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Market Announcements
Australian Securities Exchange
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NSW 200

Bathurst Resources Limited (ASX:BRL): Proposed acquisition of New Zealand mining assets and capital raising

Acquisition of mining assets

Bathurst Resources Limited (ASX: BRL) (**Bathurst** or the **Company**) is pleased to announce that Phoenix Coal Limited (**Phoenix Coal**), a joint venture between Bathurst and Talley's Energy Limited (**Talley's Energy**), has entered into a conditional sale agreement with Solid Energy New Zealand Limited (subject to Deed of Company Arrangement) (**Solid Energy**) (**Sale Agreement**) under which it proposes to acquire certain coal mining assets located in New Zealand including:

- Buller Plateau operating assets of Stockton Mine, including Cypress, Upper Waimangaroa, Mt William North and the Ngakawau loadout; and
- Rotowaro Mine, Maramarua Mine and certain assets at Huntly West Mine.

(the **Assets**) (the **Transaction**).

Purchase consideration and funding of Phoenix Coal

Under the Sale Agreement, Phoenix Coal has agreed to acquire the Assets for:

- cash consideration of NZ\$46 million (subject to certain closing adjustments); plus
- a semi-annual contingent payment of up to a maximum of NZ\$50 million. The contingent payment structure is based on a sliding scale share of Phoenix Coal's actual coal sales revenue from the Stockton Mine, subject to Metallurgical Coal prices being above certain thresholds. The contingent payment structure is subject to a maximum four year term and a maximum payment in aggregate of NZ\$50m and is only operational if Metallurgical Coal prices are above NZ\$150 per tonne.

Phoenix Coal will fund the purchase consideration by way of:

- NZ\$15m bank debt facility from BNZ; and
- equity commitments from the joint venture participants in accordance with their respective ownership percentages.

Phoenix Coal

Phoenix Coal is an incorporated joint venture vehicle established by Bathurst and Talley's Energy to acquire the Assets. Talley's Energy is a wholly owned subsidiary of Talley's Group Limited. Bathurst holds a 65% interest in Phoenix Coal and Talley's Energy holds a 35% interest.

Stockton is an opencast mine with significant in-ground coal resources, offering long term production potential. Stockton has production capacity of 2.2 Mtpa, however with current market conditions, output has been optimised to approximately 1.0 Mtpa.

Current reserves are 12.3 Mt and resources are 71.8 Mt.

Stockton has an economic life of approximately 11 years under its current mine plan, with identified development options that could extend mine life.

The Stockton mine contains critical infrastructure, namely:

- Coal Handling and Processing Plant with capacity of 1.8 Mtpa;
- 2.5km Aerial Ropeway with an average capacity of 289 t/h; and
- Ngakawau Rail Loader with both rail and truck loadout capacity.

Coal from the export business is sold primarily into Japan, China and India. It is well regarded by a number of the world's leading steel manufacturers for its unique high quality coking attributions. These attributes have supported long standing supply relationships.

Blending is undertaken to meet the specific needs of various customers and to optimise the sale price. Some of the Stockton coal is blended with high rank, low sulphur coal from the Rajah Mine via an off-take agreement with Roa Mining Co Ltd.

The North Island Domestic (**NID**) business comprises two operating, opencast mines, producing approximately 700 ktpa or approximately 90% of the total North Island market:

- Rotowaro produces high quality low ash coal, with operations undertaken by a contractor; and
- Maramarua, operated by Solid Energy, is in an advanced state of stripping.

The NID business supplies coal to New Zealand Steel (**NZS**) (~500 ktpa) and Fonterra (~120 ktpa).

Current reserves are 4.5 Mt and resources are 44.1 Mt.

Process and Sale Agreement

Solid Energy commenced a formal, competitive sale process for all of the assets of Solid Energy on 15 April 2016. Bathurst submitted a non-binding indicative offer for certain assets on 18 May 2016 and was invited into the second round of diligence shortly thereafter. Key points to note were:

- Second round, fully funded binding offers were initially required by 3 August 2016, which was subsequently amended to 23 August and then 21 September

- Offers were required to be fully financed with limited to no conditionality

Given Bathurst's market capitalisation at the time, a key concern of the Vendor in relation to Bathurst was its ability to fund its bid and it was critical that Bathurst could demonstrate funding certainty. In order to address this concern and risk to Bathurst's bid, Bathurst:

- Developed the joint venture strategy with Talley's Energy;
- Obtained committed non-recourse debt financing at the Phoenix Coal level; and
- Obtained binding commitments from investors to fully fund the transaction by way of structured securities that could remain on foot to financial close of the Transaction.

