

# Bauxite Resources Limited

ACN 119 699 982

## Target's Statement

This Target's Statement has been issued in response to the off-market takeover bid made by Mercantile OFM Pty Ltd (ACN 120 221 623) (**Mercantile OFM**) a wholly owned subsidiary of Mercantile Investment Company Limited (ACN 121 415 576) (**Mercantile**) to acquire 50% of the fully paid ordinary shares in Bauxite Resources Limited (**BRL**), which Mercantile OFM does not already own or control.

**BRL's Directors unanimously recommend that you REJECT the Offer and TAKE NO ACTION**

**The Independent Expert has concluded that the Offer is NEITHER FAIR NOR REASONABLE to BRL Shareholders**

### IMPORTANT INFORMATION

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisers without delay.

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## KEY DATES

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Date of Mercantile OFM's Offer	21 November 2017
Date of this Target's Statement	18 December 2017
Close of Offer Period (unless extended or withdrawn)	7:00pm (Sydney time) on 31 January 2018

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## ENQUIRIES

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BRL Shareholders may call BRL on +61 8 9200 8200 between 9:00am and 5:00pm (AWST) Monday to Friday, if they have any queries in relation to the Offer. Calls to BRL may be recorded.

Further information relating to the Offer can be obtained from the ASX website (ASX Code: BAU) at [www.asx.com.au](http://www.asx.com.au) or from BRL's website at [www.bauxiteresources.com.au](http://www.bauxiteresources.com.au).

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## **IMPORTANT NOTICES**

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### **Nature of this document**

This is a Target's Statement issued by BRL under Part 6.5 Division 3 of the Corporations Act in response to the off-market takeover bid made by Mercantile OFM for 50% of the fully paid ordinary shares in BRL that it does not already own or control.

### **ASIC lodgement**

This Target's Statement is dated 18 December 2017 and was lodged with the ASIC and given to ASX on that date. Neither ASIC, nor ASX, nor any of their respective officers take any responsibility for the contents of this Target's Statement.

### **Defined terms**

A number of defined terms are used in this Target's Statement. These terms are explained in section 9 of this Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in this Target's Statement and defined in the Corporations Act have the same meaning and interpretation as in the Corporations Act.

### **No account of personal circumstances**

This Target's Statement does not take into account your individual objectives, financial situation or, particular needs. It does not contain personal advice. Your BRL Directors encourage you to seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

### **Disclaimer as to forward looking statements**

Some of the statements appearing in this Target's Statement (including in the Independent Expert's Report) may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which BRL operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

None of BRL, BRL's officers and employees, any persons named in this Target's Statement with their consent, or any person involved in the preparation of this Target's Statement, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this Target's Statement (including in the Independent Expert's Report) reflect views held only as at the date of this Target's Statement.

### **Disclaimer as to information**

The information on Mercantile OFM contained in this Target's Statement has been prepared by BRL using publicly available information. The information in this Target's Statement concerning Mercantile OFM, has not been independently verified by BRL. Accordingly, BRL does not, subject to the Corporations Act, make any representation or warranty (express or implied) as to the accuracy or completeness of such information.

## **Foreign jurisdictions**

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside of Australia.

## **Privacy**

BRL has collected your information from its register of members for the purpose of providing you with this Target's Statement. The type of information BRL has collected about you includes your name, contact details and information on your shareholding or option holding (as applicable) in BRL. Without this information, BRL would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of BRL Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to BRL's Related Bodies Corporate and external service providers (such as the share registry of BRL and print and mail service providers) and may be required to be disclosed to regulators such as ASIC and the ASX. If you would like details of information about you held by BRL, please contact the Company. Calls to the Company may be recorded.

18 December 2017

Dear Shareholder

## **TAKE NO ACTION AND REJECT MERCANTILE OFM'S OFFER**

On 21 November 2017, Mercantile OFM Pty Ltd, a wholly owned subsidiary of Mercantile Investment Company Limited, lodged its Bidder's Statement in respect of a conditional and unsolicited off-market takeover offer for 50% of the BRL Shares it does not already own or control (**Mercantile OFM's Offer** or **Offer**).

Under the Offer, Mercantile OFM is offering \$0.09 in cash for each BRL share for which the Offer is made, namely 50% of your BRL Shares that it does not already own.

This Target's Statement sets out your Directors' formal response to the Offer. The Directors unanimously recommend that you **REJECT** Mercantile OFM's inadequate and highly opportunistic Offer.

### **Conclusion of the Independent Expert**

The Independent Expert has concluded that the Offer is neither fair nor reasonable for BRL Shareholders. You should read the Independent Expert's Report which is annexed to this Target's Statement.

### **BRL's Directors unanimously recommend you REJECT the Offer**

Your Directors believe that you should **REJECT** the Offer for the following reasons:

1. the Offer undervalues your BRL Shares and does not adequately reflect BRL's future prospects;
2. the Offer does not provide an adequate premium for control of BRL;
3. the BRL Directors and their associates who control approximately 27.8% of the BRL Shares on issue intend to **REJECT** the Offer;
4. Mercantile OFM's intentions are not sufficiently clear;
5. funding for the Offer is uncertain and you may be exposed to credit risk if you accept the Offer;
6. the Offer deprives the Company of the potential for an alternative opportunity; and
7. by accepting the Offer, you will not have the benefit of any subsequent higher offer from any third party or benefit from any future growth of the Company.

Further details are set out in section 2 of this Target's Statement.

## Further information

The BRL Directors will be closely monitoring the progress of the Offer. The BRL Directors will keep BRL Shareholders informed of any material developments in relation to the Offer through releases to the ASX (which will also be published on BRL's website).

This Target's Statement contains the BRL Directors' formal response to Mercantile OFM's Offer. I encourage you to read this document carefully. If you need any more information, I recommend that you seek independent advice or call BRL between 9.00am and 5.00pm (AWST) Monday to Friday.

**To REJECT the Offer, simply do nothing and disregard all documentation and communication sent to you by Mercantile OFM.**

Yours sincerely

A handwritten signature in black ink, appearing to read 'RN', with a horizontal line extending to the right.

**Robert Nash  
Non-Executive Chairman  
For and on behalf of  
Bauxite Resources Limited**

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## 1. FREQUENTLY ASKED QUESTIONS

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for BRL Shareholders. This section should be read together with all other parts of this Target's Statement.

Question	Answer
What is Mercantile OFM's Offer for my BRL Shares?	Mercantile OFM is offering to buy 50% of your BRL Shares by way of a proportional off-market takeover offer. The Offer Price is \$0.09 cash for each BRL Share subject to the Offer. Because the Offer is a proportional offer, you may only accept the Offer for 50% of your BRL Shares, unless accepting the Offer would leave you holding less than a Marketable Parcel of BRL Shares, in which case the Offer extends to all of your BRL Shares, subject to certain conditions (see section 1.1 of the Bidder's Statement for further information).
How much are my Shares worth	Your directors have undertaken an independent assessment of the value of your Shares which was commissioned by the Independent Expert. They have valued the Shares at between \$0.11 and \$0.133 (with a preferred value of \$0.121) which is significantly higher than the Offer Price of \$0.09.
What choices do I have as a BRL Shareholder?	<p>As a BRL Shareholder, you have the following choices in respect of your BRL Shares:</p> <ul style="list-style-type: none"><li>• reject the Offer by doing nothing; or</li><li>• accept the Offer; or</li><li>• sell your BRL Shares on the ASX (unless you have previously accepted the Offer and you have not validly withdrawn your acceptance).</li></ul> <p>There are several implications in relation to each of the above choices. A summary of these implications is set out in section 4.9 of this Target's Statement.</p>
What are the BRL Directors recommending?	Each BRL Director recommends that you <b>REJECT</b> the Offer. The reasons why the Directors are recommending that you <b>REJECT</b> the Offer are set out in section 2 of this Target's Statement.
What do the Directors of BRL intend to do with any BRL Shares that they hold?	Each BRL Director has advised that they intend to <b>REJECT</b> the Offer in respect of any BRL Shares that they own or control.
What does the Independent Expert say?	<p>The Independent Expert has concluded that the Offer is <b>NEITHER FAIR NOR REASONABLE</b>.</p> <p>A copy of the Independent Expert's Report is contained in Annexure B of this Target's Statement.</p>

Question	Answer
How many BRL Shares does Mercantile OFM already own?	As at the date immediately before the date of this Target's Statement, Mercantile OFM had a Relevant Interest in 7,969,337 BRL Shares. Mercantile OFM's voting power is 3.7% as at the date of this Target's Statement.
How do I <b>REJECT</b> the Offer?	Simply do nothing. Ignore all documents sent to you by Mercantile OFM. Do not fill in or send any documents to Mercantile OFM.
Can I accept the Offer for all of my holding?	<p>No. Unless you would hold less than a Marketable Parcel after accepting the Offer, you can only accept the Offer for 50% of your holding of BRL Shares.</p> <p>If accepting the Offer would leave you holding less than a Marketable Parcel of Shares, section 618 of the Corporations Act provides that the Offer extends to all of your BRL Shares, subject to certain conditions (see section 3 of Appendix A of the Bidder's Statement for further information).</p>
What are the consequences of accepting the Offer now?	<p>If you accept the Offer, unless withdrawal rights are available (see below), you will give up your right to sell your BRL Shares on the ASX or otherwise deal with your BRL Shares while the Offer remains open. You will also lose the right to participate in the proposed Capital Return of 5 cents per BRL Share if BRL Shareholders vote in favour of the proposed Capital Return.</p> <p>The effect of acceptance is set out in section 5 of Appendix A of the Bidder's Statement. BRL Shareholders should read this section in full to understand the effect that acceptance will have on their ability to exercise rights attaching to their BRL Shares and the representations and warranties they give by accepting the Offer.</p>
If I accept the Offer, can I withdraw my acceptance?	<p>You only have limited rights to withdraw your acceptance of the Offer.</p> <p>See section 5.8 of this Target's Statement and section 8 of Appendix A of the Bidder's Statement for further details.</p>
When does the Offer close?	<p>The Offer is scheduled to close at 7:00 pm (Sydney time) on 31 January 2018, but the Offer Period can be extended in certain circumstances.</p> <p>Please be aware that there is no guarantee that Mercantile OFM will extend the Offer Period beyond 31 January 2018. Accordingly, your BRL Directors recommend that you should assume that the Offer Period will not be extended beyond this date. See section 5.5 of this Target's Statement for details of the circumstances in which the Offer Period can be extended.</p>

Question	Answer
<p>What are the conditions to the Offer?</p>	<p>The Offer is conditional on no Prescribed Occurrence happening between the period of commencing on the Announcement Date and ending on the expiration of the Offer Period (each being a separate Condition).</p> <p>See section 5.2 of this Target's Statement and section 7 of Appendix A of the Bidder's Statement for further details.</p>
<p>Can Mercantile OFM withdraw the Offer?</p>	<p>Mercantile OFM may not withdraw the Offer if you have already accepted it. Before you accept the Offer, Mercantile OFM may withdraw the Offer with the written consent of ASIC and subject to conditions (if any) specified in such consent.</p>
<p>Can I be forced to sell my BRL Shares?</p>	<p>No. Because Mercantile OFM is making a proportional bid for 50% of the Shares in BRL, it will not be entitled to proceed to compulsory acquisition of those BRL Shares it does not already own at the end of the Offer Period, even if all BRL Shareholders accept the Offer</p>
<p>When will I be paid the Offer Price if I accept the Offer</p>	<p>As set out in the Bidder's Statement, if you accept the Offer, you will be paid your consideration on or before the earlier of:</p> <ul style="list-style-type: none"> <li>• the day that is 7 days after the date of your acceptance or, if at the time of your acceptance the Offer is subject to an Offer Condition, 7 days after the Offer becomes, or is declared, unconditional; and</li> <li>• the day that is 21 days after the end of the Offer Period.</li> </ul> <p>Full details of when you will be issued consideration are set out in section 6 of Appendix A of the Bidder's Statement.</p> <p>See section 5.9 of this Target's Statement for further details on when you will be sent your consideration.</p>
<p>What are the tax implications of accepting the Offer?</p>	<p>A general outline of the tax implications of accepting the Offer is set out in section 7 of the Bidder's Statement.</p> <p>As the outline is a general outline only, BRL Shareholders are encouraged to seek their own specific professional advice as to the taxation implications applicable to their circumstances.</p>
<p>What if accepting the Offer would leave me with less than a Marketable Parcel?</p>	<p>If you would be left with less than a Marketable Parcel of BRL Shares after accepting the Offer, the Offer extends to all of your BRL Shares, subject to certain conditions. This exception does not apply to any parcel of BRL Shares which has come into existence or which has increased in size due to a transaction entered into after 10:00am on the Announcement Date (see section 3.4 of Appendix A of the Bidder's Statement for further information). If you are unsure of whether accepting the Offer would leave you with less than a Marketable Parcel, you should contact your broker or financial advisor.</p>

Question	Answer
<p>What will happen to BRL following the end of the Offer Period?</p>	<p>Mercantile OFM has stated that, if the Offer is completed successfully (ie; Mercantile OFM obtains control of BRL), its present intention in relation to BRL is to undertake a strategic review to assess the viability of the following:</p> <ol style="list-style-type: none"> <li>1. To make an immediate repayment to shareholders of 6 cents per share.</li> <li>2. To negotiate with HD Mining &amp; Investment Pty Ltd to terminate the present joint venture.</li> <li>3. A cessation of all exploration activities.</li> <li>4. To sell the company's fixed assets including the two farming properties.</li> <li>5. After settling all liabilities, to pay the remaining funds to shareholders.</li> </ol> <p>See section 4 of the Bidder's Statement for further details.</p>
<p>Is there a number that I can call if I have further queries in relation to the Offer?</p>	<p>If you have any further queries in relation to the Offer, you can call the Company on + 618 9200 8200. Calls to this number may be recorded.</p>

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## 2. WHY YOU SHOULD REJECT THE OFFER

In summary, the key reasons why the BRL Directors recommend BRL Shareholders **REJECT** the Offer are:

1. **The Offer undervalues your BRL Shares and does not adequately reflect BRL's future prospects.**
  2. **The Offer does not provide an adequate premium for control of BRL.**
  3. **The BRL Directors and their associates who control approximately 27.8% of the BRL Shares on issue intend to REJECT Mercantile OFM's Offer. (need to confirm HD Mining)**
  4. **Mercantile OFM's intentions are not sufficiently clear.**
  5. **Funding for the Offer is uncertain and you may be exposed to credit risk if you accept the Offer.**
  6. **The Offer deprives the Company of potential for an alternative opportunity.**
  7. **By accepting the Offer, you will not have the benefit of any subsequent higher offer from any third party or benefit from any further growth of the Company.**
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### 2.1 Introduction

The consideration being offered by Mercantile OFM under the Offer is \$0.09 for each BRL Share subject to the Offer.

The Offer is conditional upon no Prescribed Occurrences happening during the period commencing on the Announcement Date and ending on the expiry of the Offer Period. Refer to section 5.2 for details.

BRL's Board has carefully considered the Offer and unanimously recommends that BRL Shareholders take no action and therefore **REJECT** the Offer. All BRL Directors who own BRL Shares intend to reject the Offer in respect of the BRL Shares that they own or control. The BRL Directors' reasons for their recommendation are set out below.

### 2.2 **The Offer undervalues your BRL Shares and does not adequately reflect BRL's future prospects**

Your Directors are unanimous in their view that the Offer does not reflect the value or quality of BRL's assets, that it is opportunistic in its timing and that BRL Shareholders will receive greater value by remaining as shareholders in the Company.

#### ***The Offer is below the Independent Expert's valuation range***

The Independent Expert's conclusion is that the Offer is neither fair nor reasonable. The Independent Expert's valuation range of \$0.11 to \$0.133 per BRL Share, with a preferred value of \$0.121 (being 34.4% higher than the offer amount), supports the BRL Directors' view that Mercantile OFM's Offer is inadequate and undervalues your BRL Shares.

### ***BRL is an attractive investment proposition***

BRL has a number of strategically significant assets, including:

- (a) the Darling Range bauxite project held through a joint venture with HD Mining and Investments Pty Ltd (**HDM**);
- (b) the silica sand projects in WA;
- (c) the regional hard rock silica projects in WA and Queensland;
- (d) the Lort River lithium project; and
- (e) the royalty rights held over the Yankuang Resources Pty Ltd's (**Yankuang**) Felicitas/Fortuna bauxite project out of Toodyay in WA.

### ***Mercantile OFM's Offer undervalues your BRL Shares***

Your Directors do not consider that the Offer adequately reflects the value of your BRL Shares and BRL's future prospects.

Your Directors consider that the BRL Shares currently on issue are worth substantially more than the Offer Price for the following reasons:

- (a) the independently assessed Net Asset Value of the Company's assets is significantly greater than that reflected by the Offer (refer to section 10 of the Independent Expert's Report for further details);
- (b) the Offer makes no allowance for the prospect of the Company's bauxite assets increasing in value over time and the fact that the current bauxite exploration activities are fully funded by BRL's joint venture partner, HDM, which continues to enhance the value of those bauxite assets;
- (c) the Offer does not recognise the potential of the Company's entitlement to a future royalty of 0.9% of the free onboard price for the first 100 million tonnes of bauxite mined from the Fortuna and Felicitas projects west of Toodyay, being a JORC 2012 mineral resource which is in the order of 268Mt (comprising 122.7Mt measured, 77.1Mt indicated and 28.2Mt inferred from the Felicitas deposit and 6.3MT indicated and 33.9MT inferred from the Fortuna deposit – refer to page 25 of the Company's 2015 Annual Report and the Company's announcement on 30 November 2015 for further details);
- (d) the Offer does not recognise the potential for significant upside in Share value arising from the current silica sand and quartz exploration projects with the potential to enter the lucrative high grade silica market; and
- (e) over the past two years, BRL has gone through a period of transition following the sale of the Company's interests in the Bauxite Alumina Joint Venture and neighbouring Fortuna tenements to Yankuang. Operating costs have been reduced significantly and the Company previously returned 5 cents capital per Share (representing a total return of \$10.715 million) to its shareholders in May 2016. As set out in the Company's announcement of 15 December 2017, the Company's current intention is to return further funds of approximately \$10.7 million to shareholders, subject to the prior receipt of shareholder approval. New projects have been the focus for the Company and new silica projects have been generated in-house. The Company continues to hold and explore the

bauxite properties the subject of its joint venture with HDM, who are also fully funding these operations. In addition, it retains its royalty entitlements in respect of Yankuang's Felicitas/Fortuna bauxite resource up to the first 100Mt of bauxite mined from the tenements.

### ***BRL has significant future prospects***

BRL will continue work developing its bauxite and silica projects so as to enhance their value through exploration and market development efforts.

The Board of the Company also continues to actively consider further capital management initiatives, including potentially making further cash returns to shareholders.

These initiatives are subject to various risks, markets and uncertainties, and their success cannot be guaranteed. Notwithstanding, the Directors believe that the potential rewards substantially outweigh the risks.

### **2.3 The Offer does not provide an adequate premium for control of BRL**

Takeover offers for control of listed companies typically include a significant premium to the prices at which the shares of target companies normally trade in the market. The Board considers that BRL's Share price immediately prior to the announcement of the Offer did not appropriately reflect the underlying value of BRL, and as such, is not an appropriate starting point to apply a takeover premium.

The Independent Expert also noted that an appropriate premium for control to be paid by Mercantile OFM is between 20% and 30%, with a midpoint of 25%. The Offer therefore does not provide Shareholders with a sufficient premium to compensate them for the fact that control of BRL will pass to Mercantile OFM if the Offer is successful.

If Mercantile OFM's Offer were to succeed, Mercantile OFM would therefore gain effective control of BRL for an inadequate premium. Although BRL Shareholders that accept the Offer can retain the other 50% of their holding, Mercantile OFM is not offering to acquire those Shares regardless of whether it gains control.

### **2.4 The BRL Directors and their associates who control approximately 27.8% of the BRL Shares on issue intend to REJECT the Offer**

The Directors of BRL and their associates who control approximately 27.8% of the BRL Shares on issue intend to **REJECT** the Offer in respect of the BRL Shares held by them or on their own behalf.

Your Directors are unanimous in their view that the Offer does not reflect the value or quality of BRL's assets, is opportunistic in its timing and that BRL Shareholders will receive greater value by remaining a shareholder of the Company.

### **2.5 Mercantile OFM's intentions are not sufficiently clear**

Mercantile OFM has not made it clear how it intends to improve BRL's performance. Mercantile OFM has stated that if Mercantile OFM becomes entitled to a BRL shareholding sufficient to result in the appointment of BRL directors representing a majority of the BRL board, Mercantile OFM's nominees will look to:

- (a) make an immediate repayment to shareholders of 6 cents per share;

- (b) negotiate with HD Mining & Investment Pty Ltd to terminate the present joint venture;
- (c) cease all exploration activities of BRL;
- (d) sell the company's fixed assets including the two farming properties; and
- (e) after settling all liabilities, to pay the remaining funds to shareholders.

However, there is no suggestion from Mercantile OFM as to its intentions following the process set out above. The Board believes this will result in further uncertainty and instability for BRL's shareholders, which may damage the value of BRL. Mercantile OFM is a wholly owned subsidiary of Mercantile. Mercantile is an ASX listed investment company which invests in cash and listed securities with attractive risk adjusted returns, including by way of short term trading, profit making ventures and holding shares for dividend yield/long term capital appreciation.

Mercantile OFM has no proven ability to manage a company focusing on the acquisition, exploration and development of bauxite, silica, quartz and lithium mineral deposits in Australia.

If Mercantile OFM does not achieve a Relevant Interest in BRL of 50.1% (which is highly likely due to the fact that the Directors intend to reject the Offer as detailed in section 2.4 above), Mercantile OFM will endeavour, to the extent possible through its non-controlling holding of BRL, to give effect to the intentions set out in section 4.3 of the Bidder's Statement. Mercantile OFM acknowledge in section 4.4 of the Bidder's Statement that its ability to effect potential cost savings will be significantly limited if Mercantile OFM is unable to achieve a Relevant Interest in BRL of at least 50.1%.

## **2.6 Funding for the Offer is uncertain and you may be exposed to credit risk if you accept the Offer.**

Accepting the Offer may expose you to credit risk associated with Mercantile OFM's ability to pay the Offer Price. Mercantile OFM appears to have no assets or cash of its own and is dependent on funding from Mercantile to pay the Offer Price to accepting Shareholders. If Mercantile OFM does not pay you the Offer Price in accordance with the terms of the Offer, your only recourse is against Mercantile OFM in the first instance, not Mercantile.

## **2.7 The Offer deprives the Company of the potential for an alternative opportunity**

The Company's present Board and management have the experience and a history of internally generating new resource projects at low cost. Mercantile OFM have no desire (based on what they have said in the Bidder's Statement and otherwise announced publicly) to seek to generate additional value for BRL Shareholders by the acquisition and development of new resource projects.

A disadvantage of the Offer is that those BRL Shareholders who accept the Offer, will forego (to the extent of the Shares they sell to Mercantile OFM) the opportunity to participate in any value creation that may arise from new projects and ventures.

**2.8 By accepting the Offer, you will not have the benefit of any subsequent higher offer from any third party or benefit from any further growth of the Company**

If you accept the Offer you will lose any opportunity to obtain a higher price for your BRL Shares that may arise if:

- (a) any superior offer is made by another bidder for your BRL Shares; or
- (b) a higher price is available in due course on market.

By accepting the Offer, you will not benefit from any further growth of the Company.

If you accept the Offer, you will not be able to accept a higher offer from a third party unless the Offer lapses or you have a right to withdraw your acceptance.

There have been no discussions or approaches made to BRL at this time and the Board is not aware of a superior proposal to the Offer and is not in a position to provide BRL Shareholders with information in relation to the probability of an alternative transaction arising, but will keep BRL Shareholders informed of any material developments.

The Offer is currently scheduled to close at pm 7.00pm (Sydney time) on 31 January 2018.

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### 3. DIRECTORS' RECOMMENDATIONS AND INTENTIONS

#### 3.1 Directors' recommendations

After taking into account each of the matters in this Target's Statement and in the Bidder's Statement, each of the BRL Directors recommends that you **REJECT** the Offer.

The BRL Directors' reasons for their above recommendation are set out in section 2 of this Target's statement.

In considering whether to accept the Offer, the BRL Directors encourage you to:

- (a) read the whole of this Target's Statement and the Bidder's Statement;
- (b) have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- (c) consider the choices available to you as outlined in section 4.9 of this Target's Statement;
- (d) carefully consider section 4.10 of this Target's Statement; and
- (e) obtain financial advice from your broker or financial adviser on the Offer and obtain taxation advice on the effect of accepting the Offer.

#### 3.2 Intentions of the BRL Directors in relation to the Offer

Each BRL Director who owns BRL Shares has advised that they intend to, **REJECT** the Offer in respect of any BRL Shares that they own or control.

Details of the previously announced direct and indirect holdings of each BRL Director in BRL Shares are set out in section 7.1 of this Target's Statement.

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## 4. IMPORTANT MATTERS FOR BRL SHAREHOLDERS TO CONSIDER

### 4.1 The Offer

Mercantile OFM announced its intention to make the Takeover Bid for BRL on 8 November 2017. A summary of the Offer is contained in section 5 of this Target's Statement.

The Offer is open for acceptance until **7:00 pm (Sydney time) on 31 January 2018**, unless it is extended or withdrawn (sections 5.5 and 5.6 of this Target's Statement describe the circumstances in which Mercantile OFM can extend or withdraw its Offer).

### 4.2 Information about Mercantile OFM

Mercantile OFM was incorporated on 16 June 2006. Mercantile OFM is a wholly owned subsidiary of Mercantile IAH Pty Ltd (**Mercantile IAH**). Mercantile IAH is a wholly owned subsidiary of Mercantile. Mercantile was incorporated on 25 August 2006 and was listed on ASX on 5 April 2007 (ASX code: MVT). Mercantile invests in ASX listed investment opportunities.

Mercantile OFM's directors are:

- (a) Ronald Brierley;
- (b) Gabriel Radzynski; and
- (c) James Chirnside.

Mercantile's directors are:

- (a) Ronald Brierley (Chairman);
- (b) Gabriel Radzynski (Non-executive director);
- (c) James Chirnside (Non-executive director);
- (d) Ronald Langley (Non-executive director);
- (e) Daniel Weiss (Non-executive director); and
- (f) Gary Weiss (alternate director for Daniel Weiss).

Section 2 of the Bidder's Statement contains further information regarding Mercantile OFM.

### 4.3 Funding of the Offer Price

The Offer is a 100% cash offer. The maximum amount of cash that will be payable by Mercantile OFM if acceptances are received for 50% of Shares on issue (which it does not already own or control) is approximately \$9,353,385.

Mercantile OFM has received a letter of commitment from Mercantile, under which Mercantile has committed to loan Mercantile OFM, the funds necessary to pay the maximum available amount of consideration payable under the Offer and all associated transaction costs.

BRL notes that Mercantile OFM is not under any obligation to draw down funds pursuant to the letter of commitment, nor has Mercantile guaranteed the obligations of Mercantile OFM to pay the Offer Price to accepting Shareholders should the contracts resulting from their acceptances become unconditional.

BRL further notes that Mercantile OFM does not appear to have any assets or cash itself. Accordingly, Shareholders who accept the Offer may be exposed to credit risk associated with Mercantile OFM's ability to pay the Offer Price. Based on the lack of disclosure in the Bidder's Statement, BRL advises Shareholders to consider the possibility that Mercantile OFM may not be able to fulfil its obligations to pay the Offer Price to accepting Shareholders.

#### **4.4 Risks of accepting the Offer**

##### **(a) Possibility of a superior proposal emerging**

You may consider that a third party may emerge with a superior proposal. If you accept the Offer, you will not be able to accept your BRL Shares into any superior proposal such that you will not be able to obtain any potential benefit associated with that superior proposal (if any). Your Directors are not currently aware of any superior proposal.

##### **(b) No interest in equity upside**

If you accept the Offer, you will lose your interest and exposure in the future profits and dividends (if any) associated with BRL and its projects.

#### **4.5 BRL Share price absent the Offer**

While there are many factors that influence the market price of BRL Shares, your directors anticipate that, following the close of the Offer, the market price of BRL Shares may fall if Mercantile OFM's Offer fails (and there is no alternative to the Offer).

#### **4.6 Dividend issues for BRL's Shareholders**

BRL's Board has not made any determination as to a dividend policy for BRL.

#### **4.7 Other alternatives to the Offer**

The BRL Board is not aware of any alternatives to the Offer in order to maximise value for BRL Shareholders. This includes the potential for rival takeover bids for BRL.

At this stage, the BRL Board is not in a position to provide BRL Shareholders with information in relation to the probability of an alternative transaction arising but will keep BRL Shareholders informed of any material developments.

#### **4.8 Taxation consequences of a change in control in BRL**

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances. A general outline of the Australian taxation considerations of accepting the Offer is set out in section 7 of the Bidder's Statement.

You should carefully read and consider the taxation consequences of accepting the Offer. The outline provided in the Bidder's Statement and this Target's Statement is of a general nature only and you should seek your own specific

professional advice as to the taxation implications applicable to your circumstances.

#### 4.9 Your choices as a BRL Shareholder

##### **Your BRL Directors unanimously recommend that you REJECT the Offer.**

However, as a BRL Shareholder you have the following choices currently available to you:

##### (a) **Reject the Offer**

If you reject the Offer and do not wish to sell your Shares on market, you should do nothing.

You should note that despite the fact that Mercantile OFM will not proceed to compulsory acquisition, Mercantile OFM may control BRL.

Further, Mercantile OFM may acquire significant influence over BRL at ownership levels less than 50%. For example, if Mercantile OFM acquires a number of BRL Shares under the Offer, such that it would have a relevant interest in 25.1% or more of BRL Shares, BRL will not be able to pass any resolutions requiring approval by 75% of its Shareholders without Mercantile OFM's support.

##### (b) **Accept the Offer**

BRL Shareholders may elect to accept the Offer. Details of the consideration that will be received by BRL Shareholders who accept the Offer are set out in section 5.1 of this Target's Statement and in the Bidder's Statement.

You should be aware that if you choose to accept the Offer:

- (i) you will not be able to accept a superior proposal from any other bidder if such an offer is made, or benefit from any higher price in the market;
- (ii) you will lose the opportunity to receive future benefits as a BRL Shareholder; and
- (iii) you may incur a tax liability as a result of the sale.

BRL Shareholders should be aware that if they accept the Offer, they may be liable for CGT on the disposal of their BRL Shares. However, they will not incur a brokerage charge (see section 7 of the Bidder's Statement).

The Bidder's Statement contains details of how to accept the Offer in section 4 of Appendix A of the Bidder's Statement.

##### (c) **Sell your BRL Shares on market**

During a takeover, shareholders of a target company who have not already accepted the bidder's offer may still sell these shares on market for cash.

On 15 December 2017, the day prior to the date on which this Target's Statement was lodged with ASIC, BRL's share price was \$0.088. The latest

price for BRL's Shares may be obtained from the ASX website: <http://www.asx.com.au/>.

You should be aware that if you choose to sell your BRL Shares during the currency of the Offer (that is, other than by way of accepting the Offer):

- (i) you will not be able to accept a superior proposal from any bidder if such an offer is made, or benefit from any higher price in the market;
- (ii) you will lose the opportunity to receive future benefits as a BRL Shareholder;
- (iii) you may incur a tax liability as a result of the sale; and
- (iv) you may incur a brokerage charge.

