% from 5%),
- A further US\$40 million once 1mt of saleable coal has been shipped (may be deferred if required but would lift initial royalty to 10% from 5%),
- L&M to be issued 5% of the listed equity on completion of the above two targets (subject to shareholder approval), and
- A 1.75% LOM royalty on coal revenue after the two US\$40 million payments are made.

The original South Buller DFS contemplated a 1mtpa open-cut operation at Escarpment, with an additional 1mtpa to come from development of the Deep Creek deposit in year three. The acquisition of the adjacent deposits in 2010–2011 has altered the mine plan with Escarpment development now to be followed by Whareatea West in year three. The initial ROM production target at Escarpment is now 500,000tpa (trucking license limit) of primarily hard-coking coal with a small proportion of semi-soft coking coal—all of which is to be trucked down from the plateau. Escarpment production should rise to nearly 1mtpa by year three through the introduction of an aerial conveyor system to the plant (phase four). Total coal resources for Escarpment and Deep Creek were 5.8mt and 10.9mt, respectively, as of December 2012.

Whareatea West

Whareatea West is the southern most deposit of the Buller project and forms a southern extension to the Escarpment project. Bathurst acquired the project in March 2011 as part of the Eastern Resources transaction. The development of Whareatea West as the fourth open pit of the Buller project forms phase six (phase five takes the above projects to full production) of Bathurst's development plan and should commence in year four. Whareatea West is expected to add a further 1mtpa ROM of hard-coking coal, thereby lifting total ROM production to 2.35mtpa. Total coal resources were 25.5mt as of December 2012.

North Buller

The North Buller project is a longer-dated development target for Bathurst, which is expected to contribute following the South Buller development plan. North Buller includes the Seddonville, Millerton, and Blackburn deposits at the northern end of the Denniston Plateau, which had a combined total resource of 40.5mt as of December 2012. Other deposits, such as Ngakawau and Fly Creek, are yet to have a defined resource. Plans to develop this region remain at an early stage with drilling exploration programmes, environmental, and technical studies currently underway. Exploration is currently focused on the Seddonville area, and an environmental consultant group has been engaged.

Management does not expect to experience the same difficulty in obtaining a mining licence as with Escarpment given that North Buller's permits are not up on the escarpment and that some of the deposits do not sit on Department of Conservation land. At this stage, development of North Buller is expected to add an additional 2mtpa ROM production with first coal from 2016 at the earliest. Development costs of NZ\$30 million are expected to be funded from internally generated cashflows. The consenting process for North Buller is expected to commence in 2013.

The development cost is expected to be relatively low compared to South Buller because there will be minimal need for additional infrastructure. North Buller production would be trucked to the coal handling and processing plant at South Buller. An additional benefit may come from blending the two product streams; some of the North Buller product is too high sulphur as a standalone product, but blending it with the lower sulphur South Buller material may contribute to an extended overall mine life.

Resource and reserve

Bathurst reported an initial JORC resource for the Buller project in May 2010 of 7.3mt and a maiden reserve of 12.6mt in September 2010. The Company has increased its resources and reserves over the last two years through exploration to total 57.2mt of resource and 11.3mt of reserves. The acquisitions of Eastern Resources and Coalbrookdale added 37.3mt of resource and 12.5mt of reserves; this takes total resources and reserves to 94.5mt and 23.8mt as of December 2012, respectively.

Exhibit 16: Bathurst resources and reserves (mt)

	Resources				Reserves (product)		
	Measured	Indicated	Inferred	Total	Proved	Probable	Total
South Buller							
Cascade	0.5	0.3	0.7	1.5	0.4	0.2	0.6
Coalbrookdale	-	2.3	4.9	7.2	-	1.6	1.6
Escarpment	2.8	2.1	0.9	5.8	2.2	1.6	3.8
Whareatea West	5.0	12.4	8.1	25.5	3.6	6.7	10.3
Deep Creek	6.2	3.1	1.6	10.9	5.1	2.4	7.5
North Buller							
North Buller	-	4.9	10.2	15.1	-	-	-
Blackburn	-	5.8	14.1	19.9	-	-	-
Millerton North	-	1.9	3.6	5.5	-	-	-
Eastern Coal							
Takitimu	1.2	1.2	0.7	3.1	-	-	-
	15.7	34.0	44.8	94.5	11.3	12.5	23.8