The Sale Agreement has certain conditions that must be satisfied before financial close can occur, including governmental and regulatory approvals. One condition is that Phoenix Coal must obtain Overseas Investment Office (**OIO**) approval for the Transaction. This is a formal regulatory process with an inexact timeframe. Whilst Bathurst has received OIO approval in the past, the OIO will review each application on its own merits. Whilst Bathurst and Phoenix Coal are confident of making a successful application to the OIO, they cannot be definitive about that success or, importantly, the timing of receipt of approval. The best guide that can be provided is that approval could be forthcoming at some point between the end of the first quarter of 2017 and the end of the second quarter of 2017.

Bathurst's capital commitments will remain binding and certain throughout this period.

Impact on Bathurst

The addition of the Assets to Bathurst's existing portfolio will complete two key components of the Company's strategy that was announced to the market approximately 18 months ago, being:

- Entry into the export market in an efficient and scalable manner; and
- Penetration of the NID market.

The acquisition of Stockton accelerates Bathurst's entry into the export market and provides Bathurst with an established platform of deep customer relationships, infrastructure and resource. Apart from being a compelling standalone investment proposition, the acquisition also has direct benefits for Bathurst's existing Buller Plateau assets, which can potentially benefit from the Stockton infrastructure.

Adjusting for Bathurst's percentage interest in the joint venture, Bathurst will now have metallurgical coal reserves of approximately 26.9 Mt and resources of 147 Mt. Bathurst would expect Phoenix Coal to produce in the range of 0.9 Mt to 1.1 Mt of metallurgical coal in calendar year 2017, subject to the pricing environment for blended Stockton coal. Costs at port are anticipated to be in the range of NZ\$90 to NZ\$110 per tonne.

The North Island mines produce a quality thermal coal that is primarily supplied to NZS for use in its steel making process and Fonterra for use in its milk processing plants. Coal is also supplied to a number of smaller customers for use in industrial boilers and heating. Historically, the Rotowaro mine has produced between 1.2 Mt and 1.6 Mt per annum and was a strong cash generating asset for Solid Energy. Bathurst envisages producing approximately 0.7 Mt per annum to meet the needs of existing contracts. The margin per tonne varies across product and customer but is estimated to be NZ\$25 to NZ\$35 per tonne on anticipated production.

As a result, combined with Bathurst's existing assets and adjusted for its percentage interest in Phoenix Coal, Bathurst expects to be supplying approximately 0.9 Mt of coal to the NZ domestic market.

No changes to the board of directors or senior management of Bathurst are proposed as a consequence of the Transaction.

Capital Raising

Bathurst's investment into Phoenix Coal is forecast to be a maximum of NZ\$26 million, which is proposed to be used by Phoenix Coal to partly fund the purchase consideration as well as environmental bonding requirements for Phoenix Coal.

Solid Energy required Phoenix Coal to demonstrate funding certainty in relation to the purchase of Assets. Bathurst is pleased to announce that it has achieved this funding certainty via the following means:

- Receipt of committed, legally binding and irrevocable applications and subscriptions at a fixed price provided to Bathurst; and
- Bathurst to have full discretion as to the allocation of funds up to each applicant's maximum subscription amount in respect of each security (described below).

The capital raising conducted by Bathurst will involve the issuance of three separate instruments:

- an institutional placement of redeemable convertible preference shares (**RCPS**) for a maximum amount of A\$11.3 million;
- an institutional placement of unsecured convertible notes (**Convertible Notes**) for a maximum amount of A\$7.5 million; and
- an issuance of USD denominated debt securities to institutional and sophisticated investors (**Bonds**) for a maximum amount of US\$8.0 million.

Bathurst proposes to accept applications for 11,300 RCPS at an issue price of A\$1,000 per RCPS, raising up to A\$11.3 million in total (**RCPS Placement**) Subject to shareholder approval, the RCPS are convertible into ordinary shares of Bathurst at completion of the Transaction at A\$0.022 per share. The pricing set for the RCPS Placement was set prior to the final commitment of investors

on 21 September 2016 and was at a discount to the then 30 Day VWAP of A\$0.0266 and a premium to the then 90 day VWAP of A\$0.0197. See Annexure A for a summary of the key terms for the RCPS.