#### **4.10 Risk factors**

In considering this Target's Statement, BRL Shareholders should be aware that there are a number of risks, general and specific, which may affect the future operating and financial performance of BRL and the value of BRL Shares. Many of these risks are relevant to BRL Shareholders today and will be relevant to BRL Shareholders who remain as BRL Shareholders following the completion of the Offer.

Many of these risks are outside the control of BRL and the BRL Board. There can be no certainty that BRL will achieve its stated objectives or that any forward looking statements will eventuate.

Additional risks and uncertainties not currently known to BRL may have a material adverse effect on BRL's business and the information set out below does not purport to be, nor should it be construed as representing, an exhaustive list of the risks that may affect BRL.

BRL Shareholders should read this Target's Statement in its entirety and carefully consider the following risk factors in deciding whether to accept the Offer.

##### **(a) Risks relating to the Offer**

The following risk factors may arise as a result of the Offer and the acquisition of BRL Shares by Mercantile OFM.

##### **(i) Less than 50% ownership**

It is possible that Mercantile OFM will acquire relevant interests in less than 50% in the BRL Shares as a result of the Offer. The impact on Mercantile OFM of acquiring Relevant Interests in less than 50% of the BRL Shares will depend on the ultimate level of ownership achieved. In this regard Sections 4.3 and 4.4 of the Bidder's Statement show how Mercantile OFM's intentions will differ slightly depending on the level of ownership achieved by Mercantile OFM.

##### **(ii) Mercantile OFM information**

In preparing the information on BRL included in this Target's Statement, BRL has relied only on publicly available information

and has not conducted any due diligence on Mercantile OFM's businesses. BRL has not otherwise had direct access to Mercantile OFM or its independent accountant. In addition, it is possible that additional risks may exist in relation to Mercantile OFM's or Mercantile's businesses which are unknown to BRL.

(iii) **Minority Shareholders in BRL**

If you do not accept the Offer you may, depending on the level of acceptance of the Offer, become part of a minority in BRL. In such a case, the liquidity of BRL Shares may be diminished.

(iv) **Taxation Risks**

Tax liabilities are the responsibility of each individual investor, and BRL is not responsible either for taxation or penalties incurred by BRL Shareholders. BRL Shareholders should consult their own taxation advisers to ascertain the tax implications of their investment.

(v) **Taxation Considerations**

The effects of taxation can be complex and may change over time. A summary of the current Australian income tax implications associated with acceptance of the Offer is outlined in Section 7 of the Bidder's Statement. However, this summary is general in nature and, as the circumstances for each BRL Shareholder may vary. BRL Shareholders should seek professional taxation advice in relation to their own position.

(vi) **Ability to exercise effective control**

Mercantile OFM may acquire the ability to effectively control all decisions regarding BRL's future operations. This will be dependent upon the level of acceptances of the Offer and any other BRL Shares that may be acquired by Mercantile OFM on-market or otherwise in accordance with the Corporations Act.

(vii) **Potential impact on subsequent bids**

Mercantile OFM's shareholding may become of such a size that a third party would not be able to successfully make a takeover bid for BRL without the support of Mercantile OFM, meaning that it may be less likely that BRL's Share price will reflect a control premium in the future.

This list is not exhaustive and BRL Shareholders should read this Target's Statement and the Bidder's Statement in full. If BRL Shareholders require further information on these risks, they should seek professional advice.

(b) **Risk associated with Mercantile OFM**

Mercantile OFM is a subsidiary of Mercantile and is reliant on funding from Mercantile under a letter of commitment.

Accepting the Offer may expose you to credit risk associated with Mercantile OFM's ability to pay the Offer Price. Mercantile OFM appears to have no assets or cash of its own and is dependent on funding from

Mercantile to pay the Offer Price to accepting Shareholders. If Mercantile OFM does not pay you the Offer Price in accordance with the terms of the Offer, your only recourse is against Mercantile OFM in the first instance, not Mercantile.

(c) **Risks specific to BRL**

Irrespective of the outcome of the Offer, BRL Shareholders will retain exposure to the risks associated with BRL' business.

The business activities of BRL are subject to risks. Some of the specific risks can be mitigated through the use of safeguards and contingency plans. However many risks are outside the control of BRL and the BRL Directors and cannot be mitigated. The occurrence of any of the risk factors set out in this section may have an adverse impact on the financial performance of BRL and the value of BRL Shares.

Investors should appreciate that owning BRL Shares involves various risks which can be broadly categorised into general investment risks and specific business risks.

An outline of some of the specific business risks facing BRL are as set out below:

(i) **Exploration, Development, Mining and Processing Risks**

The business of mineral exploration, project development and mining and processing by its nature contains elements of inherent risk. Ultimate and continuous success of these activities is dependent on many factors such as:

- (A) the discovery and/or acquisition of economically recoverable reserves;
- (B) the metallurgical characteristics of mineral deposits being explored and developed by BRL may be such as to prevent commercial exploitation;
- (C) successful conclusions to bankable feasibility studies;
- (D) access to adequate capital for project development;
- (E) design and construction of efficient mining and processing facilities within capital expenditure budgets;
- (F) securing and maintaining title to tenements and compliance with the terms of those tenements;
- (G) obtaining consents and approvals necessary for the conduct of exploration and mining; and
- (H) access to competent operational management and prudent financial administration, including the availability and reliability of appropriately skilled and experienced employees, contractors and consultants.

(ii) **Government regulation**

Mining is an industry which has become subject to increasing legislative regulation including but not limited to environmental responsibility and liability. The potential for liability is an ever present risk. The use and disposal of chemicals in the mining industry is under constant legislative scrutiny and regulation. The introduction of new laws and regulations or changes to underlying policy may adversely impact on the operations of BRL. Changes to government regulations, policy and royalty regimes may have an adverse impact upon the development options available to BRL at its projects.

(iii) **Native Title and Aboriginal Heritage**

The Native Title Act 1993 (Cth) recognises certain rights of indigenous Australians over land and water where those rights have not been extinguished. These rights, where they exist, may impact on the ability of BRL to carry out exploration or obtain mining tenements. In applying for certain mining tenements, BRL must observe the provisions of the native title legislation (where applicable) and Aboriginal heritage legislation which protects Aboriginal sites.

(iv) **Operating Risks**

The current and future operations of BRL, including exploration, appraisal and possible production activities may be affected by a range of factors, including:

- (A) geological conditions;
- (B) limitations on activities due to seasonal weather patterns, flood and cyclone activity;
- (C) alterations to joint venture programs and budgets;
- (D) unanticipated operational and technical difficulties encountered in geophysical surveys, drilling and production activities;
- (E) mechanical failure of operating plant and equipment;
- (F) adverse weather conditions, industrial and environmental accidents, acts of terrorism or political or civil unrest and other force majeure events;
- (G) occupational health and safety in a potentially dangerous workplace;
- (H) industrial action, disputation or disruptions;
- (I) unavailability of aircraft or drilling equipment to undertake airborne electromagnetic and other geological and geophysical investigations;
- (J) shortages or unavailability of manpower or appropriately skilled manpower;

- (K) unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment; and
- (L) inability to obtain consents or approvals.

(v) **Commodity Prices**

Commodity prices fluctuate and are affected by numerous factors beyond the control of BRL. These factors include world-wide and regional supply and demand for the specific commodity, commodity trading on the futures markets, general world economic conditions and the outlook for interest rates, inflation and other economic factors on both a regional and global basis. These factors may have a positive or negative effect on BRL's exploration, project development and production plans and activities, together with the ability to fund those plans and activities.

(d) **General Risks**

BRL Shareholders should be aware that retaining BRL Shares involves various risks. There are general risks associated with owning securities in publicly listed companies. The price of securities can go down as well as up due to factors outside the control of BRL. These factors include Australian and worldwide economic and political stability, natural disaster, performance of the Australian stock market as a whole, and the Australian interest rates, foreign exchange, taxation and labour relations environments.

These are risks of investment which are considered beyond the control of BRL.

(i) **Possible Volatility of BRL Share Price**

The stock market has from time to time experienced significant price and volume fluctuations, which may be unrelated to the operating performance of particular companies. The market price of BRL Shares may be volatile and may go down as well as up. Factors that may have a significant impact on the market price and marketability of BRL Shares include announcements as to government regulation, variation in interest rates, the activities of any competitors, economic and other external factors, as well as fluctuations in BRL's operating results.

(ii) **Regulation and Publicity**

Changes to the regulatory environment for the mining industry, the Corporations Act, ASIC policy and their commercial application, and/or any publicity may have an impact on BRL's business and financial position which may materially affect an investment in BRL Shares.

(iii) **Macro Economic Risks**

The general state of the Australian and international economies as well as changes in taxation, monetary policy, interest rates, statutory requirements and currency exchange rates may

influence the financial performance of BRL, and may affect the value of BRL Shares.

(iv) **Economic**

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on BRL's activities, as well as on its ability to fund those activities.

(v) **Market conditions**

Share market conditions may affect the value of BRL's quoted securities regardless of BRL's operating performance. Share market conditions are affected by many factors such as:

- (A) general economic outlook;
- (B) introduction of tax reform or other new legislation;
- (C) interest rates and inflation rates;
- (D) changes in investor sentiment toward particular market sectors;
- (E) the demand for, and supply of, capital; and
- (F) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general. Neither BRL nor the BRL Directors warrant the future performance of BRL or any return on an investment in BRL.

(vi) **Regulation**

Government legislation and policy, both within Australia and internationally, including changes to the taxation system may have an adverse effect on BRL's activities.

(vii) **Dividends**

Any future determination as to the payment of dividends by BRL will be at the discretion of the BRL Directors and will depend on the availability of distributable earnings and operating results and financial condition of BRL, future capital requirements and general business and other factors considered relevant by the BRL Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by BRL.

(viii) **Taxation**

The disposal of BRL Shares will have tax consequences which may differ depending on the individual financial affairs of each BRL Shareholder. All BRL Shareholders are urged to obtain independent financial advice about the consequences of accepting the Offer from a taxation viewpoint and generally.

(ix) **Reliance on Key Personnel**

The responsibility of overseeing the day-to-day operations and the strategic management of BRL depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on BRL if one or more of these employees cease their employment.

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## 5. KEY FEATURES OF THE OFFER

### 5.1 Consideration payable to BRL Shareholders who accept the Offer

The Offer is to acquire 50% of the Shares in BRL that Mercantile OFM does not already own or control, and any rights attaching to those Shares, for \$0.09 cash for each BRL Share.

The Offer is a proportional takeover bid and does not provide Shareholders with the ability to sell their entire shareholding (unless accepting the Offer would leave you with less than a Marketable Parcel of BRL Shares).

Accordingly, if you accept the Offer, you will:

- (a) receive \$0.09 cash per Share for 50% of your shareholding in BRL; and
- (b) retain the other 50% of your shareholding in BRL.

If you wish to sell the remainder of your BRL Shares, you may do so on market, but there is no guarantee of the price at which the BRL Shares will trade from time to time, whether before or after the closing date of the Offer. The sale of the remainder of your BRL Shares on market after you accept the Offer will also be subject to deferred settlement trading, meaning the sale of those shares will not settle until after the end of the Offer.

### 5.2 Offer Conditions

The Offer is subject to none of the following occurring during the period commencing on the Announcement Date and ending on the expiry of the Offer Period (each a separate condition):

- (a) the Shares or any shares of the Controlled Entities of BRL are converted into a larger or smaller number of shares;
- (b) BRL or a subsidiary of BRL resolves to reduce its share capital in any way;
- (c) BRL or a subsidiary of BRL:
  - (i) enters into a buy-back agreement; or
  - (ii) resolves to approve the terms of a buy-back agreement under sections 257C or 257D of the Corporations Act;
- (d) BRL or a subsidiary of BRL makes an issue of or grants an option to subscribe for any of its securities or agrees to make such an issue or grant such an option;
- (e) BRL or a subsidiary of BRL issues or agrees to issue convertible notes;
- (f) BRL or a subsidiary of BRL disposes or agrees to dispose of the whole or a substantial part of its business or property;
- (g) BRL or a subsidiary of BRL grants or agrees to grant an Encumbrance over the whole or substantial part of its business or property;
- (h) Bauxite Resources or a subsidiary of Bauxite Resources resolves to be wound up;

- (i) a liquidator or provisional liquidator of Bauxite Resources or a subsidiary of Bauxite Resources is appointed;
- (j) a court makes an order for the winding up of Bauxite Resources or a subsidiary of Bauxite Resources;
- (k) an administrator of Bauxite Resources or a subsidiary of Bauxite Resources is appointed under section 436A, 436B or 436C of the Corporations Act;
- (l) Bauxite Resources or a subsidiary of Bauxite Resources execute a deed of company arrangement; or
- (m) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part of the property of Bauxite Resources or a subsidiary of Bauxite Resources,

(the **Offer Conditions**).

If any of the Offer Conditions are not satisfied or have not been waived, Mercantile OFM will have an option as to whether to proceed with the Offer or allow the Offer to lapse. If the Offer lapses, all acceptances of the Offer will be void and of no effect.

The Company notes that it is proposing to undertake the Capital Return (subject to the receipt of prior shareholder approval) which, if completed during the Offer Period, would constitute the occurrence of the Offer Condition set out in section 5.2(b) above and would therefore give Mercantile OFM the right to withdraw the Offer. Refer to section 6.8 of this Target's Statement for further details.

### 5.3 Notice of Status of Conditions

Mercantile OFM must give a Notice of Status of Conditions to the ASX and BRL on a date between 14 and 7 days before the end of the Offer Period (subject to variation in accordance with section 630(2) of the Corporations Act if the Offer Period is extended), and Mercantile OFM has nominated 24 January 2018 as the date on which it will give such a notice.

Mercantile OFM is required to set out in its Notice of Status of Conditions:

- (a) whether the Offer is free of any or all of the Offer Conditions;
- (b) whether, so far as Mercantile OFM knows, any of the Offer Conditions have been fulfilled; and
- (c) Mercantile OFM's voting power in BRL.

If the Offer Period is extended by a period before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period. In the event of such an extension, Mercantile OFM is required, as soon as practicable after the extension, to give a notice to the ASX and BRL that states the new date for the giving of the Notice of Status of Conditions.

If an Offer Condition is fulfilled (so that the Offer becomes free of that condition) during the Offer Period but before the date on which the Notice of Status of Conditions is required to be given, Mercantile OFM must, as soon as practicable, give the ASX and BRL a notice that states that the particular condition has been fulfilled.

#### **5.4 Offer Period**

Unless Mercantile OFM's Offer is extended or withdrawn, it is open for acceptance until 7:00 pm (Sydney time) on 31 January 2018.

The circumstances in which Mercantile OFM may extend or withdraw its Offer are set out in section 5.5 and section 5.6 respectively of this Target's Statement.

#### **5.5 Extension of the Offer Period**

Mercantile OFM may extend the Offer Period at any time before giving the Notice of Status of Conditions (referred to in section 5.3 of this Target's Statement) while the Offer is subject to conditions. However, if the Offer is unconditional (that is, all the Offer Conditions are fulfilled or freed), Mercantile OFM may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- (a) Mercantile OFM improves the consideration offered under the Offer; or
- (b) Mercantile OFM's voting power in BRL increases to more than 50%.

If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

#### **5.6 Withdrawal of Offer**

Mercantile OFM may not withdraw the Offer if you have already accepted it. Before you accept the Offer, Mercantile OFM may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

#### **5.7 Effect of acceptance**

The effect of acceptance of the Offer is set out in section 5 of Appendix A of the Bidder's Statement. BRL Shareholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the rights attaching to their BRL Shares and the representations and warranties which they give by accepting of the Offer.

#### **5.8 Your ability to withdraw your acceptance**

You only have limited rights to withdraw your acceptance of the Offer.

You may only withdraw your acceptance of the Offer if Mercantile OFM varies the Offer in a way that postpones, for more than one month, the time when Mercantile OFM needs to meet its obligations under the Offer. This will occur if Mercantile OFM extends the Offer Period by more than one month and the Offer is still subject to conditions.

#### **5.9 When you will receive your consideration if you accept the Offer**

As set out in the Bidder's Statement, you will be paid your consideration on or before the later of:

- (a) seven days after the date the Offer becomes, or is declared, unconditional; and

(b) seven days after the date you accept the Offer if the Offer is, at the time of acceptance, unconditional,

but, in any event (assuming the Offer becomes, or is declared, unconditional), no later than 21 days after the end of the Offer Period.

However, there are certain exceptions to the above timetable for the issuing of consideration. Full details of when you will be paid your consideration are set out in section 6 of Annexure A of the Bidder's Statement.

#### **5.10 Effect of an improvement in consideration on BRL's Shareholders who have already accepted the Offer**

If Mercantile OFM improves the consideration offered under the Offer, all BRL Shareholders, whether or not they have accepted the Offer before that improvement in consideration, will be entitled to the benefit of that improved consideration.

#### **5.11 Lapse of Offer**

The Offer will lapse if the Offer Conditions are not freed or fulfilled by the end of the Offer Period, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your BRL Shares as you see fit.

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## 6. INFORMATION REGARDING BRL

### 6.1 Background information on BRL

BRL was incorporated on 15 May 2006 in Western Australia and listed on ASX on 22 October 2007. BRL's activities are focussed on the acquisition, exploration and development of bauxite, silica and lithium mineral deposits in Western Australia.

BRL has a joint venture with HDM, the wholly owned subsidiary of Shandong Bureau No.1 Institute for Prospecting of Geology & Minerals (**BRL-HDM JV**). HDM is currently working towards obtaining a 40% participating interest in the bauxite rights of several tenements under the BRL-HDM JV, which will be earned upon HDM entering into a binding commitment to undertake a feasibility study on the tenements. Should HDM and BRL make a subsequent decision to mine, then HDM will earn an additional 20% interest in bauxite rights on the tenements to be developed. BRL maintains 100% interest in all other minerals.

BRL and HDM plan to continue the evaluation of the potential for economic development of the Dionysus and the combined Ceres/Athena resource areas:

- (a) Athena is located 110km south-east of Perth and consists of a JORC 2012, 36.2Mt inferred mineral resource (32.8% available alumina, 2.8% reactive silica, see ASX announcement 15/07/14).
- (b) Ceres is located 20km south of the Athena deposit and consists of a JORC 2012, 14.8Mt inferred mineral resource (31.7% available alumina, 3.0% reactive silica, see ASX announcement 30/07/12).
- (c) Dionysus is located 95km NNE of Perth within 14km of rail connection to Kwinana Port and consists of a JORC 2012, 20.3Mt inferred mineral resource (32.6% available alumina, 3.4% reactive silica, see ASX announcement 24/03/14).

Over the preceding 12 months BRL have actively compiled an extensive land holding of tenements in the South West and Kimberley of Western Australia and in Far North Queensland that are variously prospective for high grade silica sand deposits and high purity silica from hard rock quartz occurrences:

- (a) The Gingin Silica Sand Project consists of two exploration licence applications 23km and 70km NNE of Perth adjacent to existing sand mining operating both for domestic and high grade export use. Roadside grab samples have been collected and initial chemical and mineralogical analysis are encouraging.
- (b) The East Esperance Silica Sand Project consists of two granted exploration tenements located 16km to the east and 55km ENE of the Esperance Port. Roadside grab samples have been collected and initial chemical analysis are encouraging.
- (c) The Albany Silica Sand project consists of five exploration tenement applications within 40km to the north-east, north and north-west of the Albany Port. Adjacent to the tenements is an active mining operation exporting greater than 200Kt per annum of high grade silica sand to Japan and other Asian countries. Roadside grab samples have been collected and initial chemical analysis are encouraging.
- (d) BRL have recently completed applications for four exploration licences in the Wheatbelt of Western Australia, one exploration license in the

Kimberley of Western Australia and one exploration permit in Far North Queensland all of which contain quartz occurrences that BRL consider prospective for high purity silica. Reconnaissance visits have been completed at all but the Kimberley lease.

In 2016 BRL's application for the Lort River Lithium Project tenement was granted and heritage agreements were subsequently put in place to allow exploration activities to commence. The Lort River Lithium Project area contains a very high lithium stream sediment sample collected by Geoscience Australia. Previous explorers' surface geochemistry sampling on adjacent tenements have defined low level lithium anomalies (see Pioneer Resources Limited ASX announcement 6/4/2016). Unseasonal rainfall events during the 2016/17 summer prevented planned exploration activities from progressing however this work is now scheduled for completion early in 2018.

## 6.2 Tenements

As at the date of this Target's Statement the tenement holdings of BRL (and subsidiaries) are:

### (a) BRL Tenements (100%)

BRL retain 100% interest in the following tenements:

Tenement	Location
<b>Lort River Lithium Project (Granted)</b>	
E74/595	Lort River
<b>Gingin Silica Project (Pending)</b>	
E70/5053	Warbrook
E70/5058	Quin Brook
<b>Albany Silica Project (Pending)</b>	
E70/4982	Green Range
E70/4983	Narrikup
E70/5014	Redmond West
E70/5015	Redmond East
E70/5016	Redmond South
<b>East Esperance Silica Project (Granted)</b>	
E63/1853	Merivale
E63/1854	Condinup
<b>Regional Hardrock Quartz Projects (Pending)</b>	
EPMA 26702	Mt Eliza

Tenement	Location
E70/5069	Jouerdine
E70/5070	Bilocupping
E70/5071	Calcaling
E80/5160	Halls Creek

(b) **HDM Joint Venture Tenements**

The tenements the subject of the BRL-HDM JV are as follows:

Tenement	Location
<b>Darling Range Tenements (Granted)</b>	
E70/3160	Toodyay
E70/3405	Victoria Plains
E70/3179	Congelin
E70/3180	Dattening
E70/3890	Wandering

**6.3 Directors of BRL**

As at the date of this Target's Statement, the directors of BRL are:

Name	Position
Robert Nash	Non-Executive Chairman
Luke Atkins	Non- Non-Executive Director
Neil Lithgow	Non-Executive Director
Zhaozhong Wang	Non-Executive Director

**6.4 Publicly available information about BRL**

BRL is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a listed company, BRL is subject to the ASX Listing Rules which require continuous disclosure of any information BRL has that a reasonable person would expect to have a material effect on the price or value of its securities.

Copies of ASX announcements made by BRL are available on the ASX's website at [www.asx.com.au](http://www.asx.com.au) (ASX Code: BAU).

## 6.5 Financial information and related matters

BRL's last published audited financial statements are for the financial year ended 30 June 2017 and were released on the ASX on 26 September 2017

Copies of these reports may be obtained from ASX's website at [www.asx.com.au](http://www.asx.com.au) (ASX: BAU).

So far as the BRL Directors are aware:

- (a) the financial position of BRL has not materially changed since the date of the annual report for the year ending 30 June 2017; and
- (b) there has not been any matter or circumstance, other than those referred to in the annual report for the year ending 30 June 2017 and this Target's Statement that has significantly affected, or may significantly affect the operations or the financial position of BRL, the results of operations of BRL, or the state of affairs of BRL in future financial years.

BRL Shareholders should consider section 8.1 of this Target's Statement in connection with the potential effect of the Offer on BRL's financing arrangements and material contracts.

## 6.6 Forecast financial information for BRL

BRL has given careful consideration as to whether a reasonable basis exists to produce reliable and meaningful forecast financial information. The BRL Directors have concluded that, as at the date of this Target's Statement, it would be misleading to provide forecast financial information for BRL, as a reasonable basis does not exist for providing forecasts that would be sufficiently meaningful and reliable as required by applicable law, policy and market practice.

The financial performance of BRL in any period will be influenced by various factors that are outside the control of the BRL Directors and that cannot, at this time, be predicted with a high level of confidence.

## 6.7 Mercantile OFM's current interests in BRL

As at the date of this Target's Statement, Mercantile OFM has a Relevant Interest in 6,569,337 BRL Shares, representing 3.1% of the BRL Shares on issue.

## 6.8 Proposed Return of Capital

As announced by the Company on 15 December 2017, the Company is proposing to undertake a 5 cent per share capital return, subject to shareholder approval (**Capital Return**).

As noted in the Company's 2017 Annual Report and other recent market announcements, the Board has had capital management initiatives under active review. The Company currently has around \$16.2 million in cash and cash equivalents in addition to its other real estate and mining project assets. The proposed Capital Return will result in approximately \$10.7 million being returned to shareholders, leaving the Company with cash reserves of approximately \$5.5 million.

The Board acknowledges that the proposed capital return, if completed during the Offer Period, would represent a "Prescribed Occurrence" (as detailed in

section 7.1(b) of Annexure A of this Target's Statement) giving Mercantile OFM the right to withdraw the Offer.

Notwithstanding the above, the Company believes the proposed Capital Return is in the interests of all shareholders and provides shareholders both a short term substantial return of capital while enabling them to maintain an ongoing investment in the Company's various resource projects, with the potential for real value generation over the medium to longer term.

## 6.9 Competent Person

The information in this Target's Statement that relates to Exploration Results and Mineral Resources as a whole is based on information compiled by Nick Algie. Mr Algie is a qualified geologist and a fulltime employee of BRL. He is a shareholder in BRL and is entitled to participate in BRL's employee performance plan, details of which are included in BRL's 2017 Remuneration Report. Mr Algie is a member of the Australian Institute of Mining and Metallurgy, and 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".

The Company advises that this Target's Statement contains summaries of Mineral Resources as defined in the 2012 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (**JORC Code**). The JORC compliant Public Reports released to the ASX declaring the exploration results or JORC resources referred to can be viewed on both the ASX and the Company websites, free of charge.

Information prepared and first disclosed under the JORC 2004 Edition, and not related to a material mining project, and which has not materially changed since last reported has not been updated.

This information was first reported in ASX announcements released by the Company on 30/7/2012 (New Bauxite Resource at Williams Project, Western Australia), 4/9/2013 (Fortuna Bauxite Resources Increased to 39.5MT), 24/3/2014 (New Bauxite Resource at Dionysus Project North Darling Range), 15/7/2014 (59% Increase in Athena Bauxite Deposit) and 23/9/2014 (Felicitas Bauxite Resource Increase in grade and confidence) (**Announcements**) in which Mr Algie consented to the inclusion of these matters based on his information in the form and context in which it appears. The Company is not aware of any new information or data that materially affects the information included in the Announcement and confirms that all material assumptions and technical parameters underpinning the estimates in the Announcement continue to apply and have not materially changed.

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## 7. INFORMATION RELATING TO THE BRL DIRECTORS

### 7.1 Interests and dealings in BRL securities

#### (a) Interests in BRL securities

As at the date of this Target's Statement, the BRL Directors and their associates had the following interest in the securities of BRL:

Director	BRL Shares	Performance Rights
Robert Nash	330,000 <sup>1</sup>	2,000,000 <sup>2</sup>
Luke Atkins	20,215,767 <sup>3</sup>	4,000,000 <sup>4</sup>
Neil Lithgow	19,366,666 <sup>5</sup>	2,000,000 <sup>6</sup>
Zhaozhong Wang <sup>1</sup>	19,700,000 <sup>7</sup>	2,000,000 <sup>8</sup>

#### Notes

1. Held by Robert Nash ATF Nash Family Trust (of which Mr Nash is trustee and beneficiary).
2. Comprising 666,666 Tranche 1 performance rights, 666,667 Tranche 2 performance rights and 666,667 Tranche 3 performance rights. Refer to the Company's Notice of 2017 Annual General Meeting for full terms and conditions of the performance rights.
3. Comprising 25,000 Shares held directly by Mr Atkins, 17,016,667 Shares held by Tailrain Pty Ltd (an entity jointly controlled by Mr Atkins) ATF The Childrens A/C, and 3,174,100 held by Annette Atkins and her associate Lake McCleod Gypsum Pty Ltd.
4. Comprising 1,333,333 Tranche 1 performance rights, 1,333,333 Tranche 2 performance rights and 1,333,334 Tranche 3 performance rights. Refer to the Company's Notice of 2017 Annual General Meeting for full terms and conditions of the performance rights.
5. Held by Big Fish Nominees Pty Ltd and Spectral Investments Pty Ltd (entities controlled by Mr Lithgow) ATF Lithgow Family Trust (of which Mr Lithgow is a beneficiary).
6. Comprising 666,666 Tranche 1 performance rights, 666,666 Tranche 2 performance rights and 666,667 Tranche 3 performance rights. Refer to the Company's Notice of 2017 Annual General Meeting for full terms and conditions of the performance rights.
7. Mr Wang is the corporate representatives of HD Mining and Investment Pty Ltd, who is the holder of these Shares.
8. Comprising 666,666 Tranche 1 performance rights, 666,666 Tranche 2 performance rights and 666,667 Tranche 3 performance rights. Refer to the Company's Notice of 2017 Annual General Meeting for full terms and conditions of the performance rights.

#### (b) Dealings in BRL Shares

In the 4 month period ending on the date immediately before the date of this Target's Statement, no BRL Directors have acquired or disposed of a Relevant Interest in any BRL Shares.

On 15 November 2017, the Directors were each issued performance rights (as detailed in section 7.1(a) above) under the Company's employee performance rights plan following receipt of Shareholder approval at the Company's 2017 Annual General Meeting.

## **7.2 Interests and dealings in Mercantile OFM Group securities**

### **(a) Interests in Mercantile OFM Group securities**

As at the date immediately before the date of this Target's Statement, no BRL Director had a Relevant Interest in any Mercantile OFM Group securities.

### **(b) Dealings in Mercantile OFM Group securities**

No BRL Director has acquired or disposed of a Relevant Interest in any Mercantile OFM Group securities in the 4 month period ending on the date immediately before the date of this Target's Statement.

## **7.3 Benefits and agreements**

### **(a) Benefits in connection with retirement from office**

As a result of the Offer, no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of BRL or related body corporate of BRL.

### **(b) Agreements connected with or conditional on the Offer**

There are no agreements made between any BRL Director and any other person in connection with, or conditional upon, the outcome of the Offer other than in their capacity as a holder of BRL Shares or BRL Options.

### **(c) Benefits from Mercantile OFM Group**

None of the BRL Directors have agreed to receive, or are entitled to receive, any benefit from any member of the Mercantile OFM Group which is conditional on, or is related to, the Offer, other than in their capacity as a holder of BRL Shares or BRL Options.

### **(d) Interests of directors in contracts with Mercantile OFM**

None of the BRL Directors have any interest in any contract entered into by any member of the Mercantile OFM Group.

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## 8. ADDITIONAL INFORMATION

### 8.1 Effect of the takeover on BRL's financing and material agreements

To the best of each BRL Director's knowledge, there are no material contracts or financing arrangements to which BRL is a party which contain any change of control provisions which may be triggered as a result of, or as a result of acceptances of, the Offer.

### 8.2 Material litigation

As far as the BRL Directors are aware, BRL is not involved in any ongoing litigation which is material in the context of BRL and its Related Bodies Corporate taken as a whole.

### 8.3 BRL's issued securities

As at the date of this Target's Statement, BRL's issued equity securities consisted of:

- (a) 214,422,336 BRL Shares on issue; and
- (b) 10,000,000 performance rights on issue comprising of:
  - (i) 3,333,331 Tranche 1 performance rights, expiring 10 May 2019;
  - (ii) 3,333,334 Tranche 2 performance rights, expiring 10 November 2019; and
  - (iii) 3,333,335 Tranche 3 performance rights, expiring 10 November 2020.

Refer to the Company's notice of 2017 Annual General Meeting for full terms and conditions attaching to the performance rights on issue.