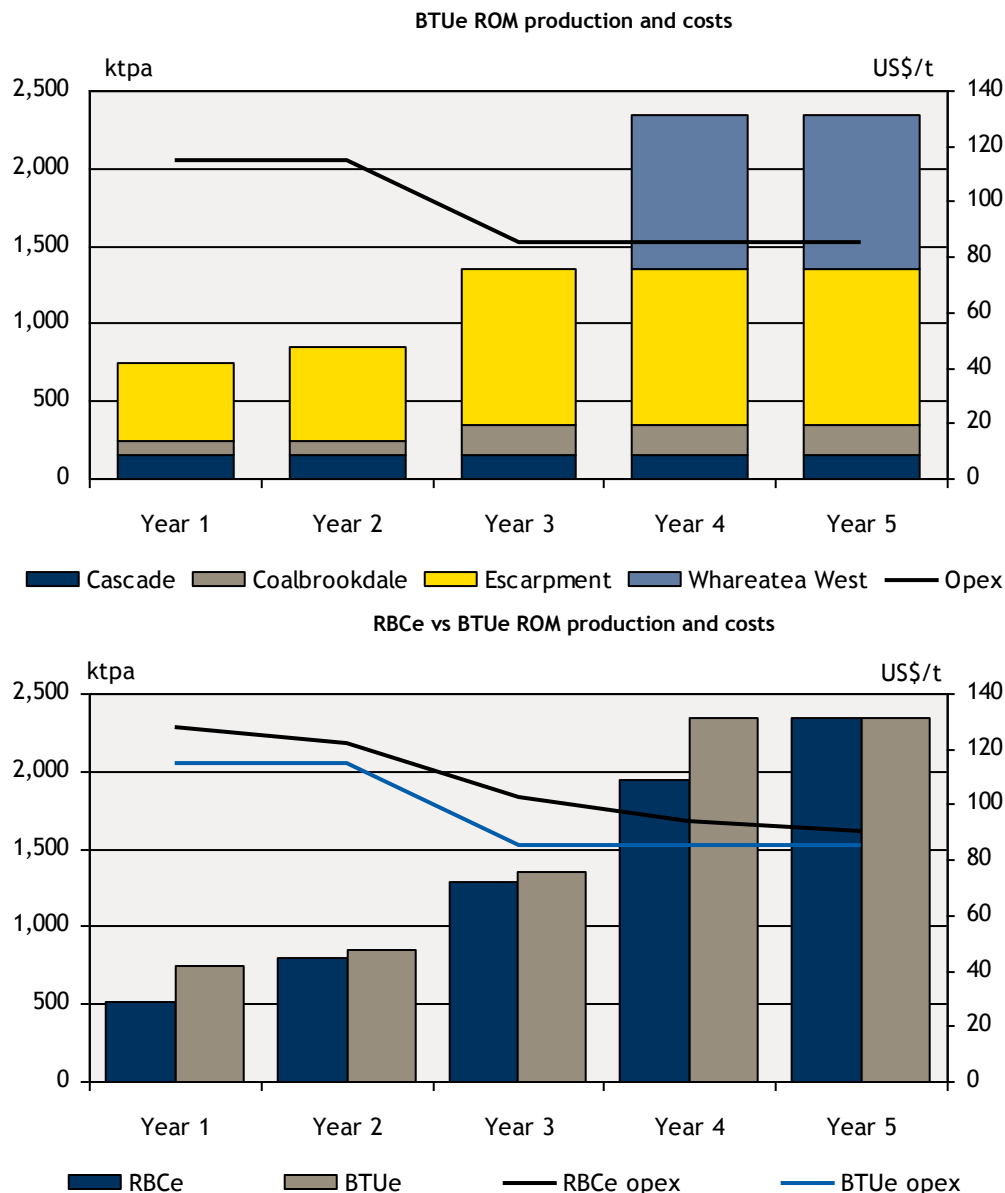
Source: Company reports, as of December 2012

Production

Bathurst is targeting ROM production of 2.35mtpa (nearly 1.65mtpa product coal) by the fourth year of its South Buller multi-mine development. The commencement date for production remains uncertain with the Escarpment appeals process still outstanding (resolution is expected in the first half of 2013). The only producing mine in the Buller region is Cascade, which produced approximately 60,000t of saleable hard-coking coal in FY12 and is currently ramping to 150,000t.

In the first year of development, Bathurst aims to complete the first three phases of its development plan. This would see Cascade ROM production lifted to 150,000tpa, and first ROM production from Coalbrookdale and Escarpment at 100,000tpa and 500,000tpa, respectively. Year-one production is expected to be 750,000t ROM (RBCCMe: ~570,000t). During the second year of development, Bathurst aims to increase production from Coalbrookdale to 200,000tpa, lifting total ROM production 850,000t (RBCCMe: ~820,000t). Production at Escarpment is forecasted to rise to 1mtpa in year three through the introduction of an aerial conveyor system; this takes total ROM production to 1.35mt (RBCCMe: 1.3mt). The development of the Whareatea West mine in year four is expected to add an additional 1mt of ROM production, which would take Bathurst to its target of nearly 2.35mt ROM. We are more conservative and forecast the full ROM production rate to be achieved in year five.