Bathurst proposes to accept applications for up to 7,500 Convertible Notes at an issue price of A\$1,000 per Convertible Note, raising A\$7,500,000 in total (**Convertible Placement**). Subject to shareholder approval, the Convertible Notes have a 4 year term, pay a coupon of 8% per annum and are convertible into ordinary shares of Bathurst at any time during the term of the Convertible Notes, at A\$0.0375 per share, which was a 40% premium to the then 30 day VWAP and a 70% premium to the conversion price under the RCPS. See Annexure B for a summary of the key terms for the Convertible Notes.

Bathurst has received applications for up to \$US8.5 million Bonds at an issue price of USD\$100,000 per security from institutional and sophisticated investors. The Bonds have a three year term, have an interest rate of 10% per annum, are denominated in USD and include standard terms for a facility of this nature. Shareholder approval is not being sought for the issue of the Bonds. See Annexure C for a summary of the key terms for the Bonds.

Together, the RCPS Placement, the Convertible Placement and Bonds is anticipated to raise a total of approximately NZ\$32 million¹ (**Capital Raising**). The proceeds from the Capital Raising will be used to fulfil Bathurst's funding requirements in relation to the acquisition of the Assets under the Sale Agreement, including the purchase price, bonding and working capital needs of Phoenix Coal, as well as to meet transaction costs.

Bathurst is currently in the process of finalising the allocations of securities to investors and will update the market once final allocations have been made.

Shareholders of Bathurst will be asked to approve, by way of ordinary resolution, the convertibility feature of the RCPS and Convertible Notes at the AGM scheduled for 2 December 2016 to enable these instruments to be convertible into ordinary shares. If shareholder approval is not obtained, then these instruments shall be redeemed for their face value plus costs, including interest.

Subject to obtaining shareholder approval, the RCPS will be convertible into fully paid ordinary shares in Bathurst at a fixed conversion ratio of A\$1,000 divided by A\$0.022 per RCPS. The Company may elect to convert all of the RCPS (or only some of them) at any time after the Sale Agreement is unconditional on or before the maturity date, being 12 months from the date of issue.

Subject to obtaining shareholder approval, the Convertible Notes will be convertible by the holder of the Convertible Note into fully paid ordinary shares in Bathurst at a fixed conversion ratio of A\$1,000 divided by A\$0.0375 per Convertible Note.

¹ NZD/AUD exchange rate of 1.0635

If shareholder approval is obtained and all of the issued RCPS are converted into ordinary shares before maturity of the RCPS, this will increase the total fully diluted share capital on issue from 1,167,165,000² to 1,680,801,000 representing a 44.0% increase in the number of Bathurst ordinary shares on issue.

If shareholder approval is obtained for the convertibility of the Convertible Note, this would allow for a maximum of 200,000,000 additional ordinary shares to be issued, which would be a 17.1% increase in the current fully diluted shares on issue. However, holders of the Convertible Notes have up to four years to exercise their conversion option.

In aggregate, the Capital Raising could result in up to 713,000,000 new ordinary shares on issue which would be a 61.1% increase in the number of shares on issue, on a fully diluted basis, and take the total number of shares on issue to 1,880,801,000. On a fully diluted basis, the new ordinary shares issued to fund the acquisition would represent 37.9% of the total number of BRL shares on issue.

If shareholder approval is not obtained for the conversion of RCPS and/or the Convertible Note, the RCPS and/or the Convertible Note will be redeemed. Bathurst would then be unable to satisfy the relevant shareholder approval condition under the Sale Agreement and may seek to terminate the Sale Agreement.

ASX Listing Rules

ASX has provided in-principle advice that shareholder approval will not be required for the Transaction under Listing Rule 11.1.

Advisors

Treadstone Resource Partners acted as financial advisor to Bathurst.

Lane Neave acted as legal counsel to Bathurst and Corrs Chambers Westgarth acted as legal counsel with respect to Australian Law and ASX Listing Rules.

Timetable

The current indicative timetable for implementing the Transaction and Capital Raising is set out below.

² Includes conversion of the existing convertible notes and exercise of performance rights

| Key Event | Date |
|---|---|
| Sale Agreement signed | 29 October 2016 |
| Notice of Meeting sent to shareholders | Prior to 17 November 2016 |
| Annual General Meeting to consider, amongst other things, resolutions in connection with converting RCPS and Convertible Notes into ordinary shares | 2 December 2016 |
| Crown Approval and DOCA Approvals to be obtained by Solid Energy | On or before 14 November 2016 |
| NZP&M Approvals | Expected Q1 2017 (required no later than 30 June 2017) |
| OIO Approval | Expected by end of Q2 2017 (required no later than 31 July 2017) |
| Completion of the Transaction | Prior to 30 June 2017 |

Please note that this timetable is indicative only and that the directors of the Company reserve the right to amend the timetable as required.