There are no other shares or other securities (including equity securities, debt securities or convertible securities) or options or performance rights or other instruments which are convertible into securities in BRL nor has it offered or agreed to issue any such shares, securities, options or performance rights or other instruments to any Third Party.

### 8.4 Substantial holders

As at the date of this Target's Statement, BRL is aware from notices filed with the ASX that the following persons have substantial holdings in BRL:

	Name of substantial holder	Number of BRL Shares held	% of total
1.	HD Mining & Investments Pty Ltd	19,700,000	9.19
2.	Big Fish Nominees Pty Ltd	17,666,666	8.24
3.	Tailrain Pty Ltd (Childrens A/C)	17,016,667	7.94
4.	Jetosea Pty Ltd	16,188,176	7.55
5.	Dilkara Nominees Pty Ltd (Millwood Smith A/C)	12,216,667	5.70

## 8.5 Continuous disclosure

BRL is a disclosing entity under the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. These obligations require BRL to notify ASX of information about specified matters and events as they occur for the purpose of making that information available to the market. In particular, BRL has an obligation (subject to limited exceptions) to notify ASX immediately on becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of BRL Shares.

Copies of the documents filed with ASX may be obtained from the ASX website at [www.asx.com.au](http://www.asx.com.au) (ASX: BAU) or from BRL website at [www.bauxiteresources.com.au](http://www.bauxiteresources.com.au). In addition, BRL will make copies of the following documents available for inspection at BRL's offices which are located at Suite 10, 295 Rokeby Road, Subiaco, WA 6008 (between 9.00am and 5.00pm on Business Days):

- (a) Annual Report 2017, lodged with ASX on 26 September 2017; and
- (b) any continuous disclosure document lodged by BRL with ASX between the lodgement of its Annual Report 2017 and the date of this Target's Statement.

Copies of documents lodged with ASIC in relation to BRL may be obtained from, or inspected at, an ASIC office.

## 8.6 Consents

Steinepreis Paganin has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as Australian legal advisers to BRL in the form and context in which it is named. Steinepreis Paganin has not advised on the laws of any foreign jurisdiction, and has provided no tax advice in relation to any jurisdiction. Steinepreis Paganin has not caused or authorised the issue of this Target's Statement, does not make or purport to make any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

BDO Corporate Finance (WA) Pty Ltd has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in the Target's Statement and for the Independent Expert's Report to accompany this Target's Statement, and for the inclusion of any statement said in this Target's Statement or the Independent Expert's Report based on a statement by BDO Corporate Finance (WA) Pty Ltd, in the form and context in which it is included.

BDO Corporate Finance (WA) Pty Ltd:

- (a) has not caused or authorised the issue of this Target's Statement;
- (b) does not make or purport to make any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than as included in the Independent Expert's Report and statements in this Target's Statement based on its Independent Expert's Report; and

- (c) takes no responsibility for any part of this Target's Statement other than the Independent Expert's Report and statements in this Target's Statement based on the Independent Expert's Report and any reference to its name.

Dunbar Resource Management has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in the Target's Statement and for the Independent Mineral Valuation Report to accompany the Independent Expert's Report and this Target's Statement, and for the inclusion of any statement said in this Target's Statement or the Independent Mineral Valuation Report based on a statement by Dunbar Resource Management, in the form and context in which it is included.

Dunbar Resource Management:

- (a) has not caused or authorised the issue of this Target's Statement;
- (b) does not make or purport to make any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than as included in the Independent Mineral Valuation Report and statements in this Target's Statement based on its Independent Mineral Valuation Report; and
- (c) takes no responsibility for any part of this Target's Statement other than the Independent Mineral Valuation Report and statements in this Target's Statement based on the Independent Mineral Valuation Report and any reference to its name.

LMW Perth has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in the Target's Statement and for the Independent Property Valuation Reports to accompany the Independent Expert's Report and this Target's Statement, and for the inclusion of any statement said in this Target's Statement or the Independent Property Valuation Reports based on a statement by LMW Perth, in the form and context in which it is included.

LMW Perth:

- (a) has not caused or authorised the issue of this Target's Statement;
- (b) does not make or purport to make any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than as included in the Independent Property Valuation Reports and statements in this Target's Statement based on its Independent Property Valuation Reports; and
- (c) takes no responsibility for any part of this Target's Statement other than the Independent Property Valuation Reports and statements in this Target's Statement based on the Independent Property Valuation Reports and any reference to its name.

Nick Algje as the competent person has consented to being named in this Target's Statement and has not withdrawn such consent prior to the lodgement of this Target's Statement with ASIC.

Each BRL Director has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to the making of statements in this Target's Statement that they intend to reject the Offer in respect of the BRL Shares held by them or on their behalf (either only in relation to the parcel of BRL Shares that they own, control or represent, or in aggregate with other parcels of BRL Shares owned, controlled or represented by other BRL Shareholders who also intend to reject, or cause to be rejected, the Offer).

As permitted by ASIC Class Order 13/521 this Target's Statement contains statements which are made in, or based on statements made in, documents lodged with ASIC or given to the ASX. Pursuant to the Class Order, the parties making those statements are not required to consent to, and have not consented to, the inclusion of those statements in this Target's Statement. If you would like to receive a copy of any of these documents, or the relevant parts of the documents containing the statements (free of charge), during the Offer Period, please contact the Company.

### **8.7 Regulatory and other approval, consent or waiver requirements**

BRL has not been granted any modifications or exemptions by ASIC from the Corporations Act in connection with the Takeover Bid, nor has BRL been granted any waivers from ASX in relation to the Takeover Bid.

### **8.8 No other material information**

This Target's Statement is required to include all the information that BRL Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- (a) only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- (b) only if the information is known to any director of BRL.

The BRL Directors are of the opinion that the information that BRL Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- (a) the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- (b) the information contained in BRL's releases to the ASX, and in the documents lodged by BRL with ASIC before the date of this Target's Statement; and
- (c) the information contained in this Target's Statement.

The BRL Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the BRL Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the BRL Directors have had regard to:

- (a) the nature of the BRL Shares;
- (b) the matters that shareholders may reasonably be expected to know;
- (c) the fact that certain matters may reasonably be expected to be known to shareholders' professional advisers; and
- (d) the time available to BRL to prepare this Target's Statement.

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## 9. GLOSSARY AND INTERPRETATION

### 9.1 Glossary

Where the following terms are used in this Target's Statement they have the following meanings:

**Acceptance Form** means the acceptance form for the Offer accompanying the Bidder's Statement or, as the context requires, any replacement or substitute acceptance form provided by or on behalf of Mercantile OFM, which forms part of the Bidder's Statement.

**Announcement Date** means 8 November 2017, being the day on which the Offer was announced by Mercantile OFM with the ASX.

**ASIC** means Australian Securities & Investments Commission.

**Associate** has the meaning given to that term in sections 10 to 17 of the Corporations Act.

**ASX** means ASX Limited (ACN 008 624 691) or the financial market operated by it, as the context requires.

**ASX Listing Rules** or **Listing Rules** means the official listing rules of ASX.

**ASX Settlement Operating Rules** means the operating rules of the settlement facility provided by ASX.

**AWST** means Australian Western Standard Time.

**Bidder's Statement** means the statement under Part 6.5 of Division 2 of the Corporations Act issued by Mercantile OFM in relation to the Offer, as supplemented.

**Board** means the board of Directors of the Company.

**BRL** means Bauxite Resources Limited (ACN 119 699 982).

**BRL Board** means the board of directors of BRL.

**BRL Director** means a director of BRL.

**BRL Share** or **Share** means a fully paid ordinary share in the capital of BRL.

**BRL Shareholder** or **Shareholder** means a person who is recorded in BRL's register of members as the holder of one or more BRL Shares.

**Business Day** means a day that is not a Saturday, Sunday or public holiday or bank holiday in Perth, Western Australia.

**Capital Return** has the meaning set out in section 6.8 of this Target's Statement.

**CGT** means capital gains tax.

**Competing Proposal** has the meaning given to that term in the Bidder's Statement.

**Controlled Entity** has the meaning given to that word in the Corporations Act.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Director** means a director of the Company as at the date of this Target's Statement.

**Dispose** means to sell, offer for sale, transfer, assign, swap, surrender, gift, create or allow to exist an encumbrance, option or trust or otherwise deal with or dispose of that property (or any legal or beneficial interest in it or part of it) or authorise, or agree conditionally or otherwise to do, any of the things referred herein.

**Encumbrance** means an interest or power:

- (a) reserved in or over an interest in any asset including, without limitation, any retention of title; or
- (b) created or otherwise arising in or over any interest in any asset under a bill of sale, mortgage, charge, lien, pledge, trust or power,

by way of security for the payment of a debt, any other monetary obligation or the performance of any other obligation and includes, without limitation, any agreement to grant or create the above.

**Foreign Resident** means a BRL Shareholder who is not a resident of Australia for taxation purposes.

**GST** means Australian goods and services tax.

**GST Act** means the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

**Independent Expert** means BDO Corporate Finance (WA) Pty Ltd.

**Independent Expert's Report** means the report prepared by the Independent Expert attached as Annexure B.

**Independent Mineral Valuation Report** means the report of Dunbar Resource Management attached to the Independent Expert's Report.

**Independent Property Valuation Reports** means the reports of LMW Perth attached to the Independent Expert's Report.

**Issuer Sponsored Holding** means a holding of BRL Shares on BRL's issuer sponsored subregister.

**Marketable Parcel** has the meaning given to that term under the ASX Listing Rules.

**Mercantile OFM** or **Bidder** means Mercantile OFM Pty Ltd (ACN 120 221 623).

**Mercantile OFM Group** means Mercantile OFM and its Related Bodies Corporate.

**Mercantile OFM Shares** means fully paid ordinary shares in the issued capital of Mercantile OFM.

**Notice of Status of Conditions** means Mercantile OFM's notice disclosing the status of the conditions to the Offer which is required to be given by section 630(3) of the Corporations Act.

**Offer** or **Mercantile OFM's Offer** means the offer to acquire BRL Shares to be made by Mercantile OFM in connection with the Takeover Bid.

**Offer Conditions** means the conditions to the Offer set out in Appendix A to this Target's Statement.

**Offer Period** means the period with respect to the Offer during which the Offer is open for acceptance in accordance with section 2 of Appendix A of the Bidder's Statement.

**Offer Price** means the consideration payable by Mercantile OFM under its Offer, being \$0.09 cash per BRL Share.

**Record Date** means 9:00am (Sydney time) on 22 November 2017.

**Regulatory Authority** includes:

- (a) a government or governmental, semi-governmental, administrative, fiscal or judicial entity or authority;
- (b) a minister, department, office, commission, delegate, instrumentality, tribunal, agency, board, authority or organisation of any government;
- (c) any regulatory organisation established under a statute; and
- (d) in particular, ASX and ASIC.

**Related Bodies Corporate** has the meaning given in the Corporations Act.

**Related Entities** has the meaning given in section 9 of the Corporations Act.

**Relevant Interest** has the meaning given in section 608 and section 609 of the Corporations Act.

**Takeover Bid** means the off-market takeover bid made by Mercantile OFM for 50% of the BRL Shares that Mercantile OFM does not currently own or control.

**Target's Statement** means this document (including the attachments and annexure), being the statement under Part 6.5 Division 3 of the Corporations Act issued by BRL in relation to the Offer.

**Third Party** means a party other than BRL and any subsidiary of BRL, and Mercantile OFM and any subsidiary of Mercantile OFM.

## 9.2 Interpretation

In this Target's Statement:

- (a) other words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (b) words of any gender include all genders;
- (c) words indicating the singular include the plural and vice versa.
- (d) an expression indicating a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

- (e) a reference to a section, clause, attachment and schedule is a reference to a section of, clause of and an attachment and schedule to this Target's Statement as relevant;
- (f) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;
- (g) headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement;
- (h) a reference to time is a reference to AWST unless otherwise indicated; and
- (i) a reference to dollars, \$, A\$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia unless otherwise stated.

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10. **AUTHORISATION**

This Target's Statement has been approved by a unanimous resolution passed by the directors of BRL.

**Signed for and on behalf of Bauxite Resources Limited**

A handwritten signature in black ink, appearing to read 'R. Nash', with a horizontal line extending to the right.

**Robert Nash  
Non-Executive Chairman  
BAUXITE RESOURCES LIMITED**

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## APPENDIX A – OFFER TERMS AND CONDITIONS

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Set out below is a copy of the Offer Terms and Conditions (**Offer Terms**) that can be found in Appendix A of Mercantile OFM's Bidder's Statement. All defined terms set out below have the meaning given to them in the Bidder's Statement unless otherwise indicated.

### 1. MERCANTILE OFM'S OFFER

- 1.1 Mercantile OFM offers to acquire your Bauxite Resources Shares on the terms and conditions of this Offer. You may accept this Offer in respect of any of your Bauxite Resources Shares provided that you may not accept in respect of more than one of every two Bauxite Resources Shares you hold. If you hold an odd number of Bauxite Resources Shares, the number of Bauxite Resources Shares you may accept for will be rounded up. The consideration being offered by Mercantile OFM is 9 cents for each Bauxite Resources Share acquired under this Offer.
- 1.2 If you accept this Offer and Mercantile OFM acquires any of your Bauxite Resources Shares, Mercantile OFM is also entitled to any Rights in respect of those of your Bauxite Resources Shares acquired by Mercantile OFM.

### 2. OFFER PERIOD

Unless withdrawn, this Offer remains open for acceptance during the period commencing on 20 December 2017 and ending at 7:00pm on 31 January 2018 Sydney time, subject to any extension of that period in accordance with the Corporations Act.

### 3. WHO MAY ACCEPT

- 3.1 An offer in the form of this Offer is being made to each holder of Bauxite Resources Shares registered in the register of members of Bauxite Resources at 9.00am Sydney time on 22 November 2017.
- 3.2 This Offer extends to any person who is able, during the Offer Period, to give good title to a parcel of Bauxite Resources Shares that are not "tagged" and has not already accepted an Offer for those Bauxite Resources Shares (see Clause 3.6). If you accept this Offer in respect of one of every two Bauxite Resources Shares you hold, you are not entitled to accept the Offer for your remaining Bauxite Resources Shares (Remaining Shares), nor can a transferee of your Remaining Shares accept the Offer. Your Remaining Shares will effectively be "tagged" so that a transferee of the Remaining Shares will be prevented from accepting the Offer.
- 3.3 Subject to Clause 3.1, if at the time this Offer is made to you another person is, or at any time during the Offer Period and before this Offer is accepted becomes, the holder of any of your Bauxite Resources Shares (**transferred Shares**), Mercantile OFM is deemed, in place of this Offer, to have made at that time a corresponding Offer on the same terms and conditions:
- (a) to the other person, relating to the transferred Shares; and
  - (b) to you, relating to your Bauxite Resources Shares other than the transferred Shares (if any).
- 3.4 Subject to Clause 3.5 and despite Clauses 1.1, 3.1, 3.2 and 3.3, if accepting this Offer would leave you with less than a Marketable Parcel of Bauxite Resources Shares, this Offer extends to the whole parcel of your Bauxite Resources Shares

and if you accept the Offer you will be deemed to have accepted for (and will receive consideration for) 100% of your Bauxite Resources Shares, unless you or another person acquired a legal or equitable interest in the Bauxite Resources Shares comprising the parcel after the Offer was announced to ASX on the Announcement Date. This Clause 3.4 applies to persons who hold Bauxite Resources Shares as nominee or trustee for others, provided that the holder provides a notice complying with Clause 3.7 in relation to each parcel of Bauxite Resources Shares to which the provision is to apply.

3.5 Clause 3.4 does not apply to a parcel of Bauxite Resources Shares whether held beneficially or otherwise, that has come into existence, or increased in size, because of a transaction entered into (including the creation of any trust), at any time after 10.00am Sydney time on the Announcement Date.

3.6 Subject to Clause 3.2:

- (a) a person who is able during the Offer Period to give good title to a parcel of Bauxite Resources Shares; and
- (b) there was not already been an accepted Offer for a parcel of Bauxite Resources Shares which the relevant Bauxite Resources Shares were formerly a part,

that person may, in accordance with section 653B(1) of the Corporations Act, accept this Offer as if an offer on terms identical to the Offer had been made to that person in relation to those Bauxite Resources Shares.

3.7 If at any time during the Offer Period and before this Offer is accepted, you hold your Bauxite Resources Shares in two or more distinct portions (for example, you hold some as trustee, nominee or otherwise on account of another person) within the meaning of Section 653B of the Corporations Act:

- (a) this Offer is deemed to consist of a separate corresponding Offer to you in relation to each distinct portion of your Bauxite Resources Shares;
- (b) to accept any of those corresponding Offers, you must specify by written notice accompanying your Acceptance Form; or
- (c) that your Bauxite Resources Shares consist of distinct portions and the number of the Bauxite Resources Shares to which the acceptance relates; and
- (d) otherwise, Section 653B of the Corporations Act applies to this Offer in respect of your Bauxite Resources Shares and any acceptance of this Offer by you.

#### **4. HOW TO ACCEPT THIS OFFER**

4.1 You may accept this Offer in respect of any of your Bauxite Resources Shares provided that you may not accept for more than one of every two Bauxite Resources Shares that you hold.

4.2 You may only accept this Offer during the Offer Period.

4.3 To accept this Offer, you should proceed as follows:

- (a) you may complete and sign the Acceptance Form in accordance with the instructions on the Acceptance Form and return it, so that the

envelope in which they are sent is received by Mercantile OFM in accordance with the Acceptance Form before the end of the Offer Period; and

- (b) if your Bauxite Resources Shares are held in a CHESS Holding (as an alternative to completing the Acceptance Form) you may either:
  - (i) instruct your Controlling Participant to initiate acceptance of the Offer in accordance with Rule 14.14 of the ASX Settlement Operating Rules before the end of the Offer Period; or
  - (ii) if you are a Broker or an ASX Settlement Participant, initiate acceptance of the Offer in accordance with the requirements of the ASX Settlement Operating Rules before the end of the Offer Period.

## 5. EFFECT OF ACCEPTANCE

5.1 By accepting the Offer in accordance with Clause 4, you will have:

- (a) accepted this Offer in respect of one of every two of your Bauxite Resources Shares or such lesser number as specified in your Acceptance Form;
- (b) agreed to transfer your Bauxite Resources Shares to Mercantile OFM (subject to this Offer and the contract resulting from your acceptance of it becoming unconditional);
- (c) represented and warranted to Mercantile OFM that your Bauxite Resources Shares will at the time of acceptance of this Offer and at the time of their transfer to Mercantile OFM be fully paid up and that Mercantile OFM will acquire good title to and beneficial ownership of your Bauxite Resources Shares free from all Encumbrances and other adverse third party interests of any kind;
- (d) on the Offer or the contract resulting from your acceptance of the Offer becoming unconditional, irrevocably appointed Mercantile OFM and each of its directors, secretaries and officers severally from time to time as your attorney to do all things which you could lawfully do in relation to your Bauxite Resources Shares or in exercise of any right derived from the holding of such Bauxite Resources Shares, including without limitation:
  - (i) attending and voting at any general meeting of Bauxite Resources;
  - (ii) notifying Bauxite Resources that your address in the records of Bauxite Resources for all purposes including the dispatch of notices of meeting, annual reports and dividends should be altered to an address nominated by Mercantile OFM;
  - (iii) notifying Bauxite Resources that the details of the bank account on the register held by the Bauxite Resources for all future distributions in respect of your Bauxite Resources Shares should be altered to a bank account nominated by Mercantile OFM;
  - (iv) do all things necessary to effect the transfer of your Bauxite Resources Shares on the same terms and conditions set out in the Offer, legally and beneficially to Mercantile OFM; and

- (v) doing all things incidental and ancillary to any of the above.

This appointment terminates on the registration of Mercantile OFM as the registered holder of your Bauxite Resources Shares.

Mercantile OFM must indemnify you and keep you indemnified in respect of all costs, expenses and obligations which might otherwise be incurred or undertaken as a result of the exercise by an attorney of any powers under this Clause 5.1:

- (e) agreed that in exercising the powers conferred by the power of attorney under Clause 5.1(d) the attorney may act in the interests of Mercantile OFM as the intended registered holder and beneficial holder of those Bauxite Resources Shares;
- (f) on the Offer or the contract resulting from your acceptance of the Offer becoming unconditional, agreed not to attend or vote in person at any general meeting of Bauxite Resources or to exercise or purport to exercise any of the powers conferred on an attorney under Clause 5.1(d);
- (g) represented and warranted to Mercantile OFM that the making of the Offer to you and your acceptance of this Offer is lawful under any Foreign Law which applies to you, to the making of this Offer or to your acceptance of this Offer;
- (h) agree to indemnify Mercantile OFM and Bauxite Resources fully in respect of any claim, demand, action, suit or proceeding made or brought against Bauxite Resources and any loss, expense, damage or liability whatsoever suffered or incurred by Mercantile OFM, in each case as a result of any representation or warranty made by you not being true;
- (i) if and when the contract resulting from your acceptance of the Offer becomes unconditional (even though Mercantile OFM has not yet provided the consideration due to you) you authorise Mercantile OFM to transmit a message to ASX Settlement in accordance Rule 14.17.1 of the ASX Settlement Operating Rules so as to enter those of your Bauxite Resources Shares which are CHESS Holdings into the Mercantile OFM Takeover Transferee Holding; and
- (j) if and when the contract resulting from your acceptance of this Offer becomes unconditional (even though Mercantile OFM has not provided the consideration due to) you authorise Mercantile OFM to enter those of your Bauxite Resources Shares which are Issuer Sponsored Holdings into the name of Mercantile OFM.

5.2 By completing, signing and returning the Acceptance Form, you will also have:

- (a) authorised Mercantile OFM and each of its directors, secretaries, officers, servants and agents severally to complete the Acceptance Form by correcting any errors in or omissions from the Acceptance Form as may be necessary for either or both of the following purposes:
  - (i) to make the Acceptance Form an effectual acceptance of this Offer; and
  - (ii) to enable registration of the transfer to Mercantile OFM of your Bauxite Resources Shares.

- (b) authorised Mercantile OFM and each of its directors, secretaries, officers, servants, and agents severally on your behalf to initiate acceptance or instruct your Controlling Participant to initiate acceptance in accordance with Rule 14.14 of the ASX Settlement Operating Rules.

5.3 Mercantile OFM may at any time in its absolute discretion:

- (a) treat the receipt by it of an Acceptance Form during the Offer Period as a valid acceptance although any of the other requirements for a valid acceptance have not been complied with; and
- (b) where you have satisfied the requirements for acceptance in respect of only some of your Bauxite Resources Shares, treat the acceptance as a valid acceptance only in respect of those Bauxite Resources Shares.

5.4 In respect of any part of an acceptance treated by Mercantile OFM as valid, Mercantile OFM must provide you with the relevant consideration in accordance with Clause (a).

## **6. CONSIDERATION FOR YOUR BAUXITE RESOURCES SHARES**

6.1 Subject to Clauses 6.2 and 6.4 of this Offer, if you accept this Offer and the contract resulting from your acceptance of this Offer becomes unconditional, Mercantile OFM will pay to you the Offer Consideration to which you are entitled by the later of:

- (a) the date 7 days after the date you validly accept this Offer; and
- (b) 7 days after the date the Offer becomes or is declared unconditional.

but in any event (assuming the Offer becomes or is declared unconditional), no later than the date 7 days after the end of the Offer Period.

6.2 If you accept the Offer and you are a Foreign Shareholder, you are not entitled to receive the Offer Consideration unless and until all requisite authorities or clearances have been obtained from the Reserve Bank of Australia and or the Australian Taxation Office. Refer to Clause 6.9 of this Offer for further information.

6.3 Notwithstanding anything else in the Bidder's Statement, Mercantile OFM is under no obligation to spend any money, or undertake any action, in order to satisfy themselves of the eligibility of Foreign Shareholders to receive the Offer Consideration as set out in this Clause 6.2.

6.4 Where the Acceptance Form or any subsequent request from Mercantile OFM requires additional documents to be given with your acceptance (such as a certified copy of any of a power of attorney, grant of probate or letters of administration, or any other document requested by Mercantile OFM to give better effect to your acceptance):

- (a) if the documents are given with your acceptance, Mercantile OFM will provide the Offer Consideration in accordance with Clause 6.1 of this Offer;
- (b) if the documents are given after acceptance and before the end of the Offer Period, and this Offer is subject to a defeating condition at the time that Mercantile OFM is given the documents, Mercantile OFM will provide the Offer Consideration by the end of whichever of the following periods ends earlier:

- (i) 7 days after the contract resulting from your acceptance of this Offer becomes unconditional; or
    - (ii) 21 days after the end of the Offer Period.
  - (c) if the documents are given after the end of the Offer Period and this Offer is unconditional at the time that Mercantile OFM is given the documents, Mercantile OFM will provide the Offer Consideration by the end of whichever of the following periods ends earlier:
    - (i) 7 days after Mercantile OFM is given the documents; and
    - (ii) 21 days after the end of the Offer Period.
- 6.5 If you do not provide Mercantile OFM with the required additional documents within one month after the end of the Offer Period, Mercantile OFM may, in its sole discretion, rescind the contract resulting from your acceptance of this Offer.
- 6.6 If Mercantile OFM becomes entitled to any Rights as a result of your acceptance of this Offer, it may require you to give Mercantile OFM all documents necessary to vest those Rights in Mercantile OFM or otherwise to give Mercantile OFM the benefit or value of those Rights. If you do not give those documents to Mercantile OFM, or if you have received the benefit of those Rights, then Mercantile OFM may reduce the Offer Consideration to which you are otherwise entitled under this Offer by the amount equal to the value, (as reasonably assessed by Mercantile OFM), of those Rights.
- 6.7 If:
- (a) you have (or any previous holder of your Bauxite Resources Shares has) received the benefit of any Rights (whether in respect of non-cash benefits or otherwise); or
  - (b) you are (or any previous holder of your Bauxite Resources Shares is) entitled to receive the benefit of any Rights under the terms that provide for or otherwise apply to those Rights (for example, if the Right is to receive a dividend, if you are (or any previous holder of your Bauxite Resources Shares is) the registered holder of the Shares at the specified time for determining those entitled to the distribution); or
  - (c) your Bauxite Resources Shares were issued (or otherwise came into existence) on or after the record date in respect of any Rights to Bauxite Resources Shareholders,
- then Mercantile OFM may reduce the Offer Consideration to be paid to you under this Offer by the value (as reasonably assessed by Mercantile OFM) of such Rights.
- 6.8 If Mercantile OFM does not, or cannot, make such a reduction, you must pay such value or amount to Mercantile OFM.
- 6.9 If, at the time of acceptance of this Offer, any consent, authority or clearance of the Reserve Bank of Australia and/or the Australian Taxation Office is required for you to receive any consideration under this Offer or you are resident in or a resident of a place to which, or you are a person to whom:
- (a) the Banking (Foreign Exchange) Regulations 1959 (Cth);

- (b) Part 4 of the Charter of the United Nations Act 1945 (Cth);
- (c) the Charter of the United Nations (Dealing with Assets) Regulations 2008 (Cth);
- (d) Part 9 of the Anti-Money Laundering And Counter-Terrorism Financing Act 2006 (Cth);
- (e) any other regulations made under Part 4 of the *Charter of the United Nations Act 1945* (Cth); or
- (f) any other law of Australia that would make it unlawful for Mercantile OFM to provide Consideration for your Bauxite Resources Shares,

applies, then acceptance of this Offer will not create or transfer to you any right (contractual or contingent) to receive (and you will not be entitled to receive) any consideration under this Offer unless and until all requisite consents, authorities or clearances have been obtained.

- 6.10 If Mercantile OFM is required by law to retain or withhold (and pay to a public authority) any amount of the Offer Consideration you are entitled to under this Offer, the retention or payment by Mercantile OFM of that amount in conjunction with providing the remaining Offer Consideration to be provided to you in accordance with Clause 6.6 of the Offer will constitute full and proper provision of the Offer Consideration to you under this Offer.

## 7. CONDITION OF THIS OFFER

- 7.1 This Offer and the contract that results from acceptance of this Offer are each subject to the fulfilment of the following condition:

**“No Prescribed Occurrences:** none of the following happens during the period commencing on the Announcement Date and ending on the expiry of the Offer Period (each being a separate condition):

- (a) the shares of Bauxite Resources or any of the Controlled Entities of Bauxite Resources are converted into a larger or smaller number of shares;
- (b) Bauxite Resources or a subsidiary of Bauxite Resources resolves to reduce its share capital in any way;
- (c) Bauxite Resources or a subsidiary of Bauxite Resources:
  - (i) enters into a buy-back agreement; or
  - (ii) resolves to approve the terms of a buy-back agreement under sections 257C or 257D of the Corporations Act;
- (d) Bauxite Resources or a subsidiary of Bauxite Resources issues shares, or grants an option over its shares, or agrees to make such an issue or grant such an option;
- (e) Bauxite Resources or a subsidiary of Bauxite Resources issues or agrees to issue convertible notes;
- (f) Bauxite Resources or a subsidiary of Bauxite Resources disposes or agrees to dispose of the whole or a substantial part of its business or property;

- (g) Bauxite Resources or a subsidiary of Bauxite Resources grants or agrees to grant an Encumbrance over the whole or a substantial part of its business or property;
- (h) Bauxite Resources or a subsidiary of Bauxite Resources resolves to be wound up;
- (i) a liquidator or provisional liquidator of Bauxite Resources or a subsidiary of Bauxite Resources is appointed;
- (j) a court makes an order for the winding up of Bauxite Resources or a subsidiary of Bauxite Resources;
- (k) an administrator of Bauxite Resources or a subsidiary of Bauxite Resources is appointed under section 436A, 436B or 436C of the Corporations Act;
- (l) Bauxite Resources or a subsidiary of Bauxite Resources execute a deed of company arrangement; or
- (m) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part of the property of Bauxite Resources or a subsidiary of Bauxite Resources."

7.2 Each paragraph of Section 7.1:

- (a) is and must be construed as a separate condition; and
- (b) subject to the Corporations Act, operates only for the benefit of Mercantile OFM and any breach or non-fulfilment of such condition may be relied upon only by Mercantile OFM which may waive (generally or in respect of a particular event) the breach or non-fulfilment of that Condition.

7.3 The Condition does not prevent a contract to sell your Bauxite Resources Shares resulting from your acceptance of this Offer but:

- (a) breach of the Condition entitles Mercantile OFM to rescind that contract by notice to you; and
- (b) non-fulfilment of the Condition at the end of the Offer Period will have the consequences set out in this Section 7.1.

7.4 Where an event occurs that would mean at the time the event occurs the Condition to which this Offer or the contract resulting from your acceptance of this Offer is then subject would not be fulfilled, each paragraph of the Condition in Section 7.1 affected by that event becomes two separate Conditions on identical terms except that:

- (a) one of them relates solely to that event; and
- (b) the other specifically excludes that event.

Mercantile OFM may declare the Offer free under Section 7.1 from any paragraph of the Condition without declaring it free from the other paragraphs and may do so at different times.

7.5 Subject to the Corporations Act, Mercantile OFM may declare this Offer and any contract resulting from acceptance of this Offer free from the Condition by giving

written notice to Bauxite Resources not later than 3 business days after the end of the Offer Period.

7.6 The date for giving the notice on the status of the Condition as required by section 630(1) of the Corporations Act is 24 January 2018 (subject to extension in accordance with the Corporations Act) if the Offer Period is extended.