Exhibit 17: Bathurst ROM production and cost profile vs. RBC Capital Markets estimate



Source: Company reports, RBC Capital Markets estimates

There is potential, longer-term upside to production through the development of the North Buller project; Bathurst highlighted that an additional four pits may be developed, which could add up to an additional 2mtpa ROM production of low-ash, high-sulphur, hard-coking, and semi-soft coking coal. First coal could occur from 2016 at the earliest; this is dependent on start up of the South Buller development in 2013 and receipt of necessary mining, environmental, and technical studies.

Mining and processing

Mine developments are expected to be straight forward open-cut operations utilising shovels and trucks to mine and haul the coal. The coal processing location was revised in April 2012 following a mediation process with local residents. The proposed CHPP has now been relocated to the coastal plain adjacent to Westport down from the plateau, with the new location avoiding the water control issues associated with the sensitive wetland areas of the plateau. Additionally, Bathurst has replaced the originally proposed pipeline to transport coal off the plateau with a more environmentally acceptable (and operationally proven) aerial conveyor system.

The finalisation of design, permitting, and construction of the revised CHPP and transport system is estimated to take up to two years. Bathurst plans to design the infrastructure (including CHPP) for up to 4mtpa to have sufficient capacity for the North Buller developments. While the approvals for the aerial conveyor (Department of Conservation) and plant (local council) are obtained and construction of the CHPP takes place, Bathurst's mining schedule will focus on the production of raw, low-ash, hard-coking coal from the western end of the deposit. Mining the high-quality raw coal in the initial phase alleviates the immediate need for a wash plant; the original mining sequence targeted coal recovery from the old mine operations where overburden contamination is likely to have occurred (Bathurst estimate a yield of nearly 70% for this area).

Transportation

The raw coal will be transported off the plateau via 30t trucks directly to the port for the initial two years of production while the CHPP and aerial conveyor system is completed. Bathurst expects to complete the CHPP and conveyor system in year three, on schedule with the phase-four ramp up of Escarpment production to 1mtpa. The capital cost for the conveyor is estimated to be around NZ\$40–60 million and is expected to be funded from a combination of operational cash flow and offtake finance. The advantage of using the aerial conveyor over the pipeline includes the shorter, more direct, and acceptable route, the lower environmental effect, the lower technical risk, and the aerial conveyor also generates clean power into the national grid. Other examples of aerial conveyors include Solid Energy for Stockton, and Allied Gold at Simberi. The conveyor is designed by Dopplemayr who among other things design and construct European ski-lifts. Once the conveyor and plant are in place, ore would be railed the short distance to port facilities at Westport.

Exhibit 18: Proposed aerial conveyor system



Source: Company reports

Exhibit 19: Solid Energy's aerial ropeway at Stockton



Source: Solid Energy

Port logistics - Lyttelton and Taranaki

The export route for Bathurst is relatively complex given the multi-stage process; however, not needing to construct either a greenfield port or rail is a key positive.

In June 2011, Bathurst agreed with Solid Energy to co-operatively develop their respective coal projects on the Denniston plateau. The agreement covered mine planning, water supply, infrastructure, facilities sharing, and importantly a 10-year transportation agreement for up to 50% of saleable production in year one, and a maximum of 500,000tpa thereafter to be railed nearly 375km to Port Lyttelton. The rail capacity is approximately 5mtpa of which Solid Energy has contracted 2mtpa; following the closure of Pike River and Spring Creek there is likely to be up to an additional 3mtpa capacity available on this line. Port Lyttelton is the largest coal export facility in New Zealand with a 250,000t stockpile, 9mtpa export capacity, and currently exports production from the West Coast coal mines (including Solid Energy's Stockton 1.5mtpa mine, which is located in close proximity to Buller). The port had plans to expand capacity; however, these are currently on hold due to repairs required after the 2011 Christchurch earthquakes.

Current plans assume that the remaining 75% (at least, but potentially 100%) of Bathurst's exports are trans-shipped nearly 370km from Westport to Port Taranaki on the North Island for shipment. Bathurst signed an agreement with the Port of Westport in February 2011 for the exclusive use of the coal handling facilities and additionally formed a joint venture with the port authority for a staged upgrade of the existing facilities. Stage one of the port upgrade (NZ\$5 million) involved the development of a covered storage facility (9,000t capacity) and a coal unloading system capable of receiving coal by both truck and rail; this was completed in December 2012. This is expected to support initial production levels. The current shiploader (650tph capacity) would be capable of handling South Buller production; however, Bathurst is assessing plans to spend an additional NZ\$20–30 million to install new shiploading facilities to service vessels on both sides of the wharf thereby increasing port capacity to 3mtpa.