On behalf of Bathurst Resources Limited

Jason Hungerford
Company Secretary
Bathurst Resources Limited

For further information, please contact:

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Competent person statement - Bathurst

The information on this announcement that relates to mineral resources for Deep Creek and the mineral reserves for Escarpment Export and Whareatea West is based on information compiled by Sue Bonham-Carter who is a full time employee of Golder Associates (NZ) Ltd and is a member of the Australasian Institute of Mining and Metallurgy. Sue Bonham-Carter has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which she is undertaking to qualify as a Competent Person as defined in the 2004 and 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Sue Bonham-Carter consents to the inclusion in this report of the matters based on her information in the form and context in which it appears above.

The information in this announcement that relates to exploration results and mineral resources for Escarpment, Cascade, Coalbrookdale, Whareatea West, Millerton North, North Buller, Blackburn, Takitimu, Canterbury Coal, New Brighton, Rotowaro, Maramarua, Stockton, Cypress, and Upper Waimangaroa and the mineral reserves for Takitimu, Rotowaro, Maramarua, Stockton, and Cypress is based on information compiled by Hamish McLauchlan as a Competent Person who is a full time employee of Bathurst Resources Limited and is a member of the Australasian Institute of Mining and Metallurgy. Mr. McLauchlan has a B.Sc and M.Sc (Hons) majoring in geology from the University of Canterbury, and has had 19 years of experience in the mineral resource industry in New Zealand and offshore. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 and 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr McLauchlan consents to the inclusion in this presentation of the matters based on his information in the form and context in which it appears above. This presentation accurately reflects the information compiled by the Competent Person.

The information on this announcement that relates to mineral reserves for Escarpment Domestic and Canterbury is based on information compiled by Terry Moynihan who is a full time employee of Core Mining Consultants Ltd and is a member of the Australasian Institute of Mining and Metallurgy. Mr. Moynihan has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Forward looking statements

This document includes certain "forward-looking statements". Such "forward-looking statements" include those concerning operating results growth prospects and the outlook of the Company's operations. Bathurst disclaims any obligation or undertaking to provide any updates or revisions to any forward looking statements in this document. Neither Bathurst nor any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this presentation will actually occur. In addition, please note that past performance is no guarantee or indication of future performance. Actual results, performance or achievement may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based.

ANNEXURE A

SUMMARY OF REDEEMABLE CONVERTIBLE PREFERENCE SHARE TERMS

| | |
|------------------|--|
| Issue Price | A\$1,000 |
| Maturity Date | 12 months from the date of issue |
| Dividend Payment | <p>The holder is entitled to a preferential dividend on the last day of each 6 month period (or part period) from the date of issue at the following rate:</p> <ul style="list-style-type: none">• 8% p.a. if the Sale Agreement is not unconditional on the business day before the commencement of the relevant dividend period; or• 12% p.a. if the Sale Agreement becomes unconditional and Bathurst elects to convert some but not all of the RCPS. <p>The obligation to pay a dividend ceases on the earlier of conversion, the maturity date or commencement of the liquidation of Bathurst.</p> |
| Conversion | <ul style="list-style-type: none">• Each RCPS is convertible into ordinary shares at Bathurst's election at any time after the Sale Agreement becomes unconditional, subject to shareholders of Bathurst first approving the conversion feature of the RCPS.• Each RCPS converts into ordinary shares at a fixed conversion ratio, being the issue price (A\$1,000) divided by a fixed conversion price of A\$0.022 (approximately equal to 45,454 ordinary shares). |
| Redemption | Cash redemption of the issue price and any accrued dividend upon maturity. |
| Early Redemption | <p>Bathurst is entitled at any time to redeem all or any of the RCPS on the earlier of:</p> <ul style="list-style-type: none">• the maturity date;• shareholder approval for the conversion of the RCPS into ordinary shares not being obtained;• New Zealand Overseas Investment Office approval for the acquisition under the Sale Agreement not being obtained; or |