7.7 Your acceptance or the contract resulting from your acceptance of this Offer is void if:

- (a) at the end of the Offer Period the Condition in Section 7.1 is not fulfilled; and
- (b) Mercantile OFM has not declared this Offer and any contract resulting from the acceptance of it free of the Condition in accordance with Section 7.5.

## **8. WITHDRAWAL OF OFFERS**

8.1 This Offer may be withdrawn by Mercantile OFM, but only with ASIC's written consent (which consent may be given subject to any conditions which may be imposed by ASIC) or otherwise in accordance with the Corporations Act.

8.2 Subject to ASIC's consent (and any conditions imposed by ASIC), withdrawal of this Offer may be effected by written notice from Mercantile OFM given to Bauxite Resources.

8.3 Subject to any conditions imposed by ASIC on its consent, where Mercantile OFM withdraws this Offer:

- (a) this Offer, if not previously accepted, automatically becomes incapable of acceptance; and
- (b) any contract resulting from an acceptance of this Offer before the withdrawal (and for this purpose this Offer is treated as having continued in existence notwithstanding that acceptance) is automatically void.

## **9. VARIATION**

Mercantile OFM may vary this Offer in accordance with the Corporations Act.

## **10. MERCANTILE OFM'S RELEVANT INTERESTS**

At the date of this Offer, there are 214,422,336 Bauxite Resources Shares on issue. Immediately before this Offer was sent, Mercantile OFM had a Relevant Interest in 6,569,337 Bauxite Resources Shares. This constitutes 3.1% of all of the Bauxite Resources Shares on issue.

## **11. NO DUTY**

Mercantile OFM must pay all duty payable on the transfer of your Bauxite Resources Shares to it if you accept this Offer.

## **12. FOREIGN LAWS**

This Offer is not registered in any jurisdiction outside Australia (unless an applicable foreign law treats it as registered as a result of the Bidder's Statement being lodged with ASIC). It is your sole responsibility to satisfy yourself that you are

permitted by any foreign law applicable to you to accept this Offer and to receive the Offer Consideration.

**13. GOVERNING LAW**

13.1 This Offer and any contract resulting from acceptance of the Offer are governed by the law in force in NSW.

13.2 This Offer is dated 20 December 2017.

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**ANNEXURE B – INDEPENDENT EXPERT’S REPORT**

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**BAUXITE RESOURCES LIMITED**  
**Independent Expert's Report**

15 December 2017



## Financial Services Guide

15 December 2017

**BDO Corporate Finance (WA) Pty Ltd** ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Bauxite Resources Limited ('**Bauxite Resources**' or '**the Company**') to provide an independent expert's report on the proposed proportional off-market takeover bid by Mercantile OFM Limited ('**Mercantile OFM**') for one of every two shares in Bauxite Resources not already held by Mercantile OFM, at an offer price of \$0.09 cash per share ('**the Offer**'). You will be provided with a copy of our report as a retail client because you are a shareholder of Bauxite Resources.

### Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('**FSG**'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ who we are and how we can be contacted;
- ◆ the services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ any relevant associations or relationships we have; and
- ◆ our internal and external complaints handling procedures and how you may access them.

### Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

## **Fees, commissions and other benefits that we may receive**

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$25,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report. We note that BDO prepared Independent Expert Reports for inclusion in target statements prepared by the directors of MHM Metals Ltd in February 2017 and the directors of EZA Corporation Ltd in March 2017 in relation to takeover offers from Mercantile Investment Company Limited and Mercantile OFM respectively.

## **Remuneration or other benefits received by our employees**

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Bauxite Resources for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

## **Referrals**

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

## **Complaints resolution**

### *Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

## **Referral to External Dispute Resolution Scheme**

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll free: 1800 367 287  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

## **Contact details**

You may contact us using the details set out on page 1 of the accompanying report.



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Appendix 1 - Glossary and copyright notice

Appendix 2 - Valuation Methodologies

Appendix 3 - DRM Valuation Report

Appendix 4 - LMW Valuation Report

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38 Station Street  
Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
Australia

15 December 2017

The Directors  
Bauxite Resources Limited  
Suite 10, 295 Rokeby Road  
Subiaco, WA 6008

Dear Directors

## INDEPENDENT EXPERT'S REPORT

### 1. Introduction

On 8 November 2017, Mercantile Investment Company Limited (**'Mercantile'**), through its wholly owned subsidiary Mercantile OFM Pty Ltd (**'Mercantile OFM'**), announced that it intended to make an unsolicited, proportional off-market takeover bid for one of every two shares in Bauxite Resources Limited (**'Bauxite Resources'** or **'the Company'**) not already held by Mercantile OFM, at an offer price of \$0.09 cash per share. On 21 November 2017, the Company received a formal Bidder's Statement from Mercantile OFM, which confirmed the proportional off-market takeover bid for one of every two shares in Bauxite Resources not already held by Mercantile OFM, at an offer price of \$0.09 cash per share (**'the Offer'**). The Offer is not subject to a minimum acceptance condition.

On 13 December 2017, Mercantile issued a supplementary Bidder's Statement, which outlined some minor amendments to the original Bidder's Statement, however the pertinent details of the Offer remained unchanged. Further details of the Offer are set out in Section 4.

### 2. Summary and Opinion

#### 2.1 Purpose of the report

The directors of Bauxite Resources have requested that BDO Corporate Finance (WA) Pty Ltd (**'BDO'**) prepare an independent expert's report (**'our Report'**) to express an opinion as to whether or not the Offer is fair and reasonable to the non associated shareholders of Bauxite Resources (**'Shareholders'**).

Our Report is prepared pursuant to Section 640 of the Corporations Act 2001 Cth (**'Corporations Act'** or **'the Act'**) and is to be included in the Target's Statement for Bauxite Resources in order to assist Shareholders in their decision whether to accept the Offer.

## 2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Offer as outlined in the body of our Report. We have considered:

- how the value of a Bauxite Resources share prior to the Offer on a control basis compares to the value of the Offer consideration;
- the likelihood of an alternative offer being available to Bauxite Resources;
- other factors which we consider to be relevant to the Shareholders in their assessment of the Offer; and
- the position of Shareholders should the Offer not be accepted.

## 2.3 Opinion

We have considered the terms of the Offer as outlined in the body of this report and have concluded that, in the absence of an alternate offer, the Offer is neither fair nor reasonable for Shareholders.

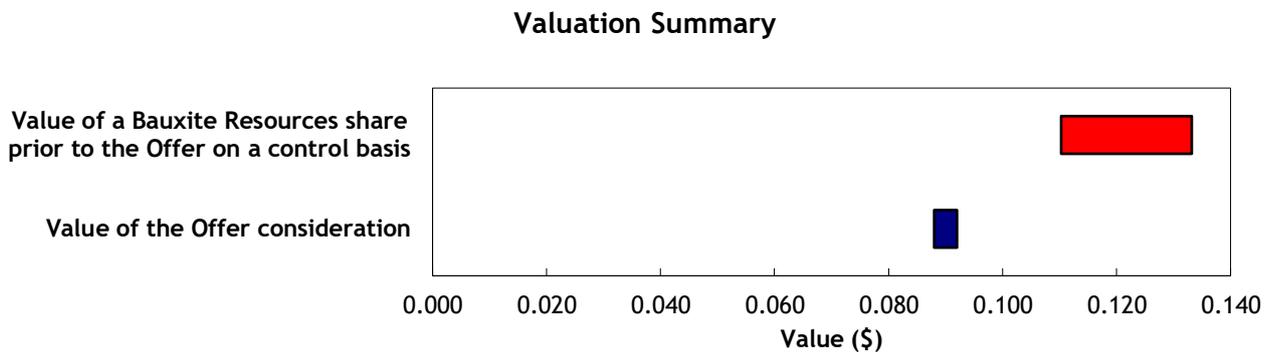
## 2.4 Fairness

In Section 12 we determined that the Offer consideration compares to the value of a Bauxite Resources share, as detailed below:

Fairness assessment	Ref	Low value \$	Preferred value \$	High value \$
Value of a Bauxite Resources share prior to the Offer on a control basis	10.1	0.110	0.121	0.133
Value of the Offer consideration	11	0.090	0.090	0.090

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

We note from the above analysis that the value of a Bauxite Resources share prior to the Offer on a control basis is greater than the value of the Offer consideration for one of every two Bauxite Resources shares. Therefore, in the absence of any other relevant information, we consider that the Offer is not fair for Shareholders.

## 2.5 Reasonableness

We have considered the analysis in Section 13 of this report, in terms of both

- advantages and disadvantages of the Offer; and
- other considerations, which Shareholders might contemplate prior to accepting the Offer.

In our opinion, the position of Shareholders if the Offer is not accepted is more advantageous than the position if the Offer is accepted. Accordingly, in the absence of any other relevant information, we believe that the Offer is not reasonable for Shareholders.

The respective advantages and disadvantages of accepting the Offer considered are summarised below:

ADVANTAGES AND DISADVANTAGES OF ACCEPTING THE OFFER			
Section	Advantages	Section	Disadvantages
13.1.1	The Offer provides Shareholders with an opportunity to realise part of their investment with certainty	13.2.1	The Offer is not fair
13.1.2	Shareholders who accept the Offer will retain partial exposure to the opportunities associated with an investment in Bauxite Resources	13.2.2	The Offer is not fair on a minority interest basis
13.1.3	The Offer is not subject to a minimum acceptance condition	13.2.3	Shareholders who accept the Offer will not be eligible to receive the proposed capital return of \$0.05 per share
		13.2.4	Shareholders who accept the Offer will reduce their exposure to the opportunities associated with an investment in Bauxite Resources
		13.2.5	Shareholders who accept the Offer may become minority shareholders in a company in which Mercantile OFM has a controlling interest
		13.2.6	Shareholders who accept the Offer may be subject to potential tax implications
		13.2.7	The greater the level of acceptances, the less likely it is that Shareholders will be able to receive a premium for their remaining shareholdings from an alternative offer.

The respective advantages and disadvantages of rejecting the Offer considered are summarised below:

ADVANTAGES AND DISADVANTAGES OF REJECTING THE OFFER			
Section	Advantages	Section	Disadvantages
13.3.1	Shareholders who reject the Offer will be eligible to receive the proposed capital return of \$0.05 per share	13.4.1	Shareholders who reject the Offer may become minority shareholders in a company in which Mercantile OFM has a controlling interest
13.3.2	Shareholders who reject the Offer will retain maximum exposure to the opportunities associated with an investment in Bauxite Resources		

Other key matters we have considered include:

Section	Description
13.5	Other considerations
13.6	Alternative proposal

### 3. Scope of the Report

#### 3.1 Purpose of the Report

Mercantile OFM has prepared a Bidder's Statement in accordance with Section 636 of the Act. Under Section 633 Item 10 of the Act, Bauxite Resources is required to prepare a Target's Statement in response to the Bidder's Statement.

Section 640 of the Act requires the Target's Statement to include an independent expert's report to shareholders if:

- the bidder's voting power in the target is 30% or more; or
- the bidder and the target have a common director or directors.

There is no requirement under ASX Listing Rules or the Corporations Act for Bauxite Resources to engage an independent expert in relation to the Offer. However, notwithstanding the above, Bauxite Resources has engaged BDO to prepare this independent expert's report, which is to be included in the Target's Statement for the Company to assist Shareholders in their decision whether to accept the Offer.

#### 3.2 Regulatory guidance

Neither the ASX Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Offer is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism used to effect it.

In our opinion, the Offer is a control transaction as defined by RG 111 and we have therefore assessed the Offer as a control transaction to consider whether, in our opinion, it is fair and reasonable for Shareholders.

### 3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is equal to or greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. RG 111 states that when considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that an offer is reasonable if it is fair. It might also be reasonable if despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of a higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- a comparison between the value of a Bauxite Resources share prior to the Offer on a control basis and the value of the Offer consideration (fairness - see Section 12 'Is the Offer Fair?'); and
- an investigation into other significant factors to which Shareholders might give consideration, prior to accepting the Offer, after reference to the value derived above (reasonableness - see Section 13 'Is the Offer Reasonable?').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

*'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'*

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

## 4. Outline of the Offer

On 21 November 2017, the Company received a formal Bidder's Statement from Mercantile OFM, which confirmed a proportional off-market takeover bid for one of every two shares in Bauxite Resources not already held by Mercantile OFM, at an offer price of \$0.09 cash per share.

### Conditions of the Offer

The only condition to the Offer is that none of the following happens during the period commencing on the announcement date of the Offer and ending on the expiry of the Offer:

- the shares of Bauxite Resources or a subsidiary are converted into a larger or smaller number;
- Bauxite Resources or a subsidiary resolves to reduce its share capital;
- Bauxite Resources or a subsidiary enters into, or resolves to approve the terms of a buy-back agreement;

- Bauxite Resources or a subsidiary issues shares, grants options, issues convertible notes or agrees to make such an issue or grant such options;
- Bauxite Resources or a subsidiary disposes or agrees to dispose of the whole or a substantial part of its business or property;
- Bauxite Resources or a subsidiary grants or agrees to grant an encumbrance over the whole or substantial part of its business or property; and
- An insolvency event occurs with respect to Bauxite Resources or a subsidiary.

The Offer is not subject to approval by Shareholders in a general meeting or a minimum acceptance condition.

### Sources of Mercantile OFM funds

No cash reserve held by Mercantile OFM is expected to be used to pay the Offer consideration. Mercantile OFM has received a letter of commitment from Mercantile, pursuant to which Mercantile has committed to lend Mercantile OFM the funds necessary to pay for all associated costs of the Offer.

### Mercantile OFM's intentions

In the event that Mercantile OFM achieves a relevant interest in Bauxite Resources of at least 50.1%, Mercantile OFM intends to undertake a strategic review to assess the viability of the following:

- to make an immediate payment to Shareholders of \$0.06 per Bauxite Resources share;
- to negotiate with HD Mining and Investments Pty Ltd ('HD Mining') to terminate its joint venture ('JV');
- immediately ceasing further expenditure on development of Gingin, Albany and Esperance silica sand tenements ('Silica Sand Projects'), the Lort River Lithium Project ('Lort River') and all other wholly owned tenements;
- sale of Bauxite Resources' fixed assets including the two owned rural properties; and
- after settling all liabilities, distribute the remaining funds to Shareholders.

If following the strategic review, Mercantile OFM concludes that the above intentions are achievable, it is currently expected that this will result in the contracts of employment of all Bauxite Resources employees being terminated.

As at the date of our Report, Mercantile OFM has a relevant interest in 6,569,337 shares in Bauxite Resources representing an approximate voting interest in the Company of 3.1%. We note that in the Company's Target's Statement, the directors of Bauxite Resources, who have an interest of approximately 26.32% in the Company, intend to reject the Offer in respect of the shares in the Company that they control. Consequently, the largest interest in Bauxite Resources that Mercantile OFM can acquire under the Offer, assuming 100% acceptance from all other Bauxite Resources shareholders, is approximately 35.29%.

## 5. Profile of Bauxite Resources

### 5.1 Background

Bauxite Resources is an Australian mineral exploration company, which has been listed on the ASX since October 2007. The Company holds tenements in Western Australia's Darling Range, the world's largest Bauxite mining and alumina refining region. Bauxite Resources has its head office located in Perth, Western Australia.

The current directors and senior management of Bauxite Resources are listed below:

- Mr Robert Nash - Chairman and Non-Executive Director;
- Mr Robert Samuel Middlemas - Chief Executive Officer and Company Secretary;
- Mr Luke Atkins - Non-Executive Director;
- Mr Neil Lithgow - Non-Executive Director; and
- Mr Zhaozhong Wang - Non-Executive Director.

### 5.2 Recent corporate events

On 20 April 2016, Bauxite Resources announced that it had completed the sale of its joint venture interest in the Bauxite Alumina Joint Venture ('BAJV') to Yankuang Resources Pty Ltd ('Yankuang'). As a consequence, Yankuang paid Bauxite Resources \$7.15 million for its interests in BAJV and the Fortuna Bauxite tenement. Yankuang and BAJV will also pay Bauxite Resources a royalty of 0.9% of the free on board price for the first 100 million tonnes of Bauxite mined from the Fortuna and Felicitas tenements ('Yankuang Royalty'). Bauxite Resources also undertook a share buy-back of Yankuang's 19,700,000 shares in Bauxite Resources for the sum of \$1.15 million.

On 10 May 2016, Bauxite Resources issued a notification of reorganisation of capital and resultant return of capital. Subsequently, on 21 June 2016, the Company made a cash payment of \$0.05 per share to Shareholders.

On 15 December 2017, the Company announced that the board of Bauxite Resources had resolved to approve a capital return of \$0.05 per share, subject to Shareholder approval. The proposed capital return will result in approximately \$10.7 being returned to Shareholders, leaving the Company with a cash reserve of approximately \$5.5 million. The proposed capital return will only take place if it is supported by a Shareholder vote in the first quarter of 2018.

### 5.3 Key assets

#### Darling Range Projects

Bauxite Resources has several tenement holdings located in the Darling Range in Western Australia, including the Athena Deposit ('Athena'), Ceres Deposit ('Ceres') and Dionysus Deposit ('Dionysus') together the 'Darling Range Projects'. Athena consists of four deposits on private land holdings. Ceres is located approximately 20 kilometres south of Athena, on a number of large farms. Dionysus is located on a single private landholding. The Darling Range Projects form part of a JV with HD Mining, a wholly owned subsidiary of the Shandong Bureau No1 Institute for Prospecting of Geology and Minerals. The Company entered into the JV with HD Mining in 2010. Under the terms of the JV agreement, Bauxite Resources manages the JV while HD Mining funds 100% of the exploration and feasibility costs in order to earn:

- a 40% interest in any defined area of exploration on the making of a binding commitment by HD Mining to undertake a detailed feasibility study for the commercial mining of the defined area; and
- a further 20% interest in a defined area upon completion of the feasibility study and a decision by the JV committee to commence mining.

During 2016, HD Mining deferred a decision to commence a feasibility study and instead reduced exploration expenditure to minimum required levels. Negotiations between Bauxite Resources and HD Mining regarding the budget for 2016/2017 were completed in late 2016, following which, both parties agreed to recommence exploration with HD Mining funding all exploration activity. During 2017 strategic planning, target generation and drilling at Dionysus and Ceres was conducted.

### Silica Sand Projects

During the 2017 financial year, the Company acquired tenements at Gingin, Esperance and Albany, prospective for high grade silica sands. Assessment of these sites has commenced and is expected to continue before any exploration fieldwork begins.

### Hardrock Silica Projects

In November 2017, the Company acquired a hardrock silica project in Queensland along with several regional hardrock silica tenements in Western Australia (**'Hardrock Silica Projects'**). Assessment of these sites has commenced and some road side reconnaissance samples have been collected. Tenements prospective for high purity silica in hardrock quartz have been pegged in the southwest and Kimberley of Western Australia and in far north Queensland.

### Lort River

Bauxite Resources announced on 25 May 2016 that it had acquired an exploration license for Lort River. Lort River is located between Ravensthorpe and Esperance in Western Australia and is spread over 68 graticular blocks. During 2017, the Company continued discussions with key landholders and finalised an Aboriginal Heritage Agreement. Bauxite Resources is expected to commence bedrock mapping at the start of 2018.

### The Properties

Bauxite Resources owns two properties at 6 Cullalla Road in Mooliabeenee and Mooramurra Lots 1&2 Wells Grove Road in Bindoon (**'The Properties'**).

Further information on the Company's Darling Range Projects, Lort River and the Silica Tenements can be found in Appendix 3.

Further information on the Company's Properties can be found in Appendix 4.

## 5.4 Historical Statements of Financial Position

Statement of Financial Position	Audited as at 30-Jun-17 \$	Audited as at 30-Jun-16 \$	Audited as at 30-Jun-15 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	16,535,956	16,936,145	22,998,193
Trade and other receivables	217,837	177,562	735,996
<b>TOTAL CURRENT ASSETS</b>	<b>16,753,793</b>	<b>17,113,707</b>	<b>23,734,189</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	2,372,514	2,542,231	3,515,396
Other financial assets	200,000	200,000	360,358
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,572,514</b>	<b>2,742,231</b>	<b>3,875,754</b>
<b>TOTAL ASSETS</b>	<b>19,326,307</b>	<b>19,855,938</b>	<b>27,609,943</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	59,263	91,041	226,230
Provisions	13,920	13,082	79,781
<b>TOTAL CURRENT LIABILITIES</b>	<b>73,183</b>	<b>104,123</b>	<b>306,011</b>
<b>TOTAL LIABILITIES</b>	<b>73,183</b>	<b>104,123</b>	<b>306,011</b>
<b>NET ASSETS</b>	<b>19,253,124</b>	<b>19,751,815</b>	<b>27,303,932</b>
<b>EQUITY</b>			
Contributed equity	66,641,060	66,631,264	78,401,613
Reserves	561,219	571,240	690,892
Accumulated losses	(47,949,155)	(47,450,689)	(51,788,573)
<b>TOTAL EQUITY</b>	<b>19,253,124</b>	<b>19,751,815</b>	<b>27,303,932</b>

Source: Bauxite Resources' audited financial statements for the years ended 30 June 2015, 30 June 2016 and 30 June 2017

We note that Bauxite Resources' auditor issued an unmodified audit report with no qualifications for the years ended 30 June 2015, 30 June 2016 and 30 June 2017.

### Commentary on Bauxite Resources' Historical Statements of Financial Position

- Cash and cash equivalents of \$16.54 million as at 30 June 2017 comprised \$16.45 million in short term deposits and \$0.09 million in cash at bank.

Cash and cash equivalents decreased by \$6.06 million from \$23.00 million at 30 June 2015 to \$16.94 million at 30 June 2016. The decrease was primarily attributable to a payment for capital return of \$10.72 million, payments of \$2.18 million to suppliers and employees, payments for a selective capital buy-back from Yankuang of \$1.15 million and payments of \$0.94 million for exploration and expenditure. These were partially offset by proceeds from the sale of a subsidiary of \$7.19 million, interest received of \$0.69 million and receipts from customers of \$0.63 million.

- Property, plant and equipment of \$2.37 million at 30 June 2017, primarily represented the book value of the Properties of \$2.33 million.

## 5.5 Historical Statements of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Audited for the year ended 30-Jun-17 \$	Audited for the year ended 30-Jun-16 \$	Audited for the year ended 30-Jun-15 \$
<b>Revenue</b>			
Recoupment of exploration costs	246,873	302,285	404,789
Other income	176,654	139,593	226,112
Interest income	433,059	678,716	953,537
<b>Expenses</b>			
Employee benefits expense	(262,385)	(890,530)	(1,108,549)
Exploration expenses as incurred	(369,898)	(506,009)	(1,057,689)
Study costs	-	-	(34,717)
Administration expenses	(559,845)	(1,052,812)	(1,457,458)
Litigation settlement	-	-	(5,250,000)
Depreciation and amortisation expense	(169,562)	(740,412)	(545,340)
Impairment of property, plant and equipment	-	-	(1,015,105)
Gain/(loss) on disposal of fixed assets	6,638	106,281	2,410
Share based payments expense	-	12,200	(143,488)
<b>Loss before income tax</b>	<b>(498,466)</b>	<b>(1,950,688)</b>	<b>(9,025,498)</b>
Income tax expense	-	-	-
<b>Profit/(loss) after income tax expense from continuing operations</b>	<b>(498,466)</b>	<b>(1,950,688)</b>	<b>(9,025,498)</b>
Profit/(loss) after income tax expense from discontinuing operations	-	6,288,572	(1,596,701)
<b>Total comprehensive income/(loss) for the period</b>	<b>(498,466)</b>	<b>4,337,884</b>	<b>(10,622,199)</b>

Source: Bauxite Resources' audited financial statements for the years ended 30 June 2015, 30 June 2016 and 30 June 2017

### Commentary on Bauxite Resources' Historical Statements of Profit or Loss and Other Comprehensive Income

- Recoupment of exploration costs of \$0.25 million for the year ended 30 June 2017 related to the receipt of funds from JV partner HD Mining to reimburse exploration expenditure by the Company at the Darling Range Projects.
- Litigation settlement costs of \$5.25 million for the year ended 30 June 2015 related to the settlement of a proposed shareholders claim relating to the October 2009 placement of 60 million shares at \$0.95 each. There was no liability admitted and settlement was made before any legal proceedings commenced and for commercial reasons.

## 5.6 Capital Structure

The share structure of Bauxite Resources as at 30 November 2017 is outlined below:

	Number
Total ordinary shares on issue	214,422,336
Top 20 shareholders	128,929,629
Top 20 shareholders - % of shares on issue	60.13%

Source: Bauxite Resources' share register

The range of shares held in Bauxite Resources as at 30 November 2017 was as follows:

Range of shares held	Number of ordinary shareholders	Number of ordinary shares held	Percentage of issued shares
1 - 1,000	24	8,140	0.00%
1,001 - 5,000	84	297,813	0.14%
5,001 - 10,000	259	2,331,126	1.09%
10,001 - 100,000	821	30,044,689	14.01%
100,001 - and over	180	181,740,568	84.76%
<b>Total</b>	<b>1,368</b>	<b>214,422,336</b>	<b>100.00%</b>

Source: Bauxite Resources' share register

The ordinary shares held by the most significant shareholders as at 30 November 2017 are detailed below:

Name	Number of ordinary shares held	Percentage of issued shares
A Atkins & Associates (A Atkins, Lake MacCloud Pty Ltd and Tailrain Pty Ltd)	19,873,512	9.27%
HD Mining & Investments Pty Ltd	19,700,000	9.19%
Neil Lithgow and controlled entities	19,366,666	9.03%
Jetosea Pty Ltd	16,090,203	7.50%
Dilkara Nominees ATF Millwood Smith Trust	14,516,667	6.77%
<b>Subtotal</b>	<b>89,547,048</b>	<b>41.76%</b>
Others	124,875,288	58.24%
<b>Total ordinary shares on issue</b>	<b>214,422,336</b>	<b>100.00%</b>

Source: Bauxite Resources' share register

The derivatives on issue in Bauxite Resources as at 30 November 2017 are outlined below:

Derivatives on issue	Number
Tranche 1 performance rights expiring 10 May 2019	3,333,331
Tranche 2 performance rights expiring 10 November 2019	3,333,334
Tranche 3 performance rights expiring 10 November 2020	3,333,335

Source: Bauxite Resources' share register

## 6. Profile of Mercantile

### 6.1 Background

Mercantile OFM is a wholly owned subsidiary of Mercantile, an investment company focused on investing in listed securities and listed on the ASX itself in April 2007. Mercantile, formerly Equites Fund Limited, has its head office located in Sydney, New South Wales.

The current directors of Mercantile and Mercantile OFM are as follows:

#### Mercantile

- Sir Ron Brierley, Chairman & Non-Executive Director;
- Mr Gabriel Radzynski, Executive Director;
- Mr James Chirnside, Non-Executive Director;

- Mr Ron Langley, Non-Executive Director;
- Mr Daniel Weiss, Non-Executive Director;
- Dr Gary Weiss, Non-Executive Director;
- Mr Mark Licciardo, Joint Company Secretary; and
- Mr Chris Lobb, Joint Company Secretary.

#### Mercantile OFM

- Sir Ron Brierley, Chairman & Non-Executive Director;
- Mr Gabriel Radzynski, Executive Director; and
- Mr James Chirnside, Non-Executive Director.

## 6.2 Recent corporate events

On 11 August 2016, Mercantile announced two takeover offers for Richfield International Limited ('Richfield') and Wellington Merchants Limited ('Wellington Merchants') through its wholly owned subsidiaries Mercantile OFM and Mercantile NZ Limited, respectively. Both offers were funded using Mercantile's cash reserves and drawing down on the debt facility Mercantile had with Sir Ron Brierley. On 27 September 2016, Mercantile announced that Mercantile OFM's takeover offer for shares in Richfield had closed and that it had received sufficient acceptances to result in Mercantile and its associated entities holding an interest in Richfield of greater than 90%. Mercantile subsequently executed its right to compulsory acquire the outstanding shares in Richfield. On 11 October 2016, Mercantile announced that Mercantile NZ Limited's takeover offer for shares in Wellington Merchants had closed and that it had received sufficient acceptance to result in Mercantile and its associated entities holding an interest in Wellington Merchants of greater than 90%. Mercantile subsequently executed its right to compulsory acquire the outstanding shares in Wellington Merchants.

On 11 January 2017, MHM Metals Limited ('MHM') announced that a takeover bid from Mercantile was formalised after receiving a Bidder's Statement, which confirmed an off-market takeover offer for all the issued shares in MHM at \$0.04 cash per MHM share. Mercantile OFM's takeover bid was unsuccessful despite being extended to 7 July 2017. Following the offer from Mercantile OFM, a superior bid emerged from Cadmon Ventures Pty Ltd which offered \$0.0435 cash per MHM shares.

On 10 February 2017, EZA Corporation Limited ('EZA') announced that a takeover bid from Mercantile OFM was formalised after receiving a Bidder's Statement, which confirmed an off-market takeover offer for all the issued shares in EZA at \$0.1375 cash per EZA share. On 14 August 2017, EZA announced that the offer by Mercantile OFM to acquire the shares in EZA had closed and that the takeover bid was unsuccessful.

### 6.3 Historical Consolidated Statements of Financial Position

Consolidated Statement of Financial Position	Audited as at 30-Jun-17 \$	Audited as at 30-Jun-16 \$	Audited as at 30-Jun-15 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	18,941,688	7,933,953	6,117,624
Trade and other receivables	2,065,135	134,751	84,098
Net loans and advances	2,844,938	3,599,171	-
Financial assets at fair value through profit or loss	19,487,797	15,738,106	3,278,374
Other current assets	104,813	118,505	43,582
<b>TOTAL CURRENT ASSETS</b>	<b>43,444,371</b>	<b>27,524,486</b>	<b>9,523,678</b>
<b>NON-CURRENT ASSETS</b>			
Financial assets at fair value through other comprehensive income	32,321,180	40,664,016	32,420,440
Trade and other receivables	-	624,443	713,558
Property, plant and equipment	104,707	1,039	3,065
Deferred tax assets	221,738	229,936	243,861
<b>TOTAL NON-CURRENT ASSETS</b>	<b>32,647,625</b>	<b>41,519,434</b>	<b>33,380,924</b>
<b>TOTAL ASSETS</b>	<b>76,091,996</b>	<b>69,043,920</b>	<b>42,904,602</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	4,214,881	1,676,527	1,764,491
Current tax liability	2,642,206	466,836	473,096
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,857,087</b>	<b>2,143,363</b>	<b>2,237,587</b>
<b>NON-CURRENT LIABILITIES</b>			
Unsecured notes	21,706,995	15,107,926	-
Deferred tax liabilities	2,915,229	4,326,616	2,455,990
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>24,622,224</b>	<b>19,434,542</b>	<b>2,455,990</b>
<b>TOTAL LIABILITIES</b>	<b>31,479,311</b>	<b>21,577,905</b>	<b>4,693,577</b>
<b>NET ASSETS</b>	<b>44,612,685</b>	<b>47,466,015</b>	<b>38,211,025</b>
<b>EQUITY</b>			
Issued capital	28,717,120	28,717,120	27,404,109
Accumulated losses	(10,454,943)	(5,237,356)	(7,142,450)
Reserves	25,391,999	22,711,693	17,949,366
<b>Total equity attributable to owners of the parent</b>	<b>43,654,176</b>	<b>46,191,457</b>	<b>38,211,025</b>
Non-controlling interest	958,509	1,274,558	-
<b>TOTAL EQUITY</b>	<b>44,612,685</b>	<b>47,466,015</b>	<b>38,211,025</b>

Source: Mercantile's audited financial statements for the years ended 30 June 2015, 30 June 2016 and 30 June 2017

We note that Mercantile's auditor issued an unmodified audit report with no qualifications for the years ended 30 June 2015, 30 June 2016 and 30 June 2017.