Transshipment to Port Taranaki is required because Port Westport is shallow and unable to accommodate vessels required to export coal. Bathurst has trialled its transshipment process using small vessels (less than

1,000t capacity) to Port Taranaki; once production ramps up, the vessel size is expected to increase to nearly 10,000t. Work is underway on the design of these vessels, and only two are likely to be required. Work at Taranaki is underway with Bathurst signing an agreement with the port authority for a staged expansion of the current facilities. In 2012, Bathurst completed the construction of storage sheds adjacent to the port (NZ\$1.5 million). The second-stage expansion would see the coal storage area expanded in-line with the increase in production, and the final, third phase of the expansion would involve the installation of modern loading systems.

Exhibit 20: Export routes - Lyttelton and Taranaki



Source: Company reports

Exhibit 21: Westport upgrade - Coal storage shed completed December 2012



Source: RBC Capital Markets

Cash costs

Operating costs for Buller are forecasted to be elevated in the initial two years of operation at US\$110–120/t excluding royalties at ROM production rates of 850,000tpa while the operation trucks coal from the plateau. From year three, once the aerial conveyor is completed and overall ROM production lifts to 2.35mtpa, operating costs are expected to lower to US\$80–90/t.

Capital costs

The initial capital cost required to bring the Buller development into production is relatively modest at NZ\$36 million. Spending has commenced with an initial NZ\$5 million spent on storage sheds at Westport that was completed in December 2012. Bathurst is able to fund these initial development costs from current cash balances, which stood at A\$40 million at the end of September 2012.

The next stage of ramp up requires additional infrastructure in terms of the aerial conveyor system, upgraded port facilities, and a coal handling and processing plant. Bathurst has estimated the costs to develop these at between NZ\$125–165 million thereby taking total project capital costs to NZ\$161–201 million. The total capital costs are materially higher than the initial development cost, because it includes plant and conveyor costs; however, the infrastructure is capable of supporting the longer-dated plan to expand ROM production to 4mtpa with the addition of the North Buller projects.

Exhibit 22: Buller capital costs estimates (NZ\$m)

		Low	High	ROM Prdn Rate	Comment
Phase 3	Port upgrade #1	5		750ktpa	Storage facility completed.
	Rail spur	5			
	Water treatment plant	11			
	Pre strip & haul road	10			
	Land acquisition	5			
		36			
Phase 4	Conveyor	40	60	1,350ktpa	Aerial conveyor system to replace truck haulage and allow for expanded ROM production.
	Port Upgrade #2	20	30		Expansion of Westport storage sheds and upgrade of outloading facilities.
		60	90		
Phase 5&6	Washplant	65	75	2,350ktpa	
		65	75		
Total		161	201		

