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Update on FY17 results

Bathurst Resources Limited (ASX: BRL) (**Bathurst** or **the Company**) released on 31 August 2017 its audited financial statements for the year ending 30 June 2017 (**Accounts**). Bathurst has disagreed with its auditor, PricewaterhouseCoopers (**PwC**), on the accounting treatment of Convertible Notes and Redeemable Convertible Preference Shares ("**Convertible Instruments**") issued in July 2016 and February 2017.

The Convertible Instruments were issued by Bathurst primarily to fund Bathurst's investment in BT Mining Limited ("BT"), a joint venture of which Bathurst owns 65%. BT on the 31 August 2017 successfully acquired assets from Solid Energy New Zealand Limited (**Solid Energy Transaction**).

How the Convertible Instruments can be measured

As the Convertible Instruments can be converted into equity (the "conversion option") there are two potential accounting outcomes. The difference in opinion relates to how the accounting standard that governs these instruments (NZ IAS 32 *Financial Instruments: Presentation*) should be interpreted and applied to the conversion option.

The debt and conversion option can be accounted for as either:

1) Debt held at amortised cost and an embedded derivative component (representing the conversion option) which is measured at fair value through profit or loss; or
2) Debt held at amortised cost and an equity component (representing the conversion option) which remains unchanged until conversion or the debt is repaid.

Where Bathurst's and PwC's interpretations diverge

For the convertible option to be able to be treated as equity (the second accounting treatment noted above), the fixed for fixed test must be met. Specifically, the debt must be settled by exchanging a fixed amount of cash for a fixed number of shares. The specific point of difference that arises is whether the exchange of AUD debt into AUD denominated shares constitutes fixed for fixed, as the AUD has to be re-translated into NZD for financial reporting purposes (NZD being Bathurst's functional currency).

Bathurst believes that in substance, the conversion option of the Convertible Instruments results in the extinguishment of a fixed amount of debt (denominated in AUD) for a fixed amount of Bathurst's equity (also denominated in AUD). The number of shares the instrument holders will receive was fixed at the date the instruments were issued, likewise the amount of cash Bathurst will receive for these shares if the instruments do convert was fixed on the same date.

What would be the impact of PwC's interpretation

The accounting treatment for the Convertible Instruments in the FY17 accounts is consistent with the treatment applied in the Company's financial statements for 31 December 2016. Despite the fact that PwC performed a formal review of the 31 December 2016 financial statements, PwC no longer agrees with this accounting treatment as they believe the Convertible Instruments fail the fixed for fixed test, and has issued a qualified audit report.

If PwC's view were adopted in the FY17 accounts, it would result in Bathurst reporting a net loss of $17.0m versus the $1.9m loss position it has reported; the difference being a net increase in its liabilities. It is important to note that this increase in liabilities would not represent an actual additional liability for Bathurst that required settlement – it is a technical accounting matter that will not in any way change the actual cash flows relating to these Convertible Instruments. Importantly, if the convertible instruments are repaid by Bathurst instead of converting, any fair value movements on these Convertible Instruments previously recognised would recycle back through the Income Statement, leading to greater volatility in Bathurst's reported financial performance.

What this means

Bathurst in its financial statements for FY17 has made full disclosure of the accounting treatment applied to the Convertible Instruments (see Note 1 D (ii)) which the Directors consider provide a fair presentation of the Convertible Instruments, and as such the financial performance and position of the Company. The Directors note that this approach has been adopted by other companies listed on ASX with similar instruments on issue, and that if Bathurst's functional currency was AUD, there would be no question raised over the applied treatment.

The Directors maintain that the Accounts provide a fair presentation of the financial performance and financial position of Bathurst as at 30 June 2017. Bathurst is not aware of any other issues with the Accounts.

Further information

For further information in respect of this announcement, please contact Richard Tacon (Chief Executive Officer) or Russell Middleton (Chief Financial Officer) on +64 4 499 6830.