#### Commentary on Mercantile's Consolidated Historical Statements of Financial Position

- Cash and cash equivalents increased by \$11.01 million from \$7.93 million at 30 June 2016 to \$18.94 million at 30 June 2017. The increase was primarily attributable to proceeds of \$10.23 million from the disposal of financial assets, proceeds of \$6.66 million from unsecured notes, \$4.81 million in cash acquired upon acquisition of a controlled entity, \$4.00 million from the sale

of trading securities and \$3.70 million in dividends, distributions and other investment income. These were partially offset by \$7.68 million in payments for financial assets, payments of \$4.74 million incurred in the course of ordinary operations, \$3.50 million in payments for trading securities and payments of \$3.14 million for the purchase of a non-controlling interest.

- Current trade and other receivables of \$2.07 million at 30 June 2017 primarily comprised \$0.73 million in unsettled trades, other receivables of \$0.69 million and sundry receivables of \$0.47 million.
- Net loans and advances of \$2.85 million at 30 June 2017 were acquired by Mercantile as part of the acquisition of Ask Funding Limited on 4 September 2015.
- Trade and other payables of \$4.21 million at 30 June 2017 consisted of \$1.88 million in trade payables, \$1.14 million in unclaimed shareholder payments, \$0.69 million escrowed to the Port of Singapore and sundry payables of \$0.49 million.

#### 6.4 Historical Consolidated Statements of Profit or Loss and Other Comprehensive Income

Consolidated Statement of Profit or Loss and Other Comprehensive Income	Audited for the year ended 30-Jun-17 \$	Audited for the year ended 30-Jun-16 \$	Audited for the year ended 30-Jun-15 \$
<b>Continuing operations</b>			
Revenue	5,505,311	6,015,143	1,061,981
Other income	7,760,530	423,639	89,961
<b>Expenses</b>			
Accounting fees	(223,676)	(157,580)	(182,491)
Audit fees	(215,976)	(169,470)	(67,348)
Taxation service fees	(262,848)	(99,095)	(37,420)
Finance costs	(2,051,535)	(100,426)	(135,677)
Service agreement fees	(330,558)	(202,670)	(168,636)
Company secretary fees	(63,955)	(42,039)	(53,016)
Share registry fees	(138,764)	(119,207)	(59,526)
Brokerage	(120,548)	(53,623)	(31,280)
Impairment charges	(9,011,841)	(1,653,415)	-
Loan recovery costs	-	(295,925)	-
Legal and professional fees	(782,363)	(329,988)	(88,189)
ASIC and ASX charges	(82,218)	(67,115)	(52,939)
Share based payments	(517,500)	(164,000)	-
Employee benefit expenses	(1,529,885)	(333,840)	(46,982)
Insurance	(92,176)	(167,348)	(130,450)
Other operating costs	(851,963)	(175,722)	(103,053)
<b>Profit/(loss) before income tax</b>	<b>(3,009,965)</b>	<b>2,307,319</b>	<b>(5,065)</b>
Income tax (expense)/benefit	(2,101,167)	(657,726)	490,776
<b>Profit/(loss) after income tax</b>	<b>(5,111,132)</b>	<b>1,649,593</b>	<b>485,711</b>
<b>Other comprehensive income/(loss)</b>			
Movements in fair value of long term equity investments	2,935,499	4,598,327	1,388,343
<b>Total comprehensive income/(loss) for the year</b>	<b>(2,175,633)</b>	<b>6,247,920</b>	<b>1,874,054</b>

Source: Mercantile's audited financial statements for the years ended 30 June 2015, 30 June 2016 and 30 June 2017

## Commentary on Mercantile's Consolidated Historical Statements of Profit or Loss and Other Comprehensive Income

- Revenue from continuing operations of \$5.51 million for the year ended 30 June 2017 comprised \$2.23 million in interest income, \$1.34 million in shipping services income, \$1.01 million in trust distributions and \$0.92 million from dividends received.
- Other income of \$7.76 million for the year ended 30 June 2017 primarily related to unrealised gains on trading equities of \$5.46 million, realised gains on trading equities of \$1.21 million and \$0.79 million in sundry income.
- Finance costs of \$2.05 million for the year ended 30 June 2017 related to interest on convertible notes, amortised convertible note expenses and interest on director loans.
- Impairment charges of \$9.01 million for the year ended 30 June 2017 comprised impairments of \$6.64 million to goodwill and \$2.37 million to loans and advances.

### 6.5 Capital Structure

The share structure of Mercantile as at 22 August 2017 is outlined below:

	Number
Total ordinary shares on issue	280,000,000
Top 20 shareholders	225,336,262
Top 20 shareholders - % of shares on issue	80.48%

Source: Mercantile's annual report for the year ended 30 June 2017

The range of shares held in Mercantile as at 22 August 2017 was as follows:

Range of shares held	Number of ordinary shareholders	Number of ordinary shares held	Percentage of issued shares
1 - 1,000	642	224,877	0.08%
1,001 - 5,000	1,229	3,652,637	1.30%
5,001 - 10,000	434	3,451,424	1.23%
10,001 - 100,000	599	19,942,807	7.12%
100,001 - and over	114	252,728,255	90.26%
<b>Total</b>	<b>3,018</b>	<b>280,000,000</b>	<b>100.00%</b>

Source: Mercantile's annual report for the year ended 30 June 2017

The ordinary shares held by the most significant shareholders as at 22 August 2017 are detailed below:

Name	Number of ordinary shares held	Percentage of issued shares
Siblow Pty Ltd	103,764,634	37.06%
G W Holdings Pty Ltd	25,750,522	9.20%
McNeil Nominees Pty Ltd	18,646,486	6.66%
Portfolio Services Pty Ltd	14,915,001	5.33%
Mr Ronald Langley and MRs Rhonda Elizabeth Langley	12,500,000	4.46%
<b>Subtotal</b>	<b>175,576,643</b>	<b>62.71%</b>
Others	104,423,357	37.29%
<b>Total ordinary shares on Issue</b>	<b>280,000,000</b>	<b>100.00%</b>

Source: Mercantile's annual report for the year ended 30 June 2017

The derivatives on issue in Mercantile as at 30 June 2017 are outlined below:

Derivatives on issue	Number
Unlisted options with an exercise price of \$0.17 expiring on 31 December 2017	10,000,000
Unlisted options with an exercise price of \$0.20 expiring on 31 December 2020	15,000,000

Source: Mercantile's annual report for the year ended 30 June 2017

## 7. Economic analysis

### 7.1 Global

Conditions in the global economy have improved over the past year, with growth exhibited across a broad range of economies. The major advanced economies have continued to strengthen and growth in China has been strong, which has facilitated trade and growth in highly trade-exposed economies in east Asia.

Recently, the World Bank revised its growth expectations for China upwards from 6.5% to 6.7% due to factors such as an improved external environment and strengthening domestic demand. However, this growth is expected to moderate in 2018 to 2019 as increased efforts are made to rebalance the economy away from investment and external demand, and towards domestic consumption. Furthermore, Chinese authorities have announced measures to curtail winter steel production in a number of heavily polluted regions to meet annual air quality targets. This may have the effect of reducing Chinese demand for bulk commodities over the coming months.

The United States ('US') economy also maintained a robust pace of growth in the third quarter of 2017, with gross domestic product ('GDP') increasing at an annual rate of 3.0%, compared to the forecast of a 2.5% increase.

### 7.2 Australia

#### Domestic growth

The Australian economy expanded by 0.8% in the June 2017 quarter, and according to available information, seems to have expanded at a slower rate in the September 2017 quarter. However, the economy is expected to strengthen over the coming years, which will further reduce spare capacity in the labour market and lead to a gradual increase in wage growth and inflation.

Inflation in the country remains below the Reserve Bank of Australia's ('RBA') target of 2% to 3%, with headline inflation of 1.8% recorded over the year ended 30 September 2017. As noted above, this is expected to pick up gradually as the economy strengthens.

Housing market conditions continue to differ between states, with prices increasing in some markets and conditions starting to ease in others, such as Sydney. Housing credit growth has eased a little, and the profile of new lending has shifted away from interest only and other forms of riskier lending. This suggests that recent measures introduced by the Australian Prudential Regulatory Authority are assisting in targeting the risks associated with household balance sheets. However, household debt still remains high and continues to increase at a rate faster than household income.

#### Commodity prices

Prices of industrial commodities continued to strengthen in the September 2017 quarter (compared to the September 2016 quarter), while most agricultural prices remained broadly stable. The iron ore spot price

has declined from recent highs, with weaker sentiment in the market fuelled partly by impending cuts to steel production in China that have been mandated to improve environmental outcomes.

Energy prices increased by 2% in the September 2017 quarter (compared to the September 2016 quarter), largely due to a 17% leap in coal prices due to China's environmentally-motivated measures to cut back on coal production.

Metals prices surged by approximately 10% in the September 2017 quarter due to strengthening demand resulting from China's needs for various metals to support its property, infrastructure and manufacturing sectors. This was also coupled with supply constraints due to targeting excess capacity enforced by Chinese authorities.

### Currency movements

The Australian dollar has appreciated since the middle of the year, partially reflecting a weakening of the USD. This higher exchange rate is expected to contribute to the subdued price pressures in the economy, and is also impacting the outlook for output and employment.

### Outlook

The outlook for the Australian economy based on the September 2017 quarter is little changed from that of the June 2017 quarter. Growth in resource exports is expected to largely offset the diminishing drag from lower levels of mining investment. Along with other categories of exports, the mining sector is expected to contribute to economic growth over the next few years.

In terms of business investment, the outlook is more positive than what it has been for a while. A considerable amount of public infrastructure work is planned or underway, contributing to private-sector activity.

Overall, growth is forecast by the RBA to average approximately 3% over the next few years.

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement by Philip Lowe, Governor: Monetary Policy Decision 7 November 2017, [www.worldbank.org](http://www.worldbank.org) Commodity Markets Outlook, October 2017

## 8. Industry analysis

### Overview

Bauxite is a naturally occurring material, largely made up of aluminium hydroxide minerals gibbsite, diaspore or boehmite, plus various mixtures of silica, iron oxide, titania, aluminosilicate and other impurities. It is the primary raw material used in the commercial production of alumina and aluminium metal. Bauxite mined in Australia is classified as either high-grade comprising on average between 49% and 53% alumina, or low-grade comprising on average between 27% to 30% alumina, according to Geoscience Australia.

Bauxite is typically strip-mined, and is found mainly near the surface in tropical and sub-tropical areas including Australia, South America, Africa, and the West Indies. The primary industrial means to extract alumina is the Bayer process, in which Bauxite is put through a wet chemical caustic leach process. Alumina is then processed into aluminium metal, which is an integral part of building construction, electricity production, industrial production, and transportation infrastructure.

## Key external drivers

The most influential external drivers influencing demand for Bauxite include alumina production, the world price of aluminium, GDP growth in China, and the United States dollars ('USD') exchange rate with the Australian dollar.

Alumina production is a major demand determinant for Bauxite, which is essentially an aluminium-bearing mineral. Although Bauxite mined in Australia is predominantly processed into alumina domestically, a significant proportion is exported for processing in other countries. Consequently, the demand for Bauxite is heavily dependent on the demand for alumina related products.

Aluminium prices have a positive correlation with Bauxite prices, thus lower aluminium prices contribute to lower Bauxite prices. Bauxite does not have a clearly defined benchmark price like other materials, rather prices are determined through negotiations between individual buyers and sellers and are often inferred from shifts in the prices of aluminium. According to Consensus Economics Inc, the price of aluminium is forecast to soften in the coming years, which may also see the contracted price of Bauxite decline.

Chinese GDP growth also has the potential to influence Bauxite demand from Australian mines as the majority of Australian Bauxite exports are destined for processing in China. As a result, China's growth is an important factor in determining demand for aluminium, which then flows through to demand for alumina and Bauxite. The International Monetary Fund recently made an upward revision to its 2017 GDP growth forecast for China, which should positively impact demand for Bauxite.

Exchange rate fluctuations have a direct effect on the revenue generated from Bauxite exports, as prices are typically negotiated in USD. The price received by the local seller therefore depends not only on the agreed USD price, but also on the exchange rate. The Australian dollar is expected to remain relatively stable against the USD, which should see the exchange rate having a negligible impact on the demand for Australian Bauxite.

## Australia

Australia is the world's largest producer of Bauxite, accounting for approximately one third of global output. There are currently six producing Australian Bauxite mines located in Boddington (Western Australia), Gove (Northern Territory), Huntly (Western Australia), Willowdale (Western Australia) and Weipa (Queensland). In addition, there are six refineries and a number of exploration and expansion projects underway.

Future industry growth in Australia is likely to be driven by strong export demand, albeit at a slower rate compared to the last five years. China in particular is predicted to account for a substantial portion of growth in world aluminium and therefore Bauxite demand, due to ongoing infrastructural investment and manufacturing output. Domestic demand in Australia is also predicted to increase, largely due to expansion at the Yarwun and Worsley alumina refineries, although this is expected to be at a slower rate than global demand.

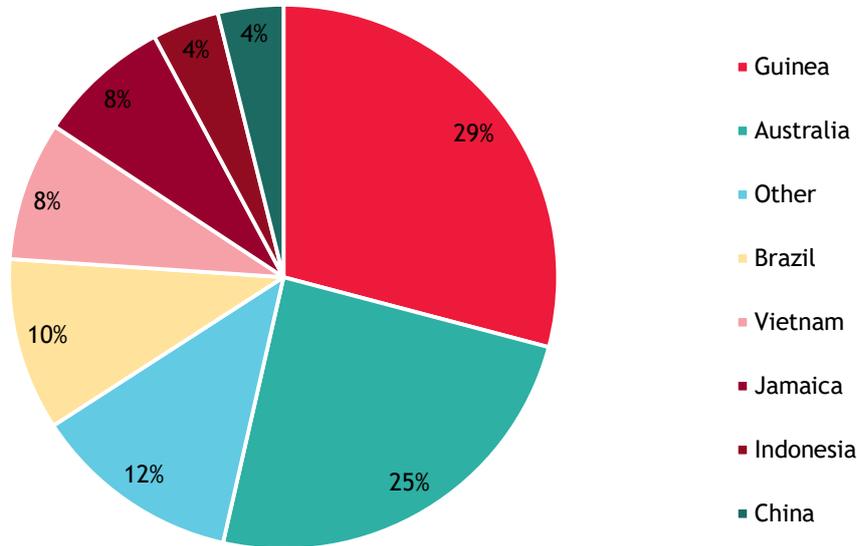
## Global

Globally, a small number of large mines dominate Bauxite production, producing approximately 12 to 20 million tonnes per year. These mines include Weipa in Australia, Jiakou in China, Trombetas in Brazil, Kendawangan in Indonesia and Boke in Guinea, which dominate the Bauxite export trade.

The United States Geological Survey ('USGS') estimates that approximately 80% of the world's proven Bauxite reserves are located in five countries, being Guinea, Australia, Brazil, Vietnam and Jamaica.

A breakdown of global reserves is illustrated below:

**Estimated bauxite reserves by country  
2017**



Source: USGS

In 2016 global Bauxite production decreased by 11% as a result of a Bauxite mining ban implemented in Malaysia. The decision was made in response to growing environmental concerns and illegal mining. In 2014, Indonesia also placed a ban on the export of Bauxite and other unprocessed mineral ores, however this was relaxed in 2017 with the issue of 5-year export permits to companies building alumina refineries.

Despite this decline in Bauxite exports, China's imports have increased by almost 32% from January to October 2017. Guinea and Australia have become vital providers of Bauxite to China, accounting for approximately 39% and 37% of China's total Bauxite imports from January through to October, respectively.

According to the Department of Industry, Innovation and Science's Australian Resources and Energy 2017 June quarter report, world Bauxite production is predicted to increase by 7% in 2018 and by 8% in 2019 to 300 and 324 million tonnes, respectively.

### Price

There is no single internationally traded price for Bauxite as it is often mined and then refined into alumina by the same enterprise and prices are determined by contract. Demand for Bauxite is primarily driven by domestic and global demand for alumina and aluminium, which are used in products ranging from aircraft to packaging materials.

### Outlook

Over the five years through 2020-21, Australian Bauxite production is forecast to increase as global demand for aluminium and alumina continues to grow, underpinned by stable economic growth. Increased demand will be supported by expansion projects in Weipa (Queensland) including two new mines; the Hills project and Amrun project due to start production in 2018 and 2019, respectively. This additional capacity may see Australian Bauxite production reach 93 million tonnes in 2018-19.

The growth rate in exports is forecast to be slower compared to previous years as a result of global regulatory changes, particularly in Indonesia and China. In October 2017, the Indonesian government reversed its ban on its own Bauxite exports, which may result in weaker foreign demand for Australian Bauxite.

Furthermore, according to the Australian Resources and Energy June 2017 quarter report, changes to air pollution controls and tightening restrictions on illegal capacity in China are predicted to negatively impact Australian Bauxite exports in 2017-18. A number of newly emerging Bauxite mines, namely in Fiji and in Guinea, pose further risk to future Australian Bauxite production through increased export competition.

Success of firms operating in the Bauxite mining industry continues to depend largely on low costs, which will play a large part in the future of Bauxite operators. Those who take advantage of opportunities to capitalise on economies of scale and reduce costs will benefit. Industry revenue is forecast to grow at an annualised 5.5% over the five years through 2020-21 to reach \$2.9 billion.

## 9. Valuation approach adopted

In assessing whether the Offer is fair for Shareholders, we have considered a comparison between the value of a Bauxite Resources share on a control basis prior to the Offer and the value of the consideration offered by Mercantile OFM, being \$0.09 cash for one of every two shares in Bauxite Resources.

There are a number of methodologies which can be used to value a business or the shares in a company. Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information.

The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME');
- Discounted cash flow ('DCF');
- Quoted market price basis ('QMP');
- Net asset value ('NAV'); and
- Market based assessment.

A summary of each of these methodologies is outlined in Appendix 2.

### 9.1 Valuation of a Bauxite Resources share prior to the Offer

In our assessment of the value of a Bauxite Resources share prior to the Offer, we have chosen to employ the following methodologies:

- NAV as our primary methodology, which estimates the market value of a company by aggregating the assessed realisable value of its identifiable assets and liabilities and considering the amount that would be available for distribution to security holders on an orderly realisation of assets; and
- QMP as our secondary methodology, as this represent the value that a Shareholder may receive for a share if it were sold on market.

### 9.1.1. NAV

We have employed the NAV methodology in assessing the market value of a Bauxite Resources share prior to the Offer by aggregating the assessed realisable value of its identifiable assets and liabilities, having consideration for the following:

- value of the Darling Range Projects (40% interest);
- value of the Silica Sand Projects (100% interest);
- value of the Hardrock Silica Projects (100% interest);
- value of Lort River (100% interest);
- value of the Yankuang Royalty;
- value of the Properties and Bauxite asset on the Properties; and
- value of other assets and liabilities of Bauxite Resources (applying the cost approach).

### 9.1.2. Quoted Market Price of Bauxite Resources

We have assessed the quoted market price of a Bauxite Resources share based on the pricing prior to the announcement of the Offer. This is because the value of a Bauxite Resources share after the announcement may include the effect of any change in value as a result of the Offer.

### 9.1.3. Rationale for methodologies adopted

We have chosen the NAV and QMP methodologies for the following reasons:

- we consider the NAV methodology to be most appropriate given Bauxite Resources is an exploration company and its core value lies in its mineral assets and property that it holds. From this we assess the amount that would be available for distribution to security holders on an orderly realisation of assets.

We have instructed Dunbar Resource Management ('DRM') to act as independent specialist to determine the following:

- value of the Darling Range Projects;
- value of the Silica Sand Projects;
- value of the Hardrock Silica Projects;
- value of Lort River; and
- value of the Yankuang Royalty.

We have also instructed LMW Perth ('LMW') to act as independent specialist to value the Properties and Bauxite asset on the Properties.

We have considered both DRM's and LMW's valuations in the context of Bauxite Resources' other assets and liabilities on a NAV basis;

- we consider the QMP methodology to be relevant because Bauxite Resources' shares are listed on the ASX. This means that there is a regulated and observable market where Bauxite Resources' shares can be traded. However, in order for the QMP methodology to be considered appropriate for the purpose of a valuation, the Company's shares should be liquid, active and the market should be fully informed on the Company's activities. Our analysis in Section 10.2 indicates that there is not a liquid and active market for Bauxite Resources' shares, therefore we have only

relied on the QMP methodology as a secondary valuation approach which we use as a cross-check to our NAV;

- pursuant to RG 111, we do not consider that we have reasonable grounds to rely on forecast cash flows for Bauxite Resources and therefore we do not consider the application of the DCF methodology to be appropriate;
- the FME methodology is most commonly applicable to profitable business with steady growth histories and forecasts. We do not consider the FME methodology to be appropriate given that Bauxite Resources does not have a track record of profits. As such, we do not have a reasonable basis to assess the future maintainable earnings of the Company. The FME methodology is also not considered appropriate for valuing finite life assets such as mining assets.

#### 9.1.4. Independent specialist valuations

In valuing Bauxite Resources, we have relied on the independent specialist valuation report prepared by DRM in accordance with the Australasian Code for Public Reporting of Technical Assessments and Valuation of Mineral Assets (2015 Edition) ('Valmin Code') and the Australasian Code for Reporting and Exploration Results, Mineral Resources and Ore Reserves (2012 Edition) ('JORC Code') ('DRM Valuation Report').

We have also relied on the independent specialist valuation report prepared by LMW ('LMW Valuation Report').

We are satisfied with the valuation methodologies adopted by DRM and LMW, which we consider to be in accordance with industry practices and in the case of the DRM Valuation Report to be compliant with the requirements of the Valmin Code and JORC Code. The specific valuation methodologies adopted by DRM and LMW are referred to in the respective sections of our Report and in further detail in the DRM Valuation Report and LMW Valuation Report contained in Appendix 3 and Appendix 4, respectively.

## 10. Valuation of Bauxite Resources

### 10.1 NAV

We have employed the NAV methodology in assessing the market value of a Bauxite Resources share prior to the Offer by aggregating the assessed realisable value of its identifiable assets and liabilities, having consideration for the following:

- value of the Darling Range Projects (40% interest);
- value of the Silica Sand Projects (100% interest);
- value of the Hardrock Silica Projects (100% interest);
- value of Lort River (100% interest);
- value of the Yankuang Royalty;
- value of the Properties and Bauxite asset on the Properties; and
- value of other assets and liabilities of Bauxite Resources (applying the cost approach).

The value of Bauxite Resources' assets prior to the Offer, on a control basis and assuming the Company continues as a going concern, is reflected in our valuation below:

Statement of Financial Position	Ref	Audited as at 30-Jun-17 \$	Low value \$	Preferred value \$	High value \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	a	16,535,956	16,304,258	16,304,258	16,304,258
Trade and other receivables	b	217,837	150,227	150,227	150,227
<b>TOTAL CURRENT ASSETS</b>		<b>16,753,793</b>	<b>16,454,485</b>	<b>16,454,485</b>	<b>16,454,485</b>
<b>NON-CURRENT ASSETS</b>					
Mineral assets	c	-	5,260,000	7,570,000	9,990,000
Property, plant and equipment	d	2,372,514	1,800,000	1,895,000	1,990,000
Other financial assets		200,000	200,000	200,000	200,000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,572,514</b>	<b>7,260,000</b>	<b>9,665,000</b>	<b>12,180,000</b>
<b>TOTAL ASSETS</b>		<b>19,326,307</b>	<b>23,714,485</b>	<b>26,119,485</b>	<b>28,634,485</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables		59,263	59,263	59,263	59,263
Provisions		13,920	13,920	13,920	13,920
<b>TOTAL CURRENT LIABILITIES</b>		<b>73,183</b>	<b>73,183</b>	<b>73,183</b>	<b>73,183</b>
<b>TOTAL LIABILITIES</b>		<b>73,183</b>	<b>73,183</b>	<b>73,183</b>	<b>73,183</b>
<b>NET ASSETS</b>		<b>19,253,124</b>	<b>23,641,302</b>	<b>26,046,302</b>	<b>28,561,302</b>
Number of shares on issue	5.6		214,422,336	214,422,336	214,422,336
<b>Value per share (\$)</b>			<b>0.110</b>	<b>0.121</b>	<b>0.133</b>

Source: Bauxite Resources' audited financial statements for the year ended 30 June 2017 and BDO analysis

The table above indicates that the net asset value of a Bauxite Resources share prior to the Offer on a control basis is between \$0.110 and \$0.133, with a preferred value of \$0.121.

We have been advised that there has not been a significant change in the net assets of Bauxite Resources since 30 June 2017 and that the above assets and liabilities represent their fair market values, other than those with adjustments detailed below. Furthermore, nothing has come to our attention as a result of our procedures that would indicate the need for any additional adjustments.

The following adjustments were made to the net assets of Bauxite Resources as at 30 June 2017 in arriving at our valuation.

#### Note a) Cash and cash equivalents

We have adjusted the cash and cash equivalents of Bauxite Resources as at 30 June 2017 to account for the movements during the four months ended 31 October 2017. The adjusted cash and cash equivalents is summarised in the table below:

Adjusted cash and cash equivalents as at 31 October 2017		\$
Cash and cash equivalents at 30 June 2017		16,535,956
Add: Interest received		175,349
Add: Other income		119,328
Less: Employment expenses		(220,950)
Less: Exploration expenses		(152,256)
Less: Administration expenses		(153,169)
<b>Adjusted cash and cash equivalents</b>		<b>16,304,258</b>

Source: Bauxite Resources' audited financial statements for the year ended 30 June 2017, and cash flow analysis prepared by Bauxite Resources management for the four months ended 31 October 2017

We note that the above cash flows do not affect other assets and liabilities with the exception of interest received, which we have adjusted in note b below. The cash that has been used in exploration has added to the value of the Company's mineral assets to the extent that it would have contributed to the value of those assets as determined by DRM in Note c.

#### Note b) Trade and other receivables

We have adjusted the trade and other receivables of Bauxite Resources as at 30 June 2017 to account for the accrued interest income received during the four months ended 31 October 2017. The adjusted trade and other receivables is summarised in the table below:

Adjusted trade and other receivables as at 31 October 2017		\$
Trade and other receivables at 30 June 2017		217,837
Less: Accrued interest received		(67,610)
<b>Adjusted trade and other receivables</b>		<b>150,227</b>

Source: Bauxite Resources' audited financial statements for the year ended 30 June 2017, and cash flow analysis prepared by Bauxite Resources management for the four months ended 31 October 2017

#### Note c) Mineral assets

We instructed DRM to provide an independent market valuation of the mineral assets held by Bauxite Resources. DRM considered a number of different valuation methods when valuing the mineral assets of Bauxite Resources. We are satisfied that the valuation methodologies adopted by DRM are in accordance with industry practices and compliant with the requirement of the Valmin Code and JORC Code. Further information regarding DRM's valuation of Bauxite Resources' mineral assets is included in the DRM Valuation Report contained in Appendix 3.

The range of values for Bauxite Resources' mineral assets, as assessed by DRM, is set out below:

Mineral assets	Low value \$	Preferred value \$	High value \$
Darling Range Projects (40% interest)	2,800,000	3,500,000	4,200,000
Silica Sand Projects (100% interest)	700,000	1,600,000	2,600,000
Hardrock Silica Projects (100%) interest	150,000	350,000	550,000
Lort Project (100% interest)	10,000	20,000	40,000
Yankuang Royalty	1,600,000	2,100,000	2,600,000
<b>Total</b>	<b>5,260,000</b>	<b>7,570,000</b>	<b>9,990,000</b>

Source: DRM Valuation Report

The table above indicates that the value of Bauxite Resources' mineral assets is between \$5.26 million and \$9.99 million, with a preferred value of \$7.57 million.

#### Note d) Property, plant and equipment

We instructed LMW to provide an independent market valuation of the Properties, allocating a separate added value for the Bauxite asset on the Properties. LMW considered a number of different valuation methods when valuing the Properties and the included Bauxite resource. We are satisfied that the valuation methodologies adopted by LMW are in accordance with industry practices. Further information regarding LMW's valuation of Bauxite Resources' Properties and Bauxite asset on the Properties is included in the LMW Valuation Report contained in Appendix 4.

The range of values for Bauxite Resources' Properties and included Bauxite resource, as assessed by LMW, is set out below:

Property, plant and equipment	Low value \$	Preferred value \$	High value \$
6 Cullalla Road Mooliabeenee	455,000	480,000	505,000
Mooramurra Lots 1&2 Wells Grove Bindoon	1,345,000	1,415,000	1,485,000
Bauxite asset on the Properties	-	-	-
<b>Total</b>	<b>1,800,000</b>	<b>1,895,000</b>	<b>1,990,000</b>

Source: LMW Valuation Report

The table above indicates that the value of Bauxite Resources' Properties and Bauxite asset on the Properties is between \$1.80 million and \$1.99 million, with a preferred value of \$1.90 million.

## 10.2 Quoted market prices for Bauxite Resources securities

To provide a comparison to the valuation of Bauxite Resources in Section 10.1, we have also assessed the quoted market price for a Bauxite Resources share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares for the purposes of a control transaction, the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

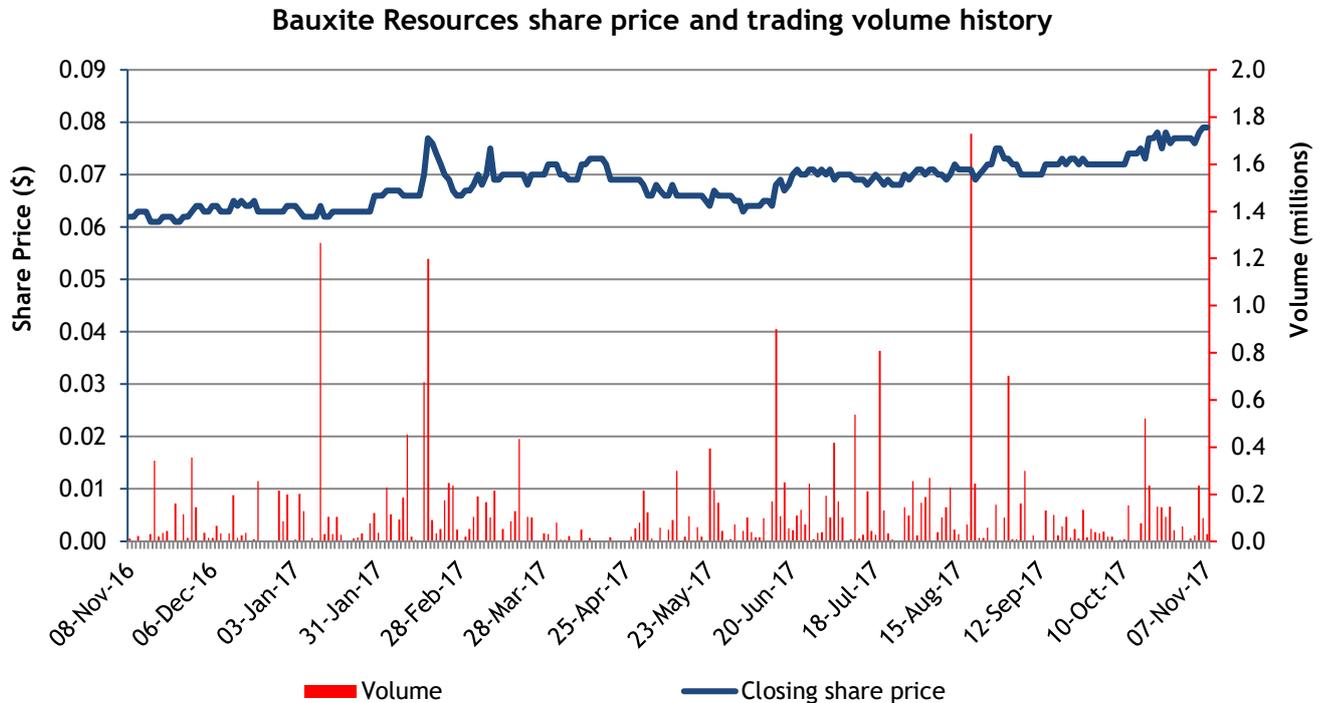
Whilst the Offer is only for one of every two shares in Bauxite Resources not already held by Mercantile OFM, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. The expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 13.