Source: Company reports

Offtake

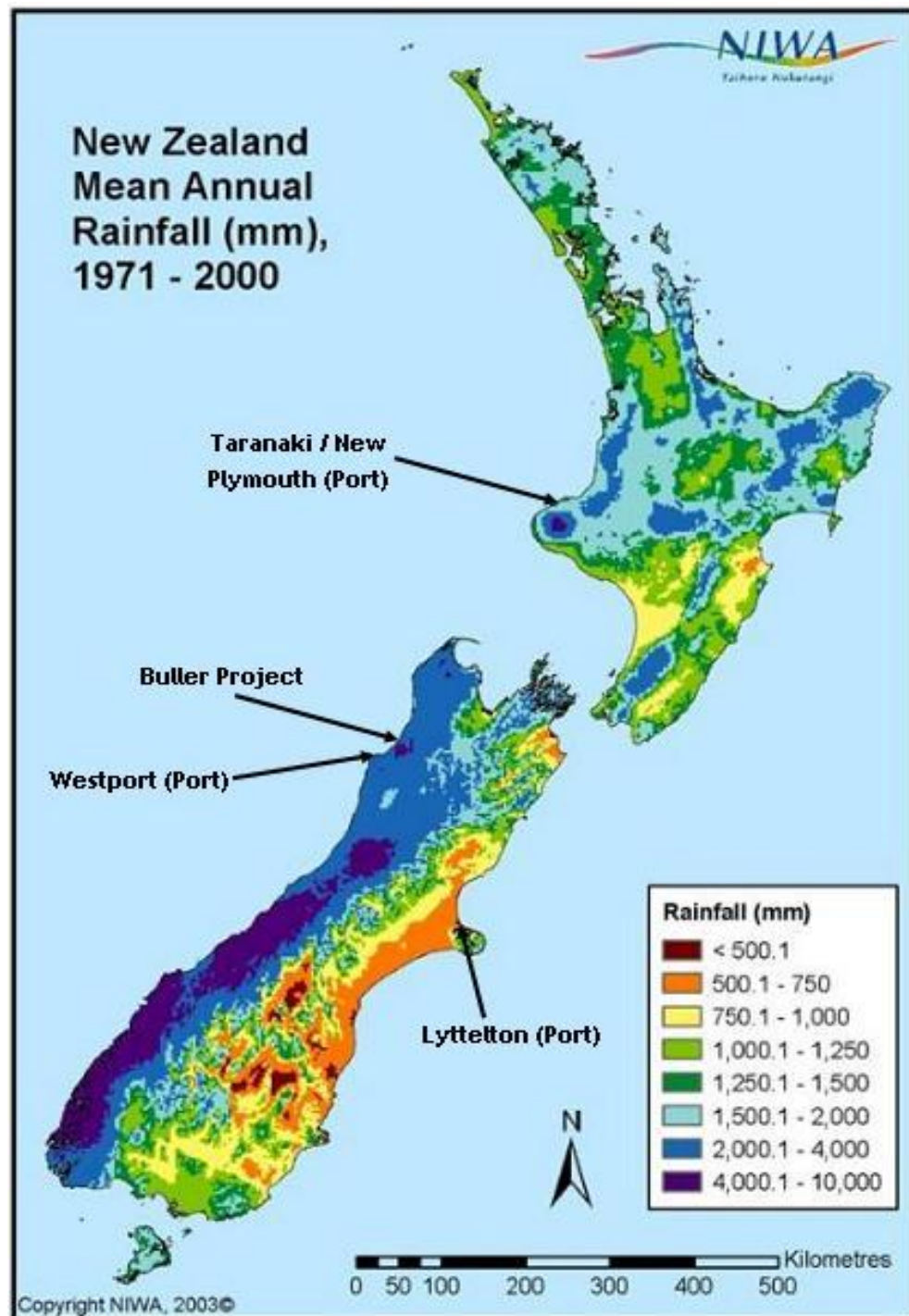
Bathurst signed an MoU with Stemcor in December 2010 and a Term Sheet with CITIC Resources Australia in May 2011 for coal offtake from the Buller project. Each agreement is for a five-year term commencing from first coal production with each party acting as agent for 30% of annual production (with Stemcor having 45% of the first 1mt produced). Under the MoU with Stemcor, Bathurst may seek funding of up to US\$50 million through a coal finance facility; the term sheet with CITIC considers a US\$40 million finance facility. Both agreements are non-binding, and Bathurst will look to formalise these or find alternative funding solutions prior to first production from South Buller.

Weather risks

The west coast of New Zealand's South Island is characterised by heavy and frequent rainfall throughout the year. Rainfall in the lower two-thirds of the coast line is the highest in New Zealand with an average of over 4,000mm each year. The upper third is relatively drier; however, the average rainfall in that region is still material at over 2,000mm. The town of Westport on the coast receives an average of approximately 2,150mm per annum. Up on the Denniston Plateau, the average rainfall is estimated to be significantly higher than Westport at over 6,000mm per annum. We believe this presents a material risk to production given the open-cut nature of the proposed mines.

Despite the rainfall, coal has been successfully mined on the plateau for around 150 years. Bathurst has allowed for weather disruption in its production forecasts, and our estimates are more conservative relative to management's guidance.

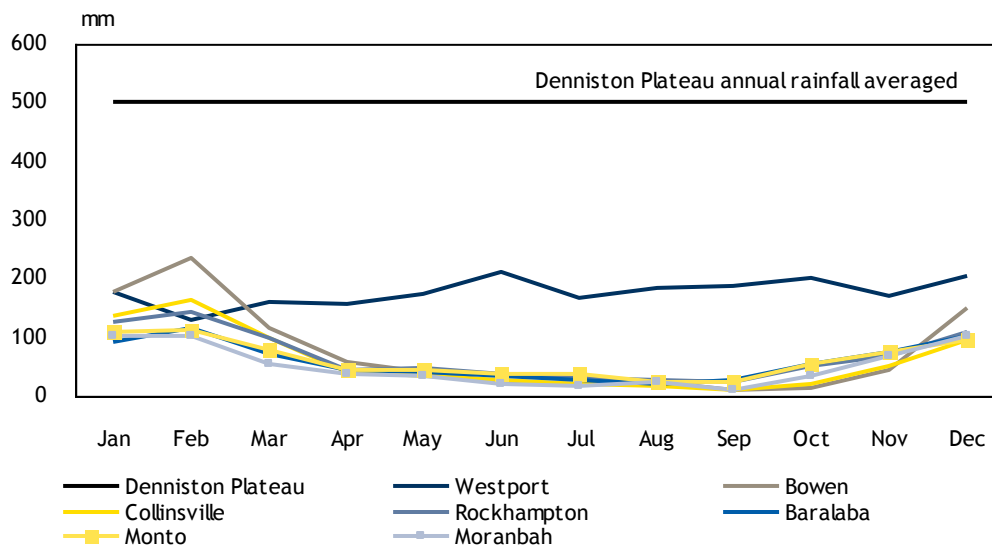
Exhibit 23: New Zealand annual rainfall statistics