| | |
|---------|---|
| | <ul style="list-style-type: none"> the business day after, two business days following the exercise of the Company’s discretion to convert all of the RCPS and all of the RCPS having not converted within those two business days. <p>The RCPS must be redeemed on the earlier of:</p> <ul style="list-style-type: none"> the maturity date; the date the Sale Agreement is terminated or the acquisition of the mining assets cannot proceed for any reason; or the partial conversion of some of the RCPS. |
| Secured | Unsecured |
| Ranking | On a winding up of the Company, a RCPS holder will be entitled to payment, in respect of the RCPS, of an amount of cash equal to the issue price and accumulated dividends, in priority to any payment to ordinary shareholders. |
| Voting | <p>The holder is entitled to one vote on a show of hands or one vote for each RCPS held on a poll in the following circumstances only:</p> <ul style="list-style-type: none"> during a period where a dividend payment on the RCPS is in arrears; on a proposal to reduce the Bathurst’s share capital; on a resolution to approve the terms of a buy-back agreement; on a proposal that affects rights attached to the RCPS; on a proposal to wind up Bathurst; on a proposal for the disposal of the whole of Bathurst’s property, business and undertaking; and/or during the winding up of Bathurst. |

ANNEXURE B

SUMMARY OF CONVERTIBLE NOTE TERMS

| | |
|------------------|--|
| Issue Price | A\$1,000 |
| Maturity Date | 48 months from the date of issue |
| Interest Payment | The holder is entitled to a semi-annual interest payment of 8% p.a. |
| Conversion | <ul style="list-style-type: none"> • Subject to shareholders of Bathurst first approving the conversion feature of the Convertible Note, each Convertible Note is convertible into ordinary shares at the election of the holder any time after the Sale Agreement becomes unconditional during the period starting: <ul style="list-style-type: none"> ○ 90 days after the completion of the acquisition pursuant to the Sale Agreement; and ○ 180 days after the issue date, and finishing on the date that is 10 days before the maturity date. If a holder fails to make an election during this period, the holder will be deemed to have elected to redeem the Convertible Notes. • Each Convertible Note converts into ordinary shares at a fixed conversion ratio, being the issue price (A\$1,000) divided by a fixed conversion price of A\$0.0375 (approximately equal to 26,667 ordinary shares). |
| Redemption | Cash redemption of the issue price and any accrued and unpaid interest. |
| Early Redemption | <ul style="list-style-type: none"> • Bathurst has a one-off right to redeem some or all of the Convertible Notes once the Sale Agreement becomes unconditional. Bathurst must redeem all of the Convertible Notes if the Sale Agreement is terminated or if shareholder approval for the conversion is not obtained. • The holders of the Convertible Notes may redeem the Convertible Notes at any time after the issue date and before the maturity date if Bathurst's shares cease to be listed or admitted to trading on ASX or are suspended for trading for more than 30 consecutive trading days, or if there is a change of control or event of default in respect of the Company. |
| Secured | Unsecured |

| | |
|---------|---|
| Ranking | <p>On a winding up of the Company, a Convertible Note holder will be entitled to payment, in respect of the Convertible Note, of an amount of cash equal to the issue price and accumulated but unpaid interest, in priority to any payment to ordinary shareholders.</p> <p>The Convertible Notes rank equally with all other present and future unsecured obligations except for obligations accorded preference by mandatory provisions of applicable law.</p> |
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ANNEXURE C

SUMMARY OF BONDS

| BONDS | |
|--------------------|--|
| Eligible investors | Overseas Singaporean investors who are exempt under the Securities and Futures Act, Chapter 289 of Singapore |
| Issue Price | USD100,000 |
| Maturity Date | 36 months from the date of issue |
| Interest Rate | Fixed rate of 10.0% per annum, paid semi-annually |
| Facility Amount | Up to US\$20 million |
| Redemption | On the maturity date, the Company will repay the issue price, together with any accrued and unpaid interest |
| Early redemption | <p>Before the maturity date, the Company is entitled to elect at any time:</p> <ul style="list-style-type: none"> • prior to the satisfaction of the conditions precedent under the Sale Agreement, to redeem all or any of the Bonds for the issue price together with any accrued interest and unpaid interest; or • after the: <ul style="list-style-type: none"> • satisfaction of the conditions precedent under the Sale Agreement; and • second anniversary of the issue date, to redeem all or any of the Bonds for 104% of the issue price plus any accrued and unpaid interest. |
| Ranking | The Bonds will rank equally in all respects with all existing and future bonds and without priority or preference amongst themselves. The Bonds will be a secured, subordinated debt of the Company with a registered specific security interest over the Company's shares in Phoenix Coal. The Bonds rank ahead of all unsecured and unsubordinated obligations of the Company but behind any permitted security interest. |
| Covenants | <p>Standard covenants for a security of this type including limitations on:</p> <ul style="list-style-type: none"> • incurrence of additional debt • dividends and payments affecting subsidiaries • liens on assets • sale and leaseback transactions |