Therefore, our calculation of the quoted market price of a Bauxite Resources share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

### Minority interest value

Our analysis of the quoted market price of a Bauxite Resources share is based on the pricing prior to the announcement of the Offer. This is because the value of a Bauxite Resources share after the announcement may include the effects of any change in value as a result of the Offer. However, we have considered the value of a Bauxite Resources share following the announcement when we have considered reasonableness in Section 13.

Mercantile OFM’s announced its intention to make the Offer on 8 November 2017. Therefore, the following chart provides a summary of the share price movement over the 12 months to 7 November 2017, which was the full last trading day prior to the announcement.



Source: Bloomberg

The daily price of Bauxite Resources shares from 8 November 2016 to 7 November 2017 has ranged from a low of \$0.061 on 15 November 2016 to a high of \$0.079 on 6 November 2017. Bauxite Resources’ share price has exhibited an increasing trend over the 12 months to 7 November 2017. The highest single day of trading was on 18 August 2017, when 1,728,087 shares were traded. During the 12 months to 7 November 2017, a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement		Closing Share Price Three Days After Announcement	
		\$ (movement)		\$ (movement)	
24/10/2017	September 2017 Quarterly Activities and Cash Flow Report	0.078	▲ 4.0%	0.077	▼ 1.3%
26/09/2017	Appendix 4G Corporate Governance Key to Disclosures	0.073	▲ 1.4%	0.072	▼ 1.4%
26/09/2017	Corporate Governance Statement	0.073	▲ 1.4%	0.072	▼ 1.4%
26/09/2017	Annual Report to shareholders	0.073	▲ 1.4%	0.072	▼ 1.4%
27/07/2017	June 2017 Quarterly Activities and Cash Flow Report	0.070	▲ 2.9%	0.071	▲ 1.4%
27/04/2017	March 2017 Quarterly Activities and Cash Flow Report	0.069	► 0.0%	0.066	▼ 4.3%
21/02/2017	Half Year Accounts	0.072	▼ 2.7%	0.067	▼ 6.9%
27/01/2017	December 2016 Quarterly Activities and Cash Flow Report	0.063	► 0.0%	0.066	▲ 4.8%
18/11/2016	Results of Meeting	0.062	▲ 1.6%	0.061	▼ 1.6%

Source: Bloomberg

On 18 November 2016, Bauxite Resources released the results of its Annual General Meeting. The results showed that both resolutions, being the adoption of the remuneration report and the re-election of Neil Lithgow as a Director, were passed. The share price increased 1.6% on the day of the announcement to close at \$0.062, before declining 1.6% over the subsequent three-day period to close at \$0.061.

On 27 January 2017, Bauxite Resources released its December 2016 Quarterly Activities and Cash Flow Report. The Report highlighted continued exploration on the JV tenements and progress on Lort River. The share price closed unchanged on the day of the announcement before increasing 5% over the subsequent three-day period to close at \$0.066.

On 21 February 2017, Bauxite Resources released its Half Year Accounts for 2017, which highlighted the Company's continued focus on Bauxite exploration opportunities. The share price decreased by 2.7% on the day of the announcement to close at \$0.072 before declining by a further 6.9% over the three days subsequent to close at \$0.067.

On 27 April 2017, Bauxite Resources released the March 2017 Quarterly Activities and Cash Flow Report, which highlighted the completion of drilling on extensional areas of Dionysus and Ceres and the pegging of the Silica Tenements. The share price closed unchanged on the day of the announcement, before decreasing by 4.3% over the three days subsequent to close at \$0.066.

On 27 July 2017, Bauxite Resources released the June 2017 Quarterly Activities and Cash Flow Report, which highlighted the finalization of the Aboriginal Heritage Agreement for the Lort River and that an assessment of drilling results at Ceres and Dionysus was in progress. The share price increased by 2.9% to close at \$0.070 on the day of the announcement, before increasing a further 1.4% over the subsequent three-day period to close at \$0.071.

On 24 October 2017, Bauxite Resources released its September 2017 Quarterly Activities and Cash Flow Report which highlighted continued discussions with HD Mining to agree a forward exploration plan for the Darling Range Projects and that an assessment of logistics and target generation was underway for the silica sand tenements. The share price increased by 4.0% on the day of the announcement to close at \$0.078, before declining by 1.3% over the three days subsequent to close at \$0.077.

To provide further analysis of the market prices for a Bauxite Resources share, we have also considered the volume weighted average price ('VWAP') for 10, 30, 60 and 90 day periods to 7 November 2017.

Share price per unit	07-Nov-17	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.079				
Volume weighted average price		\$0.076	\$0.075	\$0.072	\$0.071

Source: Bloomberg and BDO analysis

The above weighted average prices are prior to the date of the announcement of the Offer, to avoid the influence of any increase in price of Bauxite Resources shares that has occurred since the Offer was announced.

An analysis of the volume of trading in Bauxite Resources shares for the 12 months to 7 November 2017 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a percentage of issued capital
1 Day	\$0.077	\$0.079	31,900	0.01%
10 Days	\$0.076	\$0.079	665,206	0.31%
30 Days	\$0.072	\$0.079	2,292,896	1.07%
60 Days	\$0.069	\$0.079	6,543,879	3.05%
90 Days	\$0.068	\$0.079	10,417,647	4.86%
180 Days	\$0.063	\$0.079	17,775,859	8.29%
261 Days	\$0.060	\$0.079	26,394,748	12.31%

Source: Bloomberg and BDO analysis

This table indicates that Bauxite Resources' shares display a low level of liquidity, with only 4.86% of the Company's current issued capital being traded in the 90-day period prior to the announcement of the Offer. RG 111.69 states that for the quoted market price methodology to be an appropriate methodology there needs to be a 'liquid and active' market in the shares and allowing for the fact that the quoted price may not reflect their value should 100% of the securities not be available for sale. We consider the following characteristics to be representative of a liquid and active market:

- regular trading in a company's securities;
- approximately 1% of a company's securities are traded on a weekly basis;
- the spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- there are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'liquid and active', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of Bauxite Resources, we do not consider there to be a liquid and active market for its shares as only 4.86% of the Company's current issued capital was traded over the 90-day period prior to the announcement of the Offer. Furthermore, we note that there were significant unexplained price movements and fluctuations in trade volume during the period, which further support our assessment that there is an absence of a liquid and active market for Bauxite Resources' shares. In particular, the Company's shares exhibited unusual trading on 18 August 2017, when 1,728,087 share were traded. We consider this to be unexplained trade activity as no announcements were made by the Company in the 20 days prior.

Excluding this day from our analysis results in Bauxite Resources' shares exhibiting a lower level of liquidity, with only 4.05% of the Company's current issued capital being traded in the 90-day period prior to the announcement of the Offer.

Our assessment is that a range of values for Bauxite Resources' shares based on market pricing, after disregarding post announcement pricing, is between \$0.071 and \$0.079, with a midpoint value of \$0.075.

## Control Premium

We have reviewed the control premiums paid by acquirers of general mining companies listed on the ASX. We have summarised our findings below:

Year	Number of control transactions	Average deal value (\$m)	Average control premium (%)
2017	3	20.76	32.90
2016	13	59.54	74.92
2015	9	340.82	57.86
2014	15	118.46	47.88
2013	17	117.99	63.99
2012	18	207.01	52.45
2011	21	811.55	37.42
2010	21	555.11	50.61
2009	20	121.99	50.44
2008	18	631.60	33.19

Source: Bloomberg

The mean and median of the entire data set, comprising control transactions for general mining companies from 2008 onwards, is set out below:

Entire data set metrics	Average deal value (\$m)	Average control premium (%)
Mean	351.49	50.31
Median	45.48	39.10

Source: Bloomberg

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- nature and magnitude of non-operating assets;
- nature and magnitude of discretionary expenses;
- perceived quality of existing management;
- nature and magnitude of business opportunities not currently being exploited;
- ability to integrate the acquiree into the acquirer's business;
- level of pre-announcement speculation of the transaction; and
- level of liquidity in the trade of the acquiree's securities.

The table above indicates that the long term average of announced control premiums paid by acquirers of general mining companies on the ASX is approximately 50%. However, in assessing the sample of transactions included in the table, we noted transactions that appear to be extreme outliers. These outliers included 15 transactions in which the announced premium was in excess of 100%.

In a sample where there are extreme outliers, the median often represents a superior measure of central tendency compared to the mean. We note that the median announced control premium over the review period was approximately 39%.

In determining a control premium most appropriate for Bauxite Resources, we considered a number of factors. The principal influencing factor we considered is that Bauxite Resources is a mineral exploration

company and therefore does not currently have any revenue generating operations. Furthermore, a controlling interest in the Company will have access to the net assets of Bauxite Resources, which comprises primarily cash. We note that an acquirer would not be expected to pay a premium for cash.

Based on the above analysis, we consider an appropriate premium for control to be paid by Mercantile OFM is between 20% and 30%, with a midpoint of 25%.

### Quoted market price including control premium

Applying a control premium to Bauxite Resources quoted market share price results in the following quoted market price value including a premium for control:

	Low value \$	Midpoint value \$	High value \$
Quoted market price	0.071	0.075	0.079
Control premium	0.200	0.250	0.300
<b>Quoted market price including a premium for control</b>	<b>0.085</b>	<b>0.094</b>	<b>0.103</b>

Source: BDO analysis

Therefore, our valuation of a Bauxite Resources share based on the quoted market price methodology and including a premium for control is between \$0.085 and \$0.103, with a midpoint value of \$0.094.

### 10.3 Assessment of the value of Bauxite Resources prior to the Offer

The results of the valuations performed are summarised in the table below:

Value of a Bauxite Resources share	Ref	Low value \$	Preferred value \$	High value \$
Net asset value	10.1	0.110	0.121	0.133
Quoted market price	10.2	0.085	0.094	0.103

Source: BDO analysis

We note that the valuation range for a Bauxite Resources share on a controlling basis derived from our NAV, is greater than the valuation range derived from our QMP analysis. The difference between our NAV and QMP valuation may be explained by the following:

- Our NAV includes an independent valuation of the Company's mineral assets and Properties, which were performed by DRM and LMW, respectively. DRM and LMW relied on a combination of valuation methodologies in order to derive the market value of Bauxite Resources' mineral assets and Properties. We note that investors may take a more conservative view to that of the valuation specialists in relation to the inputs adopted, valuation methodologies used and ultimately their assessment of the value of the Company's mineral assets and Properties. In particular, it is possible that the market has not valued the Yankuang Royalty which is not referred to in the Company's 2017 Annual Report. Consequently, the market value of all the Company's assets may not be reflected in the Company's QMP.
- Under RG111.69, the QMP methodology is considered appropriate when a liquid and active market exists for a company's securities. From our analysis of the QMP of Bauxite Resources in Section 10.2, we note that only 12.31% of the Company's issued capital had been traded in the 12 months up to the date of the announcement of the Offer and only 4.86% in the previous 90 days. If the unusual trading on 18 August 2017 is removed from this calculation then only 11.50% of shares were traded in the 12 months up to the date of the announcement of the Offer and 4.05% in the

previous 90 days. Hence, the QMP methodology may not best reflect the value of a Bauxite Resources share.

Based on the above analysis, we consider the value of a Bauxite Resources share prior to the Offer, on a control basis, to be between \$0.110 and \$0.133, with a preferred value of \$0.121.

## 11. Valuation of the Offer consideration

Under the Offer, Shareholders will receive \$0.09 cash for one of every two shares held in Bauxite Resources.

Mercantile OFM states in the Bidder's Statement that if it gains control of 50.1% or more of the shares in the Company that it intends to undertake a strategic review to assess the viability of making an immediate repayment to Shareholders of six cents per share. However, we note that the cash for such a distribution would come from the Company's own cash funds which are an asset of the Company. Furthermore, we note that in the Company's Target's Statement, the directors of Bauxite Resources, who have an interest of approximately 26.32% in the Company, intend to reject the Offer in respect of the shares in the Company that they control. Consequently, the largest interest in Bauxite Resources that Mercantile OFM can acquire under the Offer, assuming 100% acceptance from all other Bauxite Resources shareholders, is approximately 35.29%.

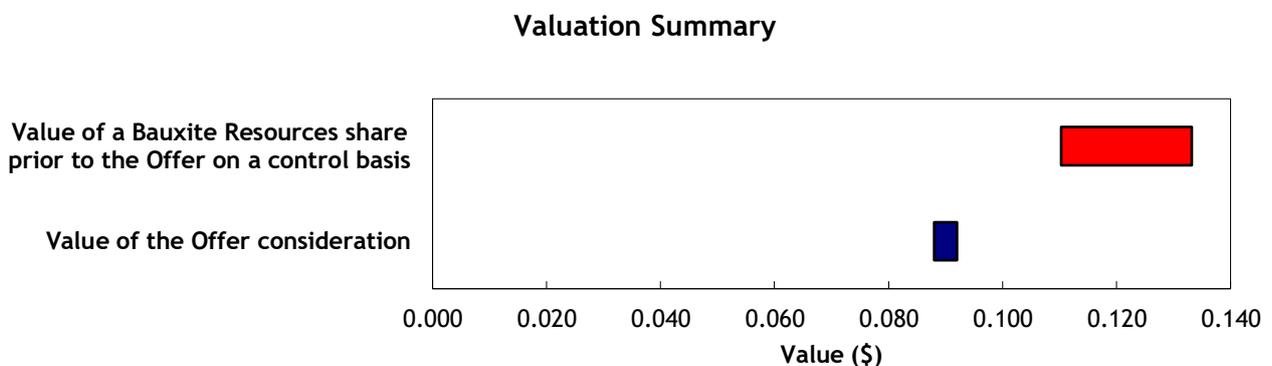
## 12. Is the Offer fair?

A comparison of the value of a Bauxite Resources share prior to the Offer, on a control basis, and the Offer consideration per share is set out below:

Fairness assessment	Ref	Low value \$	Preferred value \$	High value \$
Value of a Bauxite Resources share prior to the Offer on a control basis	10.1	0.110	0.121	0.133
Value of the Offer consideration	11	0.090	0.090	0.090

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

Based on the above analysis, the value of a Bauxite Resources share prior to the Offer on a control basis is greater than the value of the Offer consideration for one of every two Bauxite Resources shares. Therefore, in the absence of any other relevant information, we consider that the Offer is not fair for Shareholders.

We note that on 15 December 2017, the Company announced a proposed capital return of \$0.05 per share. We do not consider this relevant in our assessment of whether the Offer is fair for Shareholders as there is no change in value to Shareholders, simply the form this value would take. We have however, considered the proposed return of capital in reasonableness below.

## 13. Is the Offer reasonable?

### 13.1 Advantages of accepting the Offer

If the Offer is accepted, in our opinion, the potential advantages to Shareholders include the following:

#### 13.1.1. The Offer provides Shareholders with an opportunity to realise part of their investment with certainty

In the 12 months prior to the announcement of the Offer, Bauxite Resources' shares displayed a very low level of liquidity, with only 12.31% of the Company's total issued capital being traded. As such, the ability for larger shareholders, or for a large number of smaller shareholders acting at the same time, to dispose of their Bauxite Resources shares on market is limited.

The Offer consideration of cash provides Shareholders with an opportunity to realise 50% of their investment in Bauxite Resources and to utilise the cash received for other purposes such as alternative investments.

Furthermore, by accepting the Offer, Shareholders will not incur any brokerage charges if their shares in Bauxite Resources are registered in an issuer sponsored holding.

#### 13.1.2. Shareholders who accept the Offer will retain partial exposure to the opportunities associated with an investment in Bauxite Resources

By accepting the Offer, Shareholders will receive \$0.09 cash for one of every two Bauxite Resources shares held. Therefore, Shareholders will retain exposure, albeit reduced, to the potential upside of prospective operations that the Company is currently exploring as well as any value accretion resulting from the Yankuang Royalty.

The financial standing of the Company, in particular its holding of cash and cash equivalents, places it in a strong position to pursue other value enhancing opportunities. If the Company successfully invests in an opportunity, it is likely that the attractiveness of the Company will increase.

Similarly, should Yankuang and the BAJV progress the Felicitas and Fortuna projects through to production, the Company will be entitled to receive income from the Yankuang Royalty, which would further increase the attractiveness of the Company and in turn, Shareholders may be offered a higher value for their shareholding.

If Shareholders accept the Offer, 50% of their current shareholding will be exposed to these opportunities, should they eventuate.

### 13.1.3. The Offer is not subject to a minimum acceptance condition

Under the terms of the Offer, there is no minimum acceptance condition. Therefore, Shareholders are free to accept the Offer regardless of whether other Shareholders decide to accept the Offer. This independence provides Shareholders with certainty of a cash return on their investment, should they choose to accept the Offer.

## 13.2 Disadvantages of accepting the Offer

If the Offer is accepted, in our opinion, the potential disadvantages to Shareholders include the following:

### 13.2.1. The Offer is not fair

Our analysis in Section 12 concludes that the Offer is not fair for Shareholders.

### 13.2.2. The Offer is not fair on a minority interest basis

RG 111 states that an expert's assessment of whether a takeover bid is fair must be based on a comparison between the value of the share on a control basis prior to the offer, compared to the offer consideration. The value of the share subject to the takeover offer is assessed on a controlling interest basis because the acquirer should be expected to pay a premium to acquire a controlling interest. Therefore, by accepting a takeover bid, the minority interest shareholder is forgoing the opportunity to receive a control premium in the future.

However, given that all current Shareholders are minority interest holders, we consider it relevant for us to also compare the Offer consideration to the minority interest value of a Bauxite Resources share. A minority interest is the inverse of a premium for control and is calculated using the formula  $1 - (1 \div (1 + \text{Control Premium}))$ . As discussed in Section 10.2, we consider an appropriate control premium for Bauxite Resources to be in the range of 20% to 30%, giving rise to a minority interest discount in the range of 17% to 23%. The minority interest value of a Bauxite Resources share compared to the Offer consideration is set out below.

Value of a Bauxite Resources share on a minority interest basis	Low value \$	Preferred value \$	High value \$
Value of a Bauxite Resources share on a controlling interest basis prior to the Offer	0.110	0.121	0.133
Minority interest discount	23%	20%	17%
<b>Value of a Bauxite Resources share on a minority interest basis prior to the Offer</b>	<b>0.085</b>	<b>0.097</b>	<b>0.111</b>

Source: BDO analysis

The table above indicates that on a minority interest basis, for our assessed preferred and high values, the Offer would remain not fair for Shareholders.

### 13.2.3. Shareholders who accept the Offer will not be eligible to receive the proposed capital return of \$0.05 per share

On 15 December 2017, the Company announced that the board of Bauxite Resources had resolved to approve a capital return of \$0.05 per share, subject to Shareholder approval. The proposed capital return will result in approximately \$10.7 being returned to Shareholders, leaving the Company with a cash reserve of approximately \$5.5 million. The proposed capital return will only take place if it is supported

by a Shareholder vote in the first quarter of 2018. Shareholders who accept the Offer will be not be eligible to receive this proposed return of capital.

#### **13.2.4. Shareholders who accept the Offer will reduce their exposure to the opportunities associated with an investment in Bauxite Resources**

As detailed in Section 13.1.2, the opportunities associated with an investment in Bauxite Resources include the potential upside of prospective operations that Company is currently exploring and any value accretion resulting from the Yankuang Royalty. By accepting the Offer, Shareholders will receive \$0.09 cash for one of every two Bauxite Resources shares held. Therefore, If Shareholders accept the Offer, their exposure to these opportunities, should they eventuate, will be reduced by 50%.

#### **13.2.5. Shareholders who accept the Offer may become minority shareholders in a company in which Mercantile OFM has a controlling interest**

As detailed in Section 4, given that the directors of Bauxite Resources who have an interest in 26.32% of the Company’s issued capital intend to reject the Offer, the maximum interest that Mercantile OFM can acquire under the Offer is approximately 35.29%. Nonetheless, Shareholders who choose to accept the Offer for one of every two shares they hold in Bauxite Resources could potentially be left holding a minority interest shareholding in a company in which Mercantile OFM has a controlling interest. The implications of the various levels of control that Mercantile OFM may obtain as a result of the Offer are outlined below:

Controlling interest	Influence on Company
>5%	ability to requisition a general meeting of the Company
>10%	ability to prevent a compulsory acquisition
>25%	ability to block special resolutions

Source: BDO analysis

Furthermore, the presence of a shareholder with such a significant holding in the Company’s issued capital may reduce the liquidity of trading in Bauxite Resources’ shares, as well as reducing the likelihood of a takeover offer in the future. In conjunction, the potential decline in liquidity and diminished likelihood of receiving a control premium may reduce the attractiveness of a Bauxite Resources share and ultimately, the value realisable by Shareholders.

#### **13.2.6. Shareholders who accept the Offer may be subject to potential tax implications**

We note that there is no capital gains scrip-for-scrip rollover relief available under the Offer. If Shareholders accept the Offer, they may face potential tax implications such as crystallising a capital gains tax liability on the disposal of their shares. Individual Shareholders should consult their tax advisers in relation to their personal circumstance.

#### **13.2.7. The greater the level of acceptances, the less likely it is that Shareholders will be able to receive a premium for their remaining shareholdings from an alternative offer**

Shareholders expect to receive a premium for control if a takeover offer is received for their shares in a company. In general, where a single shareholder holds a significant percentage of the shares in a

company that shareholder can dictate whether a takeover offer is successful or not and as such the presence of such a significant shareholder can discourage potential bidders thereby depriving smaller shareholders from the opportunity to receive a takeover premium for their shares.

Consequently, the greater the level of acceptances of the Offer, the less likely it is that Shareholders will be able to receive a premium for their remaining shareholdings from an alternative offer.

### **13.3 Advantages of rejecting the Offer**

If the Offer is rejected, in our opinion, the potential advantages to Shareholders include the following:

#### **13.3.1. Shareholders who reject the Offer will be eligible to receive the proposed capital return of \$0.05 per share**

On 15 December 2017, the Company announced that the board of Bauxite Resources had resolved to approve a capital return of \$0.05 per share, subject to Shareholder approval. The proposed capital return will result in approximately \$10.7 being returned to Shareholders, leaving the Company with a cash reserve of approximately \$5.5 million. The proposed capital return will only take place if it is supported by a Shareholder vote in the first quarter of 2018. If this is the case, Shareholders who reject the Offer will be eligible to receive this proposed return of capital.

#### **13.3.2. Shareholders who reject the Offer will retain maximum exposure to the opportunities associated with an investment in Bauxite Resources**

As detailed in Section 13.1.2, the opportunities associated with an investment in Bauxite Resources include the potential upside of prospective operations that Company is currently exploring and any value accretion resulting from the Yankuang Royalty. By rejecting the Offer, Shareholders will retain maximum exposure to these opportunities, should they eventuate.

### **13.4 Disadvantages of rejecting the Offer**

If the Offer is rejected, in our opinion, the potential disadvantages to Shareholders include the following:

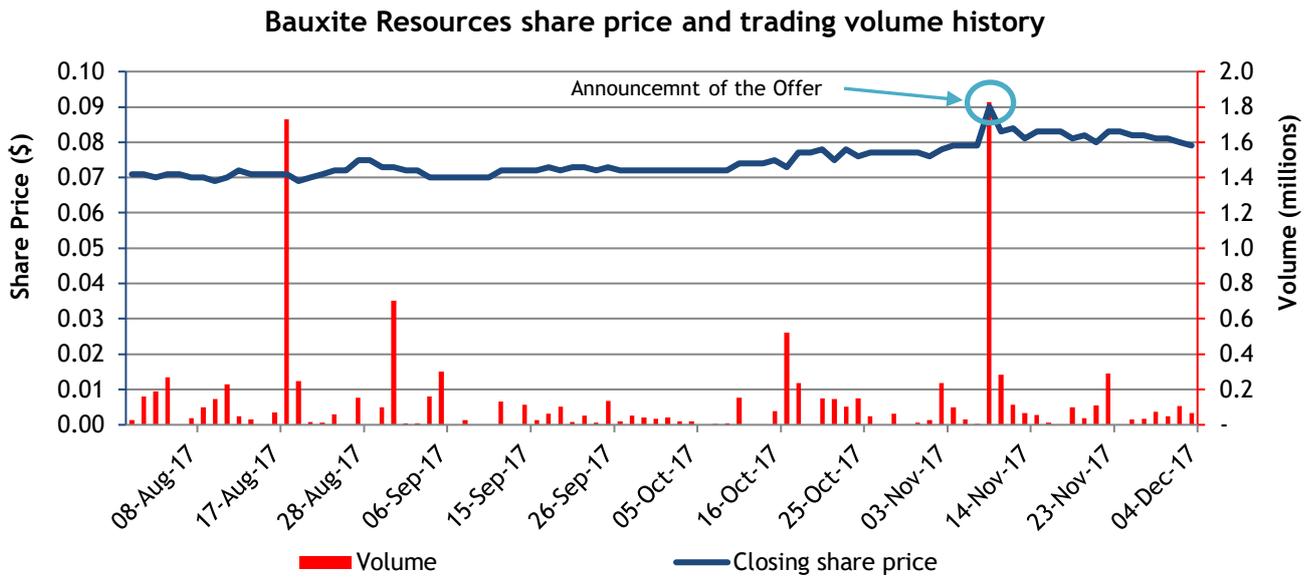
#### **13.4.1. Shareholders who reject the Offer may become minority shareholders in a company in which Mercantile OFM has a controlling interest**

As detailed in Section 4, the maximum interest that Mercantile OFM can acquire under the Offer is approximately 35.29%. Given that the Offer has no minimum acceptance condition, Shareholders are free to accept the Offer regardless of whether other Shareholders decide to accept the Offer. Therefore, Shareholders who reject the Offer could potentially be left holding a minority interest shareholding in a company in which Mercantile OFM has a controlling interest. The implications of the various levels of control that Mercantile OFM may obtain as a result of the Offer, in addition to the potential impact on the value of a Bauxite Resources share resulting from the presence of a shareholder with such a significant shareholding, are detailed in Section 13.2.4.

## 13.5 Other considerations

### 13.5.1. Post-announcement pricing

We have analysed movements in Bauxite Resources' share price since the Offer was announced. A graph of the Company's share price and trade volume leading up to and following the announcement of the Offer is set out below:



Source: Bloomberg

The daily price of Bauxite Resources' shares from 1 August 2017 to 4 December 2017 ranged from \$0.069 on 10 August 2017 to \$0.09 on 9 November 2017, being the first full day of trading following the announcement of the Offer. A total of 1.83 million shares were traded on the day of the announcement of the Offer and 9 November 2017, which represents approximately 1% of the Company's total issued capital.

The table below details the VWAP of Bauxite Resources shares for the 10 and 19 day periods subsequent to the announcement of the Offer on 8 November 2017.

Share price per unit	04-Dec-17	10 Days	19 Days
Closing price	\$0.079		
Volume weighted average price		\$0.081	\$0.083

Source: Bloomberg

Following the announcement of the Offer, Bauxite Resources share price has increased from a VWAP of \$0.075 over the 30 days prior to the announcement of the Offer, to \$0.83 over the 19 days following the announcement of the Offer. This indicates that the announcement of the Offer was well received.

However, we note that both the VWAP of the 10 days following the announcement of the Offer and spot price as at 4 December 2017 are both lower at \$0.081 and \$0.079, respectively. These figures are both below the Offer price, acknowledging that the Offer is for only one in every two shares held.

## 13.6 Alternative proposal

We are unaware of any alternative proposal that might offer Shareholders a premium over the Offer consideration.

## 14. Conclusion

We have considered the terms of the Offer as outlined in the body of this report and have concluded that the Offer is neither fair nor reasonable for Shareholders.

## 15. Sources of information

This report has been based on the following information:

- draft Target's Statement on or about the date of this report;
- Mercantile OFM's Bidder's Statement issued on 21 November 2017;
- Mercantile OFM's Supplementary Bidder's Statement issued on 13 December 2017;
- audited financial statements of Bauxite Resources for the years ended 30 June 2015, 30 June 2016 and 30 June 2017;
- audited financial statements of Mercantile for the years ended 30 June 2015, 30 June 2016 and 30 June 2017;
- DRM Valuation Report of Bauxite Resources' mineral assets dated 6 December 2017;
- LWM Valuation Report of Bauxite Resources' Properties and Bauxite asset on the Properties, dated 6 December 2017;
- Bauxite Resources share registry information;
- Reserve Bank of Australia's Monetary Policy Decision dated 7 November 2017;
- Worldbank's Commodity Markets Outlook for October 2017;
- Bloomberg;
- S&P Capital IQ
- IBIS World;
- Energy and Metals Consensus Forecast for November 2017;
- United States Geological Survey;
- International Monetary Fund;
- information in the public domain; and
- discussions with directors of Bauxite Resources.

## 16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of approximately \$25,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Bauxite Resources in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by Bauxite Resources, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Bauxite Resources and Mercantile OFM and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Bauxite Resources and Mercantile OFM and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Bauxite Resources, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to Bauxite Resources and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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## 17. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants Australia & New Zealand. He has over 30 years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 300 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of Chartered Accountants Australia and New Zealand. Adam's career spans 19 years in the Audit and Assurance and Corporate Finance areas. Adam is a CA BV Specialist and has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

## 18. Disclaimers and consents

This report has been prepared at the request of Bauxite Resources for inclusion in the Target's Statement which will be sent to all Shareholders. Bauxite Resources engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to express an opinion as to whether or not the Offer is fair and reasonable for Shareholders.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Target's Statement. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Target's Statement other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Mercantile OFM. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Offer, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Bauxite Resources, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations of the mineral assets held by Bauxite Resources, the Properties and Bauxite asset on the Properties.

The independent specialists engaged to provide a valuation of the Company's mineral assets and Properties, DRM and LMW, respectively, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation is appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.



Yours faithfully

**BDO CORPORATE FINANCE (WA) PTY LTD**

A handwritten signature in black ink, appearing to read 'Sherif Andrawes'. The signature is fluid and cursive, with a long horizontal stroke at the end.

**Sherif Andrawes**

Director

A handwritten signature in blue ink, appearing to read 'Adam Myers'. The signature is cursive and somewhat stylized.