Source: National Institute of Water and Atmospheric Research

By comparison, the wet season (December to March) rainfall that resulted in the Queensland floods of 2010-2011 totalled ~1,650mm at Bowen (annual average: 920mm), ~1,000mm at Rockhampton (810mm) and Baralaba (710mm); ~900mm at Collinsville (720mm) and Monto (740mm), and ~730mm at Moranbah (610mm).

Exhibit 24: Denniston Plateau vs Queensland rainfall



Source: National Institute of Water and Atmospheric Research, Bureau of Meteorology

Eastern Coal - Takitimu

Bathurst acquired the Takitimu coal mine as part of the acquisition of the Eastern Resources Group (which included Wharatea West and Coalbrookdale) from Galilee in March 2011. The mine is located in the Ohai and Nightcaps region of the South Island and produces nearly 150,000t (FY12: 148,000t) of domestic thermal coal per annum, which is sold under long-term sales contracts to industrial customers in the Southland, Otago, and South Canterbury areas. The main Takitimu pit is expected to be depleted by the end of 2012; after which, mining would then transition to the adjacent Coaldale block. With a resource of 3.1mt as of October 2012, we estimate the mine to have a remaining life of approximately eight years; additional drilling at Coaldale could potentially add a further two years to the mine's life.

In July 2012, Bathurst acquired land holdings adjacent to the Takitimu mine for NZ\$14 million, which allows complete access to the area. The land acquisition eliminated the need to pay the land owner a royalty and should lead to reduced operating costs now that Bathurst may deposit overburden close to the mine site. The landowner had previously required overburden material to be transferred to specified areas away from the mine site.

Board and management

Craig Munro, Non-Executive Chairman:

Mr Munro was an accountant with Humes Limited prior to joining Cliffs WA Mining (manager of the Robe River Iron Ore project) where he held various accounting and finance roles until becoming assistant general manager finance and administration for the company. He then held senior finance and corporate roles with coal, gold, and copper mining companies before joining Aquarius Platinum as finance director and subsequently joining Anvil Mining Limited as senior vice president Corporate and chief financial officer.

Mr Munro has sat on a number of boards over the past 25 years, including Aquarius Platinum Limited, Kroondal Platinum Mines Limited, Pegasus Metals Limited, Gallery Gold Limited, and Humanis Group Limited. He is currently a director of Energy and Minerals Australia Limited.

He is a Fellow Certified Practising Accountant, Fellow of the Institute of Company Directors, and Fellow of the Australasian Institute of Mining and Metallurgy.

Hamish Bohannan, Managing Director & CEO:

Mr Bohannan has over 35 years of experience in the global mining industry, working in Africa, Australia, US, and New Zealand. He began his underground mining career with Goldfields of South Africa, before working as a mining engineer at Mount Isa Mines, Australia, where he rose to underground manager. Since then, he has been an operations manager with Aberfoyle Resources, Cypress Mining, and Costain.

Mr Bohannan has worked in many aspects of the global mining industry and in different resources from copper, gold, and platinum to nickel, tin, and mineral sands. In 1997, he was appointed executive general manager of Metals for Gold Mines of Australia Limited. He held senior positions at WMC Resources and Iluka before becoming managing director and CEO of Gallery Gold, and more recently the managing director and CEO of Braemore Resources PLC.

Mr Bohannan has an MBA from Deakin University, Melbourne, a Masters of Science in Engineering from James Cook University, Townsville, and a First Class Honours Degree in Mining Engineering from Imperial College and First Class Mine Managers Certificates in Queensland, Tasmania and New South Wales.

Gerald Cooper, Executive Director & Executive General Manager Engineering and Construction:

Mr Cooper has 35 years of experience in the marine, mining, and electricity generation industries. He is a member of the Australian Institute of Company Directors. After graduating as a marine engineer in London in 1976, he travelled the world and worked as a seagoing engineer before moving onto the power generation field.