**Adam Myers**

Director

# Appendix 1 - Glossary of Terms

Reference	Definition
the Act	The Corporations Act 2001 Cth
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Athena	Athena Deposit
BAJV	Bauxite Alumina Joint Venture
Bauxite Resources	Bauxite Resources Limited
BDO	BDO Corporate Finance (WA) Pty Ltd
Ceres	Ceres Deposit
the Company	Bauxite Resources Limited
Corporations Act	The Corporations Act 2001 Cth
Darling Range Projects	Athena, Ceres and Dionysus
DCF	Discounted Future Cash Flows
Dionysus	Dionysus Deposit
DRM	Dunbar Resource Management
DRM Valuation Report	The independent specialist valuation report prepared by DRM
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EZA	EZA Corporation Limited
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service

Reference	Definition
FSG	Financial Services Guide
GDP	Gross domestic product
Hardrock Silica Projects	The hardrock silica project in Queensland and regional hardrock silica tenements in Western Australia
HD Mining	HD Mining and Investments Pty Ltd
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition)
JV	Joint venture with HD Mining
LMW	LMW Perth
LMW Valuation Report	The independent specialist valuation report prepared by LMW
Lort River	Lort River Lithium Project
Mercantile	Mercantile Investment Company Limited
Mercantile OFM	Mercantile OFM Limited
MHM	MHM Metals Limited
NAV	Net Asset Value
the Offer	The proposed proportional off-market takeover bid by Mercantile OFM for one of every two shares in Bauxite Resources not already held by Mercantile OFM, at an offer price of \$0.09 cash per share
the Properties	The Company's properties at 6 Cullalla Road in Mooliabeenee and Mooramurra Lots 1&2 Wells Grove Road in Bindoon
QMP	Quoted market price
RBA	Reserve Bank of Australia
our Report	This Independent Expert's Report prepared by BDO
Richfield	Richfield International Limited
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)

Reference	Definition
Shareholders	Shareholders of Bauxite Resources not associated with Mercantile OFM
Silica Sand Project	Bauxite Resources Gingin, Albany and Esperance silica sand tenements
US	United States
USD	United States dollar
USGS	United States Geological Survey
Valmin Code	Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (2015 Edition)
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.
WWAP	Volume Weighted Average Price
Wellington Merchants	Wellington Merchants Limited
Yankuang	Yankuang Resources Pty Ltd

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Australia

## Appendix 2 - Valuation Methodologies

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Methodologies commonly used for valuing assets and businesses are as follows:

### 1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

### 2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a liquid and active market in that security.

### **3 Capitalisation of future maintainable earnings ('FME')**

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

### **4 Discounted future cash flows ('DCF')**

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

### **5 Market Based Assessment**

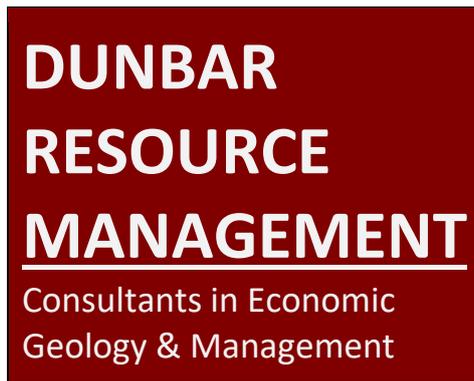
The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis, it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

The resource multiple is a market based approach which seeks to arrive at a value for a company by reference to its total reported resources and to the enterprise value per tonne/lb of the reported resources of comparable listed companies. The resource multiple represents the value placed on the resources of comparable companies by a liquid market.



## Appendix 3 - DRM Valuation Report

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INDEPENDENT TECHNICAL SPECIALISTS REPORT  
and VALUATION of the MINERAL ASSETS of  
BAUXITE RESOURCES LIMITED

**Final**

December 2017

Report Commissioned by BDO Corporate Finance

Valuation Date: 30 November 2017  
Report Date: 5 December 2017  
Primary Author: Paul Dunbar

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Principal Author	Paul Dunbar BSc Hons (Geology) MSc (MINEX) M. AusIMM M AIG	 <hr/> Date: 5 December 2017
Contributors	Shaun Searle Lisa Wells	
Valuation Date	30 November 2017	

## 1. Executive Summary

BDO Corporate Finance (WA) Pty Ltd (BDO) commissioned Dunbar Resource Management (DRM), the trading name of Jewell Dunbar Pty Ltd to prepare an Independent Technical Assessment and Valuation Report (“the Report” or the ITA) of the mineral assets owned by Bauxite Resources Limited and its subsidiary companies.

The Report provides an opinion to support an Independent Expert’s Report to be prepared by BDO, and has been prepared as a public document, in the format of an independent specialist’s report and in accordance with the 2015 VALMIN Code.

This report is a technical review of the Bauxite Resources mineral projects including the Darling Range Bauxite Joint Venture Projects, including the Athena, Ceres, Dionysus and Cardea resource projects, the Gingin, Albany and East Esperance Silica Projects and the Lort River Lithium Project along with other recent tenement applications. It includes a technical evaluation of the exploration and a fair market valuation of these mineral assets. In accordance with the 2015 VALMIN code DRM has undertaken several valuation methods for both the existing Mineral Resources, a separate valuation for the earlier stage exploration tenure surrounding the resource areas and the exploration projects where mineral resource estimates have not been completed. Importantly, as neither the principal author nor DRM hold an Australian Financial Securities Licence, this valuation is not a valuation of Bauxite Resources Limited but rather a valuation of the Mineral Assets owned by the company.

This valuation is current as of 30 November 2017. As commodity prices and cost inputs fluctuate over time this valuation is subject to change. The valuation derived by DRM is based on information provided by Bauxite Resources along with publicly available data including Australian Stock Exchange (ASX) releases and public data obtained from various companies and government geological surveys. DRM has made all reasonable endeavours to confirm the accuracy, validity and completeness of the technical data which forms the basis of this report. The opinions and statements in this report are given in good faith and under the belief that they are accurate and not false nor misleading. The default currency is Australian dollars. As with all technical valuations the valuation included in this report is the likely value of the mineral projects and not an absolute value.

### **Darling Range Bauxite Project**

The Darling Range Bauxite project consists of five separate resource projects, being the Athena, Ceres 1, 2 & 3, Dionysus and Cardea projects. The project is currently held 100% by Bauxite Resources however, Bauxite Resources and HD Mining & Investments Pty Ltd have entered into a Joint Venture whereby HD Mining can acquire up to 60% of a specific development area of the project by funding 100% of the exploration and development studies and meeting defined development goals. The Joint Venture is only for bauxite, all other commodities remain 100% owned by Bauxite Resources. The project consists of five exploration licences located to the northeast and south east of Perth, Western Australia. There are currently five separate resources estimated within the project with these totalling 87.36Mt at 31.9% reactive  $Al_2O_3$  and 3.3% reactive  $SiO_2$ . The larger two resources are the Athena deposit located approximately 120 km southeast of Perth while the Dionysus is located 100km northeast of Perth. While there have been no feasibility studies or reserve estimates undertaken on the projects preliminary planning is underway to commence initial studies into development alternatives.

It is, in the opinion of DRM, considered likely that ongoing and modern exploration activities would delineate additional mineralisation and further extensions to the known mineralisation. A portion of this exploration would include extensional drilling adjacent to the current resources.

This report documents the technical aspects of the project along with determining a valuation for the project, in accordance with the 2015 VALMIN Code.

## Silica Projects

The Gingin, Albany and East Esperance silica sand projects are located close to or relatively close to infrastructure near Perth, Albany and Esperance in Western Australia, an aspect that is critical to the economic viability of bulk industrial materials like silica sands. In addition to these silica sand projects there are five additional tenement applications in Western Australia targeting Silica primarily as hard rock primary silica (quartz) vein related systems and one large tenement application in Queensland. Most of the tenements associated with the silica projects are tenement applications with only the two East Esperance tenements currently granted. As there has been minimal exploration or evaluation work completed other than targeting the regionally identified prospective host sequences for high grade silica sands significant additional work, including drilling, is required to determine if these projects have the potential to delineate sufficient resources to support an economically viable project. No Resources or Reserves have been estimated. Silica sands have a wide range in potential value depending on the composition of the materials with highly pure silica sand worth over US\$5,000/t. High purity silica sands that are greater than 99.95% SiO<sub>2</sub> are potentially suitable for a wide range of potential uses including glass manufacture, ceramics, solar panels and high-end electronics.

## Lort River Lithium Project

The Lort River Lithium Project is an early stage exploration project located approximately 60km to the west of Esperance in Western Australia. The tenement was granted in 2016 however there has been minimal exploration completed due to significant unseasonal rainfall during late 2016 and early 2017. Access to the initial target and evaluation areas, being the main drainage systems has therefore been significantly impacted. As the area is dominated by cropped farmland the crops and farming activities significantly impact the timeframe for any exploration.

## Conclusions

Bauxite Resources holds five highly prospective tenements in the Darling Ranges to the east of Perth, Western Australia which include bauxite mineral resource estimates totalling 87.6Mt. Bauxite currently holds 100% of the project however it's JV partner, HD Mining has the right to earn up to 60% through funding all exploration and development expenditure with Bauxite's interest diluting to 40%. In addition to the bauxite project it has recently applied for several highly encouraging silica projects including high purity silica sand and hard rock vein silica projects. Most of the silica tenements remain as tenement applications and as such currently have minimal exploration commitments. The silica projects are either adjacent to active silica sand operations near Perth or Albany with other highly prospective tenements including the silica sand projects adjacent to Esperance in southern Western Australia and a further tenement surrounding an outcropping ultra-high-grade silica vein in northern Queensland.

During the preparation of this report and while reviewing all the technical documents associated with the mineral assets of Bauxite Resources no material flaws or errors were identified in the Mineral Resource Estimates nor the technical reporting of the exploration activities.

In DRM's opinion, the Market Value of Bauxite Resources 40% non-contributing interest in the HD Mining Bauxite Joint Venture and associated mineral resources within the Darling Range Bauxite Joint Venture between **\$2.8million** and **\$4.2million** with a preferred valuation of **\$3.5million**.

Bauxite Resources also holds a 0.9% FOB royalty for the first 100Mt of production from the Bauxite Alumina Joint Venture project that the company sold to its joint venture partner in 2016. An analysis has been conducted into the value of this royalty. This analysis has derived a **royalty value of between \$1.6 million and 2.6 million with a preferred valuation of \$2.1 million**.

The silica exploration projects including the Gingin, Albany and East Esperance Silica Projects, the regional silica exploration projects all have significant exploration potential. The lithium project is considered to have minimal value. As most of the tenements are applications, there has been insufficient work for the estimation of a mineral resource. Due to the early stage of exploration this report has derived the valuation predominantly by a geoscientific

valuation method. This is based on the observed geology and exploration within the projects along with the proximity to other deposits or mineralisation. Combined, the silica and lithium exploration projects of Bauxite Resources are valued at between **\$0.8 million** and **\$3.2million** with a preferred valuation of **\$2.0 million**.

Therefore, DRM has derived a preferred total valuation for the Bauxite Resources mineral assets of **\$7.6 million** within a range of **\$5.3 million** to **\$10.0 million**.

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## 1. Introduction

Dunbar Resource Management (DRM), the trading name of Jewell Dunbar Pty Ltd, was engaged by BDO Corporate Finance (WA) Pty Ltd (BDO) to undertake an Independent Technical Assessment and Valuation Report (ITA) on the mineral assets of Bauxite Resources Limited. The mineral assets include the Darling Range Bauxite Joint Venture, the East Esperance, Gingin, Albany silica projects, the Lort River Lithium Project along with a series of additional tenements targeting high purity silica. Most of the tenements are in Western Australia with one tenement application located in Queensland.

DRM understands that this ITA will be included in the Target Statement and the Independent Experts Report being prepared by BDO to determine the reasonableness of the offer announced by Mercantile OFM Pty Ltd on 8 November 2017.

### 1.1. Compliance with the JORC and VALMIN Codes and ASIC Regulatory Guides

The ITA has been prepared in accordance with the 2012 JORC and the 2015 VALMIN Codes. Both industry codes are mandatory for all members of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. These codes are also requirements under Australian Securities and Investment Commission (ASIC) rules and guidelines and the listing rules of the Australian Securities Exchange (ASX)

This ITA is a Public Report as described in the VALMIN Code (Clause 5) and the JORC Code (Clause 9). It is based on, and fairly reflects, the information and supporting documentation provided by Bauxite Resources to the Competent Persons listed as signatories to this ITA and additional publicly available information.

### 1.2. Scope of Work

DRM's primary obligation in preparing mineral asset reports is to independently describe mineral projects in compliance with the JORC and VALMIN Codes. These require that the Public Report contains all the relevant information at the date of disclosure, which investors and their professional advisors would reasonably require in making a reasoned and balanced judgement regarding the project.

DRM has compiled the ITA based upon the principle of reviewing and interrogating both the work of Bauxite Resources, its Joint Venture partners and independent specialists who have contributed to the technical information available for the projects. This report is a summary of the work conducted to 30 November 2017 and is based on information supplied to DRM by Bauxite Resources, its advisors and information that is in the public domain, to the extent required by the 2012 JORC Code and the 2015 VALMIN Code.

DRM has prepared an Independent Valuation of the Darling Range Bauxite Joint Venture, the East Esperance, Albany and Gingin Silica Projects, the Lort River Lithium project and other regional tenements, mainly targeting high grade silica. Other than one tenement application all the projects are in Western Australia.

DRM understands that its review and valuations will be relied upon and appended to an Independent Expert's Report prepared by BDO for inclusion in a Target Statement, to assist Bauxite Resources shareholders in their decision regarding an offer for their shareholding in Bauxite Resources by Mercantile OFM Pty Limited. As such, it is understood that DRM's review and valuation will be a public document. Accordingly, this report has been prepared in accordance with the requirements of the Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (the VALMIN Code, 2015).

### 1.3. Statement of Independence

Dunbar Resource Management (DRM), the trading name of Jewell Dunbar Pty Ltd, was engaged to undertake an Independent Technical Assessment and valuation of the mineral assets of Bauxite Resources. This work has been conducted in accordance with the 2012 JORC and the 2015 VALMIN codes. In addition to these industry codes the work also complies with ASIC Regulatory Guideline 111 – Content of Expert Reports (RG111) and ASIC Regulatory Guidelines 112 Independence of Experts (RG112).

Mr Dunbar of Dunbar Resource Management, the trading name of Jewell Dunbar Pty Ltd has not had any direct association with Bauxite Resources Limited, its individual employees, or any interest in the securities of BAU, which could be regarded as affecting the ability to give an independent, objective and unbiased opinion. As neither DRM or Mr Paul Dunbar hold an AFS licence, the valuation contained within this report is limited to a valuation of the mineral assets being reviewed. Dunbar Resource Management will be paid a fee for this work on standard commercial rates for professional services. The fee is not contingent on the results of this review and is estimated at between \$15,000 and \$18,000.

Additional specialists have been engaged by DRM to undertake a specific section of this report, that being a review of the Bauxite Resource Estimates for the Darling Range Bauxite Joint Venture and the geology of the bauxite projects. Mr Shaun Searle, the specialist engaged to undertake the Resource Estimation review and Ms Lisa Wells, a bauxite specialist, have confirmed that they are independent of Bauxite Resources, they have had no other association with Bauxite Resources, its individual employees, or any interest in the securities of BAU, which could be regarded as affecting their ability to give an independent, objective and unbiased opinion.

#### 1.4. Competent Persons Declaration and Qualifications

This report was prepared by Mr Paul Dunbar as the primary author with specialist sections undertaken by Mr Shaun Searle.

The primary author of the report and information that relates to geology, exploration and the mineral asset valuation is based on information compiled by Mr Paul Dunbar, BSc (Hons), MSc (Minex), a Competent Person who is a member of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mr Dunbar is employed by Jewell Dunbar Pty Ltd, trading as Dunbar Resource Management, a Geology and Exploration Management consultancy, which has been engaged by BDO Corporate Finance (WA) Pty Ltd. Mr Dunbar has a Master of Science in Mineral Exploration and Mineral Economics and has sufficient experience, which is relevant to the style of mineralisation, geology and type of deposit under consideration and to the activity being undertaken to qualify as a competent person under the 2012 edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the 2012 JORC Code) and a specialist under the Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (The 2015 VALMIN Code). Mr Dunbar consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

##### **Specialists Qualifications**

The information in this report that relates to the Mineral Resource estimates for the Darling Range Joint Venture projects is based on information previously announced by Bauxite to the ASX. The resource reports are dated August 2011, April 2012, September 2013, March and June 2014. These mineral resource estimates and reports, provided to DRM, were prepared by independent resource consultants, being Snowden Group Mining Consultants and RPM Limited. The Snowden reports were all conducted in accordance with JORC 2004 while the RPM estimates are reported under JORC 2012.

Mr Shaun Searle, Senior Consultant Geologist with Ashmore Advisory Pty Ltd, was engaged by DRM as a Specialist to review the reasonableness of the previously announced Mineral Resource Estimates. Mr. Searle has not verified the underlying geological dataset, nor has he re-reported the Mineral Resources for the projects as at the date of this report he is the principal author of section 2.2.6. Mr Searle is a Member of the Australian Institute of Geoscientists and has sufficient experience 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'. Mr Searle consents to the inclusion in this report of these matters based on information in the form and context in which it appears.

Ms Lisa Wells was engaged by DRM as an independent Specialist to review the geology of the bauxite projects. Ms Wells is a Member of the Australian Institute of Mining and Metallurgy and has sufficient experience 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'. Ms Wells consents to the inclusion in this report of these matters based on information in the form and context in which it appears.

## 1.5. Reliance on Experts

The authors of this report are not qualified to provide extensive commentary on the legal aspects of the mineral properties or the compliance with the Queensland or the Western Australian Mining Acts. Dunbar Resource Management has interrogated the websites of both the Western Australian Department of Mines, Industry Regulation and Safety (DMIRS) and the Queensland Department of Natural Resources and Mines (DNRM) to confirm the validity of the tenements and aspects relating to the compliance with the various government acts. All have confirmed that the tenements are reported as being in good standing and that all tenement matters including annual reports, rents and renewals have been lodged and are progressing in accordance with the various Mining Acts. As DRM and the authors of this report are not experts in the Mining Acts, no warranty or guarantee, be it express or implied, is made by the authors with respect to the completeness or accuracy of the legal aspects regarding the security of the tenure.

For Bauxite Resources projects DRM has relied upon;

- Information and Reports obtained from Bauxite Resources including but not limited to;
  - Mineral Resource Estimates for the Darling Range Bauxite projects
  - Annual Technical Reports for the tenements
  - Bauxite Resources - HD Mining Joint Venture Agreement
  - Internal Targeting memos and Monthly Reports for Silica Projects
- A review of the mineral Resource Estimates of Bauxite Resources undertaken by Mr S Searle
- Various ASX releases from Bauxite Resources and other companies
- Publicly available information including the USGS and
- Regional WA and Queensland datasets including
  - Bulletin 21 Silica Resources of Western Australia (Abeysinghe 2003)
  - Record 2004/21 Industrial Minerals in WA the situation in 2004 (Fetherston and Searston 2004)
  - Report 33 Bauxite Mineralisation in the Darling Range, Western Australia (Hickman, et.al. 1992)
  - Report 65 Mineral Occurrences and Exploration Potential of Southwest WA (Hassan 1998))

## 1.6. Sources of Information

All information and conclusions within this report are based on information made available to DRM and the specialists engaged to assist with this report by Bauxite and other relevant publicly available data to 8 November 2017. Reference has been made to other sources of information, published and unpublished, including government reports and reports prepared by previous interested parties and Joint Venturers to the areas, where it has been considered necessary. DRM has, as far as possible and making all reasonable enquiries, attempted to confirm the authenticity and completeness of the technical data used in the preparation of this report and to ensure that it had access to all relevant technical information. DRM has relied on the information contained within the reports, articles and databases provided by Bauxite as detailed in the reference list. A draft of this report has been provided to Bauxite Resources to identify and address any factual errors or omissions prior to finalisation of the report. The valuation sections of the report were not provided to the company until the technical aspects were validated and the report was declared final.

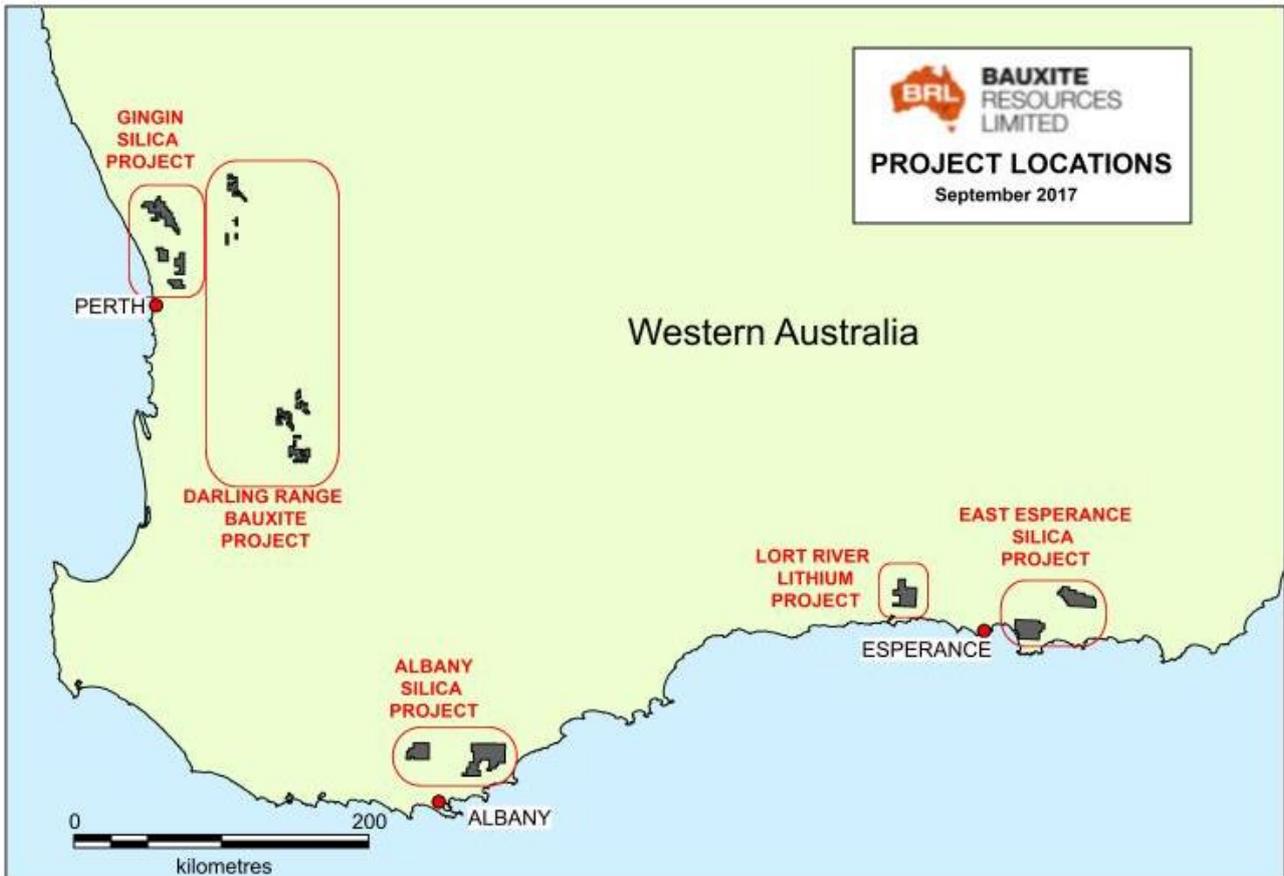
## 1.7. Site Visit

A specific site visit has not been conducted for the Bauxite Resources projects. Paul Dunbar has however visited several bauxite projects in the Darling Ranges and several silica sand operations on the Perth coastal plains over the past 25 years. In addition, Paul Dunbar conducted several visits to a lithium project adjacent to the Lort River Lithium project in late 2016 and early 2017 while evaluating the lithium potential within the same geological terrain. Therefore, a specific site visit is not considered warranted given the early exploration stage for most of the tenements held by Bauxite Resources and the authors knowledge of the geological terrains being explored.

## 2. Mineral Assets

The mineral assets that are included in this review are the Darling Range Bauxite Joint Venture Project, the East Esperance, Albany and Gingin Silica Sand projects, the Lort River lithium project, a Queensland hard rock silica project along with several regional hard rock silica tenements in Western Australia (Figure 1). The Darling Range Bauxite Joint Venture project consists of five non-contiguous tenements however as these have similar topographical, geological and infrastructure settings they have been combined into a single project both by the company and in this report. There are five separate resources within the Darling Range Bauxite project. Other than the bauxite resource estimates there are no other mineral resource estimates within any of the projects held by Bauxite Resources.

The mineral tenure for all the Bauxite Resources projects are documented in section 2.1 while the geology, exploration history, recent exploration results and resources for each of the projects are detailed separately below.



**Figure 1 Location of Bauxite Resources Exploration Projects as at 8 November 2017 excluding the Queensland tenement application.**

### 2.1. Mineral Tenure

Details of the Bauxite Resources tenements are included in Table 1 and shown in Figure 1. The tenements have been validated via checking with the various state and territory government databases and websites. A tenement plan is not included in this section of the report however detailed tenement plans are included in the descriptions of each of the projects below.

**Table 1 Bauxite Materials tenement schedule as at 20 November 2017.**

Tenement	Project	Status	Application Date	Grant Date	Expiry Date	Area	Commitment	Rent
E70/3160 <sup>2</sup>	Darling Range Bauxite Project	Granted	25/03/2007	26/07/2010	25/07/2020	10	\$6,820	\$5,030
E70/3179 <sup>2</sup>	Darling Range Bauxite Project	Granted	11/04/2007	26/05/2010	25/05/2020	38	\$114,000	\$20,330
E70/3180 <sup>2</sup>	Darling Range Bauxite Project	Granted	11/04/2007	25/05/2012	24/05/2022	25	\$50,000	\$13,375
E70/3405 <sup>2</sup>	Darling Range Bauxite Project	Granted	25/02/2008	29/04/2011	28/04/2021	25	\$50,000	\$13,375
E70/3890 <sup>2</sup>	Darling Range Bauxite Project	Granted	27/04/2010	29/10/2012	28/10/2017	20	\$30,000	\$5,660
E74/595	Lort River Lithium Project	Granted	17/05/2016	6/07/2016	5/07/2021	68	\$68,000	\$9,112
E63/1853	East Esperance Silica Project	Granted	7/04/2017	7/07/2017	6/07/2022	77	\$77,000	\$9,972
E63/1854	East Esperance Silica Project	Granted	7/04/2017	7/07/2017	6/07/2022	75	\$75,000	\$9,713
E70/4982	Albany Sands Project	Pending	23/05/2017			133	-	-
E70/4983	Albany Sands Project	Pending	23/05/2017			52	-	-
E70/5014	Albany Sands Project	Pending	22/08/2017			20	-	-
E70/5015	Albany Sands Project	Pending	22/08/2017			54	-	-
E70/5016	Albany Sands Project	Pending	22/08/2017			11	-	-
E70/5053	Gingin Silica Sands Project	Pending	24/10/2017			8	-	-
E70/5058	Gingin Silica Sands Project	Pending	9/11/2017			9	-	-
EPMA 26702	Regional Hardrock Silica	Pending	8/11/2017			21	-	-
E70/5069	Regional Hardrock Silica	Pending	16/11/2017			1	-	-
E70/5070	Regional Hardrock Silica	Pending	16/11/2017			1	-	-
E70/5071	Regional Hardrock Silica	Pending	16/11/2017			1	-	-
E70/5072	Regional Hardrock Silica	Pending	16/11/2017			1	-	-
E80/5160	Regional Hardrock Silica	Pending	16/11/2017			1	-	-

## Note

- 1) The area that has been used in the valuation for E70/4982 has been reduced by 9 graticules (blocks) to reflect the tenement that has priority over the tenement application. The area detailed above is based on the actual application.
- 2) Currently all tenements are 100% held by Bauxite Resources, Bauxite Resources are diluting to 40% for the Darling Range Bauxite Project.

DRM has made all reasonable enquiries regarding the status of these tenements and confirms that to be best of DRM's knowledge these tenements remain in good standing with all statutory filings, reports and documentation including renewals have been supplied to the various government departments. As DRM and the authors of this report are not experts in the mining acts for the two jurisdictions, being Western Australia and Queensland, no warranty or guarantee, be it express or implied, is made by DRM with respect to the completeness or accuracy of the legal aspects regarding the security of the tenure. DRM relies on the various government databases and websites which confirm Bauxite Resources tenements are, at the time of this report, in good standing.

## 2.2. Darling Range Bauxite Joint Venture

### 2.2.1. Location and Access

The Darling Range Bauxite Joint Venture Project consists of five granted tenements with these located 100km to the north east and 120km to the south east of Perth in the Darling Ranges.

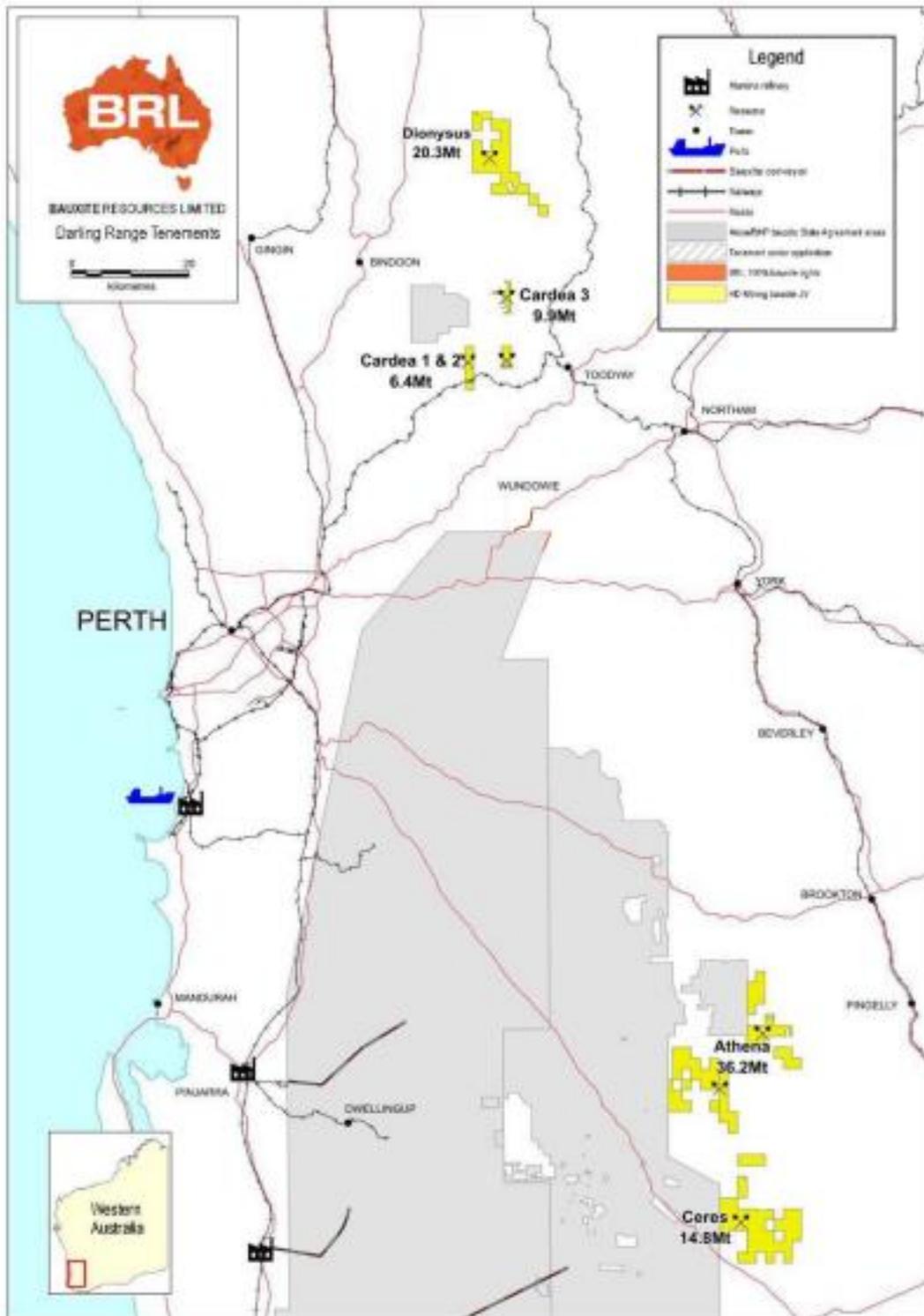


Figure 2 Darling Range Bauxite Project – Location

### 2.2.2. Darling Range Bauxite Joint Venture Terms

Bauxite Resources entered into a significant joint venture covering two projects previously controlled by the company, one of these joint ventures was sold in 2016 to the JV partner while the second Joint Venture between Bauxite and HD Mining Pty Ltd remains active. Below is a summary of the important aspects of the Joint Venture agreement.