Mr Cooper has held engineering and maintenance roles for Monadelphous Engineering, Cyprus Gold, Arimco, Copper Mines of Tasmania, Pegasus Gold, Acacia Resources, and WMCF Phosphate Hill. He has been engineering manager for AshantiGold in Guinea and Iluka Resources in the US, group engineering manager for IAMGold, and vice president of Engineering and Maintenance with Braemore Resources in Australia.

Malcolm Macpherson, Non-Executive Director:

Mr Macpherson is an accomplished business leader and board director with decades of experience in the global mining industry. Since he began his career in the 1960s, Mr Macpherson has been an exploration geochemist in Africa and the Philippines, a metallurgist in Malaysia, Australia, and Africa, and spent 25 years at Iluka Resources Limited rising from mine manager to managing director and chief executive. Under his leadership, Iluka grew its market capitalisation to \$1 billion from \$50 million.

Mr Macpherson has spent the last decade as a company director and consultant. He has held board positions with Portman Limited, and was chairman of Azumah Resources Limited and Western Power Corporation. Currently, he is the chairman of Pluton Resources Limited and a director of Titanium Corporation Inc.

Mr Macpherson has also been the senior vice president of the Minerals Council of Australia, president of the Western Australian Chamber of Minerals & Energy, and a member of the senate at Murdoch University. He has had active roles in research and innovation, including an advisory role to Commonwealth Scientific and Industrial Research Organisation (CSIRO).

Rob Lord, Non-Executive Director:

Mr Lord has held senior leadership roles in the pulp and paper, and mining industries, as well as current involvement in the global shipping and logistics business. After graduating with an MBA with first class honours in 1986, he began a 19-year career in the pulp and paper industry, rising to executive vice president of the Australasian region for Norske Skog Industrier, the world's largest producer of newspaper and magazine paper. In 2007, Mr Lord was appointed managing director and CEO of Gloucester Coal Limited and led the company into the ASX200 with a market capitalisation of \$600 million and a rise in share price to \$7.00 from \$4.85 following a takeover bid from Noble Group Limited.

Mr Lord has also sat on nine boards and councils since 1998. These include NSW Ministerial Forest and Forest Products Advisory Council, Federal Government Australian Forest and Wood Products Advisory Council, New South Wales Mineral Council Coal Committee, and the Australian Plantation Products and Paper Industry Council. He has also been a member of the International CEO forum in Australia, the Australian Institute of Company Directors, and a member of the New Zealand Business Roundtable.

Appendix I: Buller project history

Exhibit 25: Buller project history

	Date	Comment
JV formed with L&M	24-Feb-10	JV to identify metallurgical coal deposits and for Bathurst to acquire L&M.
DFS commenced	14-Apr-10	DFS aimed to confirm feasibility of a 1mtpa coal mine producing HCC.
Drilling commenced	21-Apr-10	Exploration potential flagged at 50-90mt.
Maiden JORC resource	17-May-10	Announced maiden resource of 7.3mt.
Mining approval received	28-Jun-10	Mining permit granted for a term of 12 years and requires mining to commence within 5 years.
Resource upgrade	26-Jul-10	JORC resources lifted to 42.2mt.
Interim DFS results	18-Aug-10	Confirm project viability with capex of US\$62 million, costs at US\$103/t and 1mtpa production.
Deep Creek resource upgrade	2-Sep-10	80% increase in total Deep Creek resources.
Maiden JORC reserve	28-Sep-10	Announced maiden reserve of 12.6mt.
OIO approves acquisition of L&M	11-Oct-10	Overseas Investment Office approves Bathurst acquisition of L&M.
Completes acquisition of L&M	9-Nov-10	Executes sale & purchase agreement for L&M.
Eastern Resources acquisition	15-Nov-10	Adds the Whareatea West project and Cascade mine to Buller project.
DFS finalised	26-Nov-10	Viability confirmed with capex of US\$69 million, costs at US\$84/t FOB, and 2mtpa production.
Stemcor offtake MoU	9-Dec-10	5-year offtake and agency agreement, and includes a US\$50 million Coal Finance Facility.
Agreement with Westport	21-Feb-11	Secures exclusive use of coal handling facilities at Westport.
Coalbrookdale acquisition	3-May-11	Acquisition of Coalbrookdale completes the consolidation of the South Buller operation.
CITIC offtake Term Sheet	6-May-11	5-year offtake and agency agreement and includes a US\$40 million finance facility.
Solid Energy agreement	22-Jun-11	Agreement for the collaborative development of respective coal assets on the Denniston plateau; Covers mine planning, transportation, water supply, and infrastructure access.
Resource consents granted	29-Aug-11	24 environmental approvals received for the Escarpment mine project.
WCEN appeal resource consent	9-Sep-11	Appeal lodged by West Coast Environment Network that climate change is a relevant consideration when considering the granting of a resource consent.
FWRA appeal resource consent	16-Sep-11	Appeal lodged by FWRA against location of proposed mine infrastructure.
RFBS appeal resource consent	19-Sep-11	Appeal lodged by RFBPS on environmental grounds.
Resource upgrade	25-Oct-11	Resources and reserves increased by 12% and 37%, respectively.
First exports	28-Nov-11	First Cascade material transhipped from Westport to Port Taranaki for export.
Agreement with Port Taranaki	30-Jan-12	Deed of Ground Lease signed to allow Bathurst to construct a covered storage shed for coal received from Westport.
FWRA appeal withdrawn	27-Apr-12	After comprehensive project review and mediation, FWRA withdraw its appeal.
WCEN appeal dismissed by Env. Court	1-May-12	Environment Court determines that climate change is not a relevant consideration.
WCEN appeal dismissed by High Court	24-Aug-12	High Court upholds Environment Court's determination.
Resource upgrade	11-Oct-12	Resources and reserves respectively increased by 11% and 76%.
RFBS appeal decision expected	Jan-13	Hearing concluded on December 18 and a decision by the Environment Court is expected in early 2013.
WCEN appeal before Supreme Court	12/13-Mar-13	Last court of appeal to consider whether climate change is a relevant consideration.

Source: Company reports

Appendix II: Bathurst transaction history

Exhibit 26: Transaction history

Transactions	Date	Comment
L&M Holdings	24-Feb-10	Forms JV with L&M to identify high grade metallurgical deposits.
	9-Nov-10	Executes sale & purchase agreement for L&M Holdings, thereby taking a 100% interest in the Buller project.
Eastern Resources	15-Nov-10	Acquires 100% of Eastern Resources, a subsidiary of Galilee Energy, for \$35 million.
		Includes the Whareatea West project which is located in the middle of the Buller project; and the operating Cascade mine adjacent to Escarpment.
		Also includes the Takitimu thermal coal mine in the Ohai region of the South Island.
	4-Mar-11	OIO consents to Bathurst acquisition of Eastern Resources.
	21-Mar-11	With the completion of the transaction, Bathurst becomes a coal producer.
Coalbrookdale	3-May-11	\$12 million acquisition of the Coalbrookdale project adjacent to Escarpment.
		The project completes the consolidation of the South Buller operation.
	21-Jul-11	Coalbrookdale acquisition completed.

Source: Company reports

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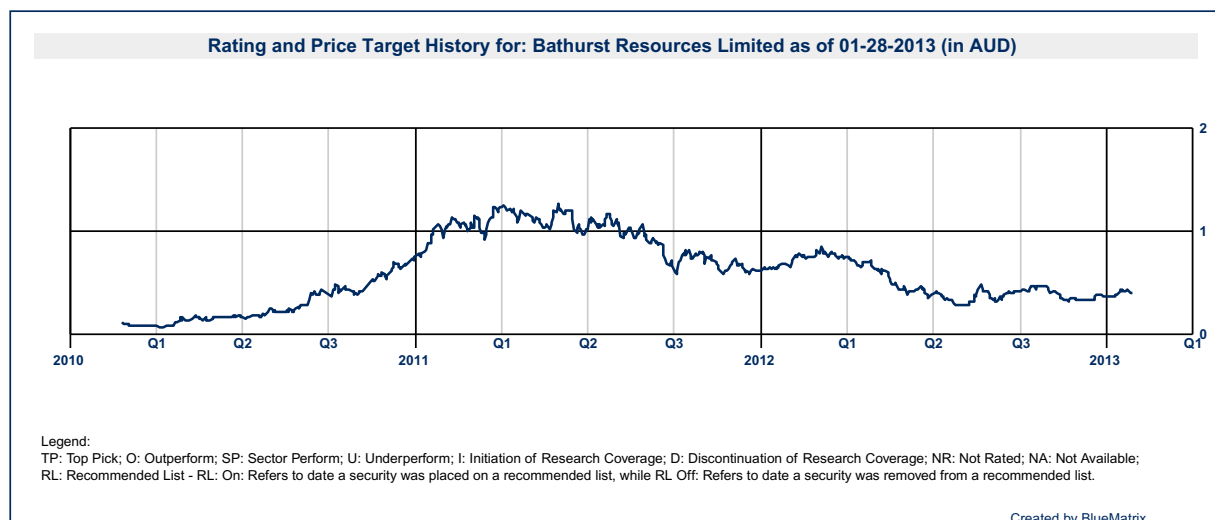
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