The key terms of the agreement include:

- HD Mining are required to maintain the tenements in good standing.
- HD Mining can earn 40% in a defined area of the project by funding 100% of the exploration costs and making a binding commitment to undertake a feasibility study.
- Upon completion of a positive feasibility study and a decision to mine, within the defined area, HD Mining will have earned an additional 20% (to a total of 60%) within the defined area.
- HD Mining will continue to be earning its 40% interest in the project outside the defined area and is required to continue to fund 100% of the exploration costs
- Bauxite Resources is not required to provide any funding until the Joint Venture has made the decision to mine and is only required to fund 40% of the development costs.

### 2.2.3. Geology

Bauxite mineralisation has long been identified in the Darling Range to the east of the Darling Fault, western Yilgarn Craton. Figure 3 shows the regional geology and bauxite occurrences for the SW of Western Australia while Table 2 lists the endowment of the region. (GSWA report 65, Hassan 1998). For detailed geological descriptions of the regional potential and bauxite mineralisation in the Darling Range the reader is directed to the Geological Survey of Western Australia Report 33 (Hickman et.al. 1992). This report is available from the Geological Survey of Western Australia (<http://www.dmp.wa.gov.au/ebookshop>)

The various BRL deposits are located on the western edge of the Yilgarn Craton, an area that is dominated by Archaean granite and granite gneiss (which is often lateritised) with minor units of metasediment, meta-volcanics and Proterozoic dolerite dykes. The Darling Plateau (underlain by Pre-Cambrian igneous and metamorphic rocks) lies between 250m and 350m above sea level and is separated from the Perth Basin (Mesozoic and Tertiary sediments) by the Darling Fault, being the major tectonic lineament. The position of the Darling Scarp is closely aligned with the Darling Fault. The plateau can be sub-grouped into lateritic upland areas (horizontal or very gently dipping), deeply incised valley areas and a large area having wide valleys and low hills to the east.

The abundant seasonal rainfall and topographical setting of the Darling Range facilitates good drainage and provides a favourable setting for the formation of bauxite. In the Darling Range, the lateritic bauxite layers are formed over mature Tertiary surfaces derived from alumina-rich basement rocks which have undergone weathering, thereby concentrating the alumina.

The bauxite ore bodies in the Darling Range form in gently undulating terrain, especially along elongated ridges. Typically, the lateritic profile above the bedrock is composed of gibbsite (>50%), goethite (10-30%), quartz (5-20%), and lesser amounts of boehmite (1%), haematite (2-10%), maghemite (2%), and kaolinite (1%). Corundum, rutile, anatase, muscovite and magnetite may also be found in trace quantities.

Compared with the bedrock, the upper part of the laterite profile is strongly enriched by aluminium, and the available alumina content is significantly increased above the basal clay layer. Gibbsite, boehmite, and corundum are the main aluminium-bearing minerals.

Concentrations of iron are highest in the hard cap (duricrust) and the friable fragmented unit, and there is more iron where the bedrock is dolerite rather than granite. In the basal clay-rich layer, quartz and kaolinite are the chief constituents, and there is a lower proportion of goethite present with increasing depth.

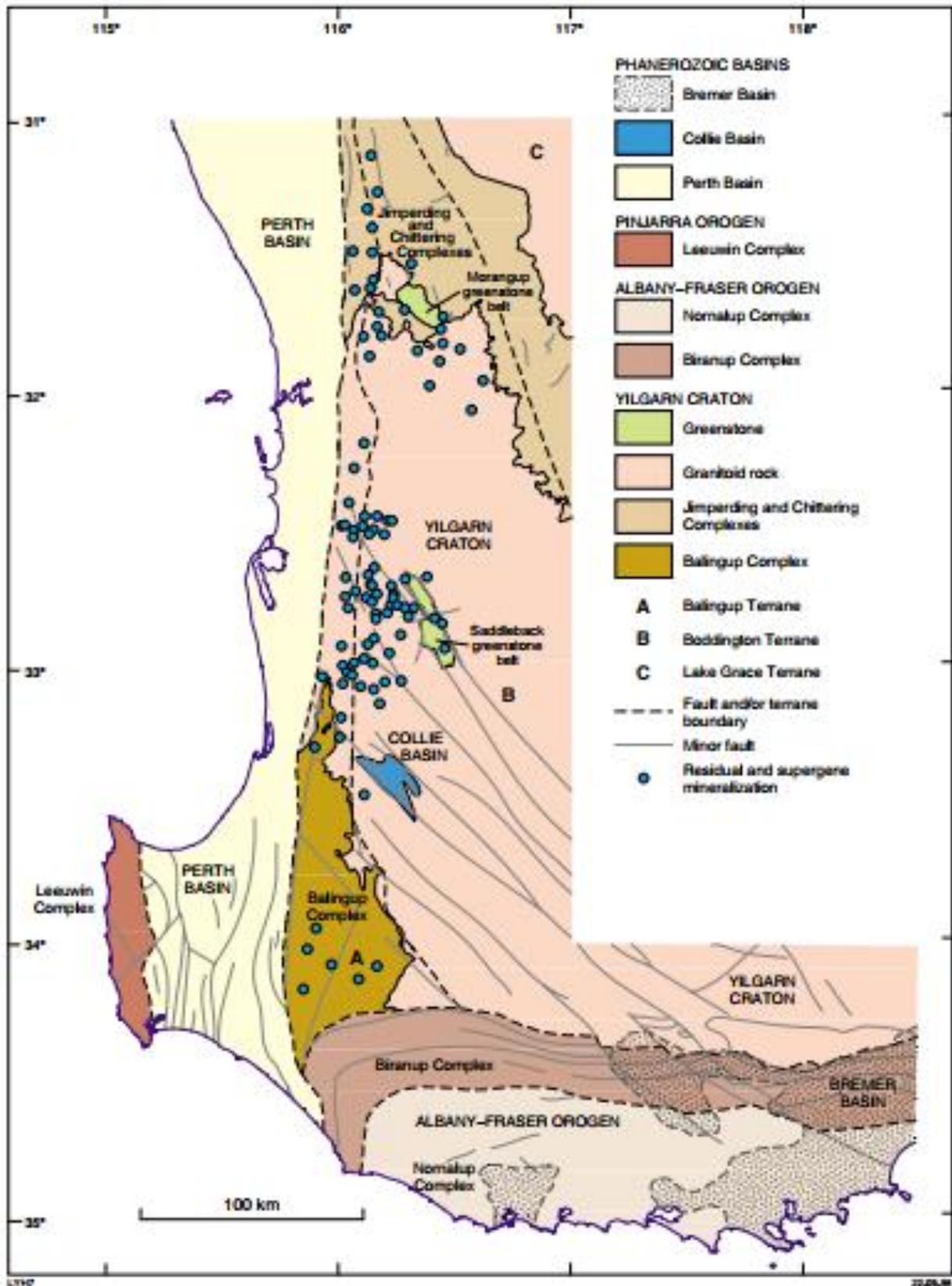


Figure 3 Tectonic Sketch of the SW Western Australia showing the bauxite occurrences as blue dots. (from GSWA Report 65 Hassan 1998)

Total alumina and silica content do not define bauxite ore, since it is the extent of available alumina (available to the Bayer processing) and reactive silica (which consumes caustic soda and causes loss of alumina) which determine whether the bauxite is of economic value.

## 2.2.4. History

The Darling Range has had a long history of exploration, development and mining of bauxite with production of alumina commencing in 1963 (Hassan 1998). Up to 1996 136.8Mt of Alumina had been produced from 440Mt of bauxite (Hassan 1998). The total endowment (past production, reserves, resources (measured, indicated and inferred)) as at 1996 was over 3.2Bt (Table 2) (Hassan 1998). The average available Al<sub>2</sub>O<sub>3</sub> is 27.5%. Some of the resources included in Table 2 are no longer available for mining due to conservation reserves and therefore the total endowment does not conform with the JORC 2012 Code.

**Table 2 Bauxite Past Production, Resources and Reserves for South West Western Australia data from GSWA Report 65 (Hassan 1998)**

Deposit	Past Production	Resources		Reserves
		Measured and Indicated	Inferred	
Bombala		28		
Brigadoon–Bells		12	4.7	
Brookton Hwy - Bannister Group		145		
Cameron		16		
Churchman		11		
Clarke Hill		30		
Clinton		36		
Collie–Balingup General			1.3	
Del Park - Huntly	190			233
Dingo Knob		17		
Dwellingup–Waroona general			220	
Gidgeganup		2.9	2.5	
Hoffman		22		
Holmes		43		
Holyoake		41		
Howse		70		
Inglehope		51		
Jarrahdale (Alcoa)	130			140
Julimar West		5.5	1.7	
Kalamunda–Dale general			69	
Karnet		27		
Little Jimperding Hill - Bindoon		30	8.4	
Lower Chittering		32	1.4	
Manjimup Bauxite			26	
Mount Solus		32		
Mount Wells		16		
Mundaring–Wundowie general			63	
Mungalup		8		
Munnapin Brook - Julimar East		4.9	1.2	
Myarra		33		
Nanga		17		
O’Neil		13		
Pindalup		28		
Plavins		74		
Red Hill - South Bindoon		8.3	2.5	
Saddleback - Tunnel Road	56			
Saddleback Group				390
Smiths Mill Hill		13		
Spion Kop		38		
Taree		22		
Tower Hill Bauxite		21		
Wagerup–Harvey general			240	
Wannamal–Chittering general			6	
Waroona Bauxite		73		
Willowdale	39			289
Wundowie Bauxite		16		
Wundowie Northeast Bauxite		10	5.4	
Yarragil		60		
<b>Total</b>	<b>415</b>	<b>1106.6</b>	<b>653.1</b>	<b>1052</b>

### 2.2.5. Exploration

Bauxite Resources has undertaken multiple exploration programs over the tenements that constitute the Darling Range Bauxite Joint Venture Project. This exploration has resulted in an extensive resource base that is partly limited by various land access issues within the tenements. This report is not intended as a detailed exploration history of the project but rather a summary of the important aspects of the exploration. Figure 4 and Figure 5 show the drill hole locations at the more significant Athena and Dionysus projects while Figure 6 is a typical cross section from the Athena project and Figure 7 a cross section from Dionysus project.

The exploration within each of the project tenements has been successful in delineating mineral resources as detailed below.

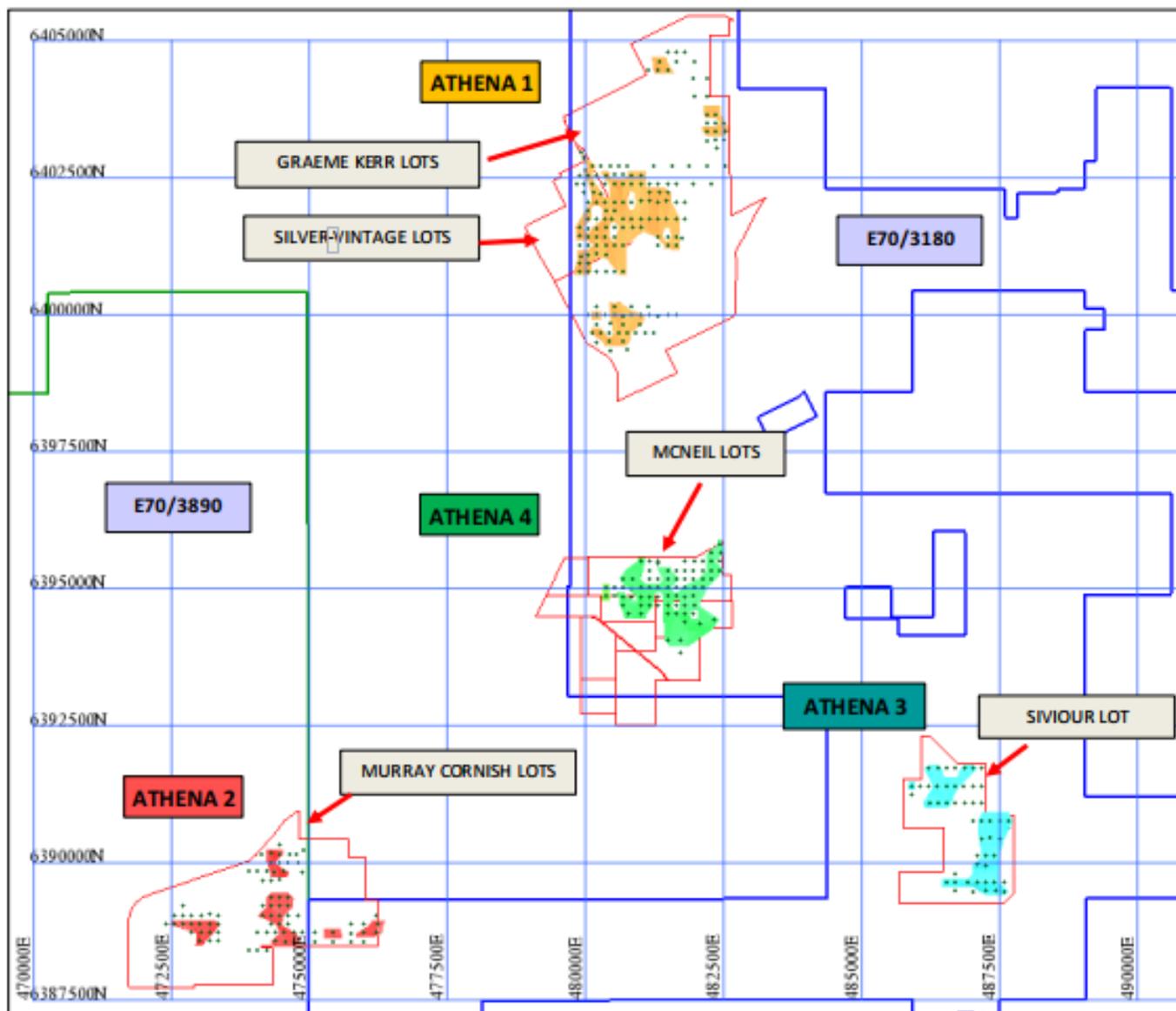


Figure 4 Athena Resource Drill hole location plan. (MGA 94 zone 50) (from RPM Limited, June 2014)

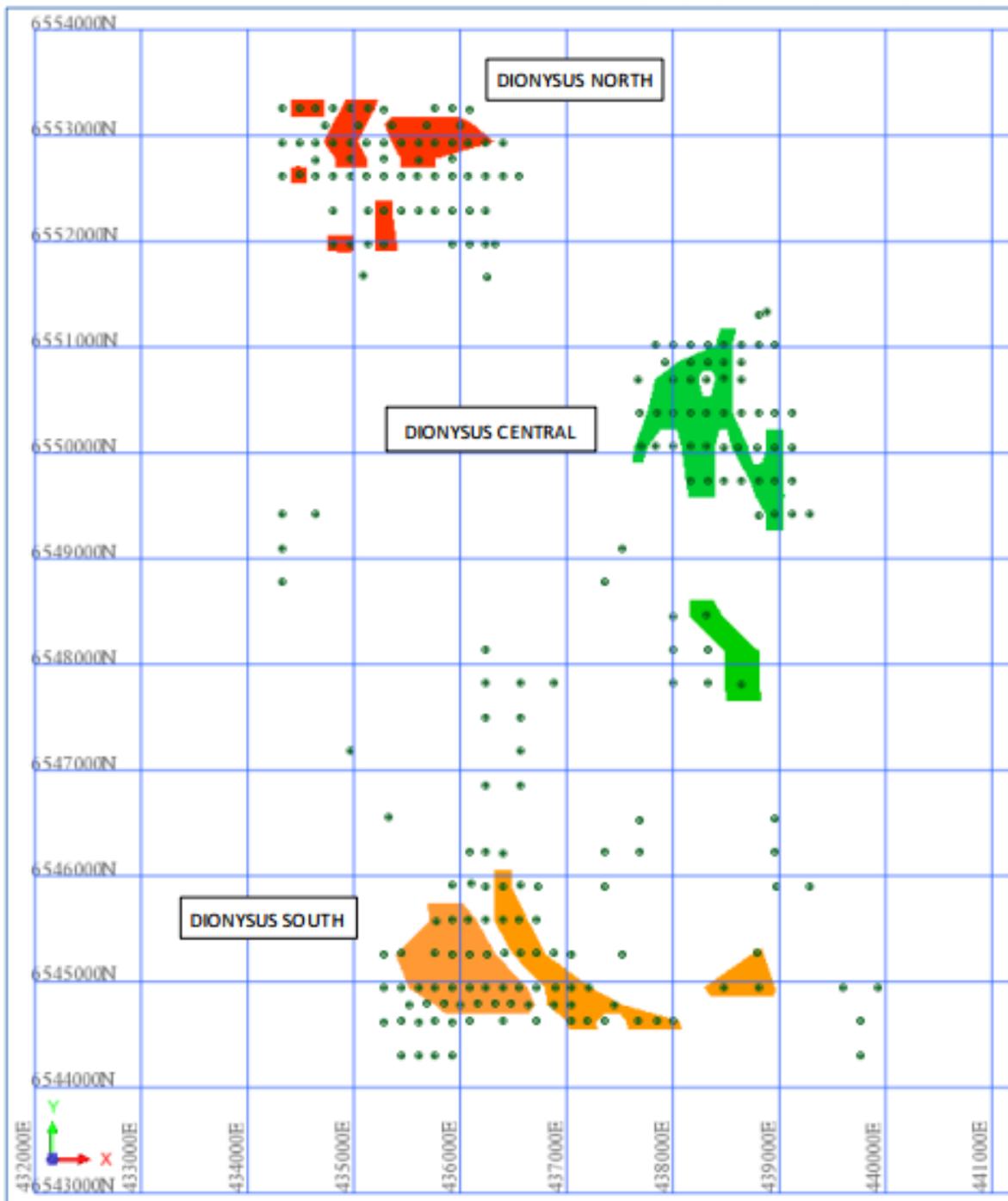


Figure 5 Dionysus Resource drill hole location plan. (MGA 94 zone 50) (from RPM Limited, March 2014)

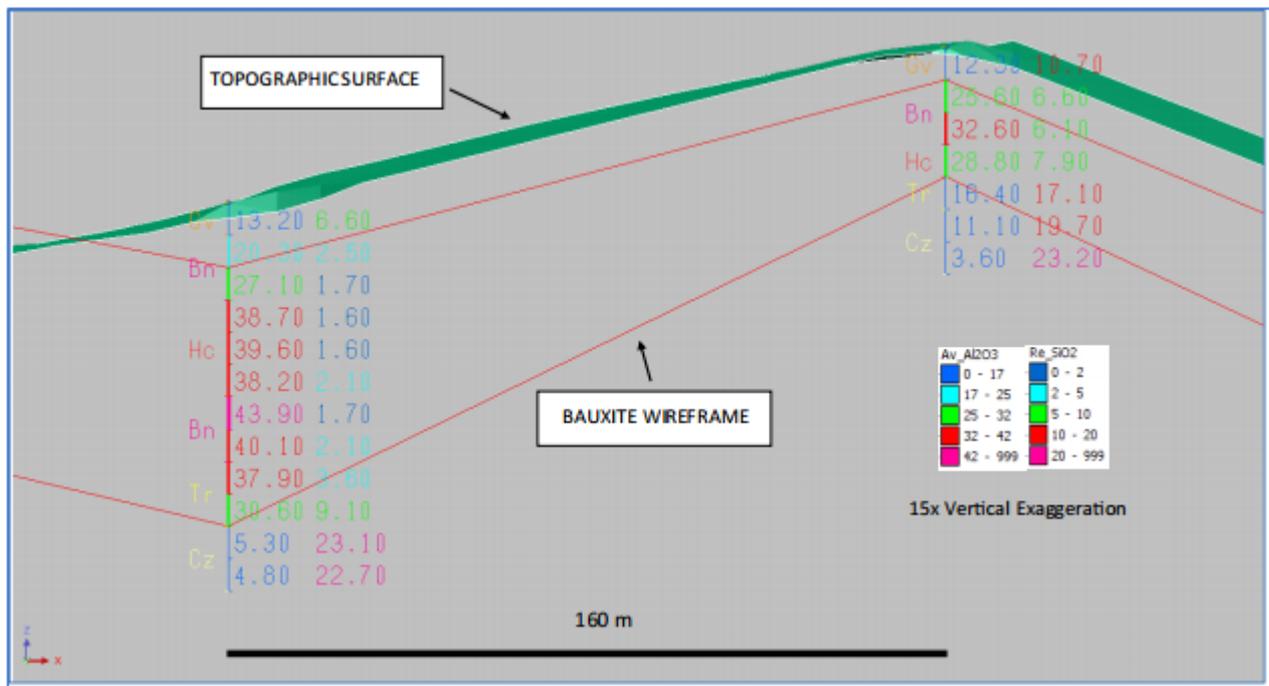


Figure 6 Athena 1 Resource Cross Section (RPM Limited, June 2014)

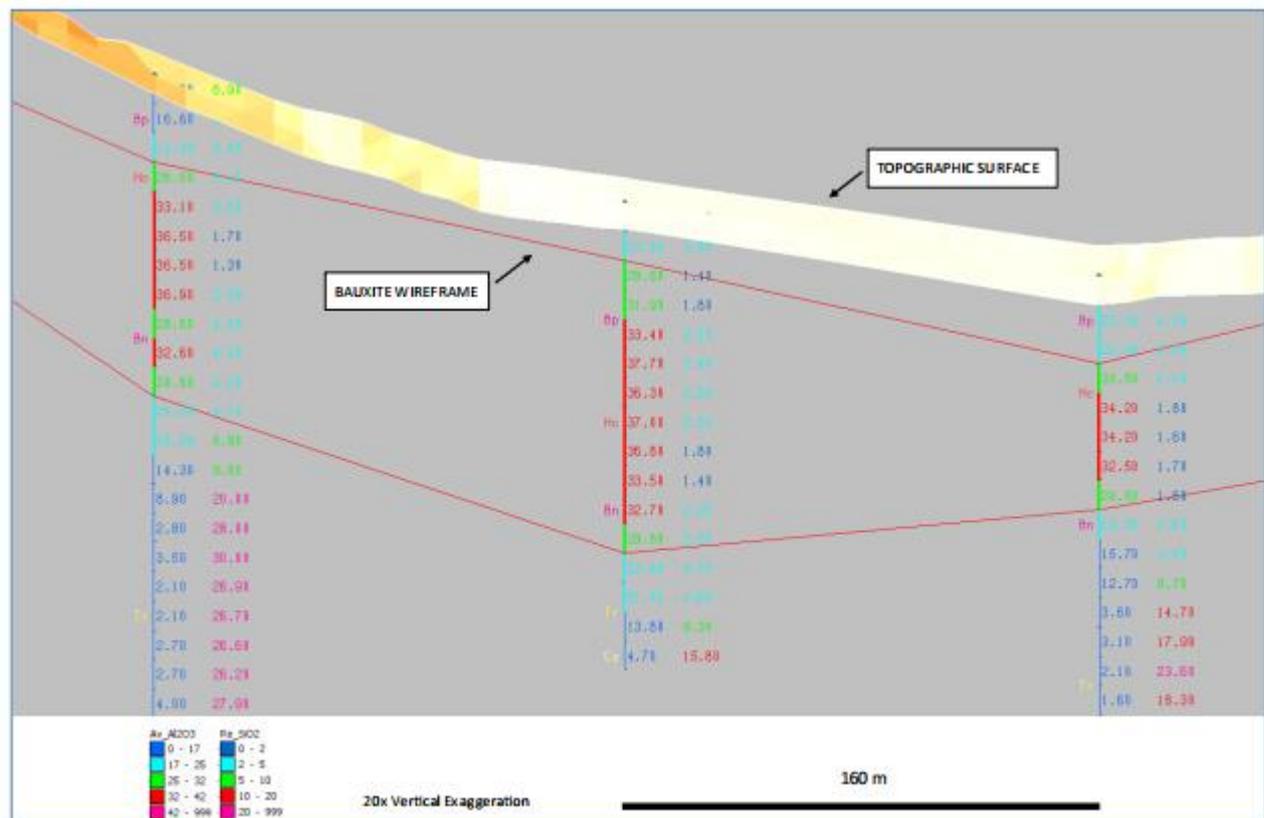


Figure 7 Dionysus Cross section (from RPM Limited, March 2014)

## 2.2.6. Resources

There are five separate mineral resource estimates within the Bauxite Resources – HD Mining Joint Venture these are the Athena, Cardea 1 & 2, Cardea 3, Ceres and Dionysus Resources. All the tenements that constitute the Darling Range Bauxite Joint Venture Project contain mineral resources. The details of these resources are summarised below.

### Information Sources

The contents of this Review have been created using the following reports:

- RPM Limited, November 2013 Mineral Resource Estimate, Cardea 3 Bauxite Deposit. Memorandum prepared for BRL.
- RPM Limited, March 2014 Mineral Resource Estimate, Dionysus Bauxite Deposit. Full technical report prepared for BRL.
- RPM Limited, June 2014 Mineral Resource Estimate, Athena Bauxite Deposit. Full technical report prepared for BRL.
- Snowden Mining Consultants, July 2011 Bauxite Alumina Joint Ventures: Cardea Stage 2 Mineral Resource. Full technical report prepared for BAJV.
- Snowden Mining Consultants, April 2012 Bauxite Resources Limited: Ceres Deposit Mineral Resource. Full technical report prepared for BRL.
- Xstract Mining Consultants, October 2011 Mineral Resource Estimate Process, Cardea 1 and 2 Bauxite Deposits. Full technical report prepared for BRL.

In DRM's opinion, the resource reports and memorandums provided was of sufficient quality and satisfactorily addressed the requirements for an assessment of the reasonableness of the approach to the various Mineral Resource estimates. The data supplied by DRM to Ashmore was not suitable for a detailed Review and further information would be required should an additional investigation be required. However, as the objective of the Resource review was to determine if the assumptions that underpin the resource estimates remain current and reasonable the review of the reports and memorandums was sufficient to determine the assumptions were reasonable. All these mineral resource estimates have been conducted by independent resource specialists and as such there is no risk of the estimates being done by a competent person who would be considered not independent of Bauxite Resources.

### Previous Estimates

No mining has occurred at the deposits.

Mineral Resources previously estimated for the various deposits are shown below in Table 3 Previous Mineral Resource Estimates for the Project. All Mineral Resources were previously reported at a 25% available alumina cut-off grade.

There were no previous estimates for Dionysus, Cardea 1 and 2 or Ceres deposits.

**Table 3 Previous Mineral Resource Estimates for the Project**

Company	Year	Deposit	Class	Tonnage Mt	Av Al <sub>2</sub> O <sub>3</sub> %	Re SiO <sub>2</sub> %
BRL	Sep 2011	Cardea 3	Ind & Inf	7.3	29.1	4.3
BRL (RPM)	Mar 2014	Athena	Inf	22.7	33.3	2.7

## Current Estimates

The current estimates for each deposit are presented below in Table 4. The Cardea 1 & 2 and Ceres Mineral Resources were completed by Snowden Group Mining Consultants (“Snowden”) and reported in compliance with the JORC (2004) reporting standards. All remaining estimates were completed by RPM Limited (“RPM”) for BRL and reported in compliance with the JORC (2012) reporting standards.

The estimates were completed using Inverse Distance Squared (“ID<sup>2</sup>”) or Ordinary Kriging (“OK”) grade interpolation and all estimates were reported using a 25% available alumina cut-off grade.

**Table 4 Current Mineral Resources for BRL**

Deposit	Date	Class	Tonnage Mt	Av Al <sub>2</sub> O <sub>3</sub> %	Re SiO <sub>2</sub> %
Athena	Jun-14	Inferred	36.2	32.8	2.8
Cardea 1 & 2	Aug-11	Inferred	6.4	29.3	4.3
Cardea 3	Sep-13	Indicated	1.5	30.0	4.0
		Inferred	8.4	28.9	4.4
Ceres	Apr-12	Inferred	15.0	31.7	3.0
Dionysus	Mar-14	Inferred	20.3	32.6	3.4

DRM considers that there should be no significant issues with reporting the Ceres and Cardea 1 & 2 Mineral Resources to JORC (2012) standards in the future. The parameters used to estimate and report the Mineral Resources are appropriate for the classification, however, an expanded and updated JORC Table 1 would be required.

### Informing Data and QA/QC

(Sourced from RPM, June 2014)

### Drilling and Sampling

All drilling was completed by Yearlong Contracting Pty Ltd (Yearlong) using a tractor mounted vacuum drill rig. This method uses a thin 45mm drill bit which penetrates the regolith with rotational and pull-down hydraulics. Drill cuttings are drawn up the inside of the hollow drill string by a vacuum pump and collected into a flask connected via sample return hoses. Whole samples are collected at 0.5m intervals. Samples weighing more than 2kg are split using a twin riffle splitter at the rig.

Samples were submitted to Nagrom Laboratory in Perth (“Nagrom”) for a variety of analysis techniques. Samples were dried in a convection oven for 8-12 hours at 105 °C. Samples were weighed to determine that they were less than 2kg and any overweight samples were crushed to -6.3mm if necessary then split to less than 2kg. Samples were then pulverised in a vibrating disc LM-5 pulveriser with a target pulp sizing of P95 = 150µm. These pulps were split into 100g samples for retention and analysis.

### Analysis

Analyses conducted at Nagrom, on BRL drill samples, provide estimates of principal bauxite components of alumina, silica, iron, titanium, loss on ignition (“LOI”), and a suite of trace elements. Results reported by BRL as available alumina and reactive silica represent partial extractions.

All samples were initially analysed using Fourier-Transform Infrared (“FTIR”) Spectroscopy. All samples returning greater than or equal to 23% available Al<sub>2</sub>O<sub>3</sub> by FTIR underwent BOM digestion (“BOM”) for analysis by ICP-OES using 1.0 ± 0.04g samples to determine Av Al<sub>2</sub>O<sub>3</sub> and Re SiO<sub>2</sub>.

Approximately 10% of samples returning greater than or equal to 23% Av Al<sub>2</sub>O<sub>3</sub> by FTIR underwent X-Ray Fluorescence Spectrometry (“XRF”) to determine total Al<sub>2</sub>O<sub>3</sub> and a variety of trace elements.

LOI was determined using a Thermal Gravimetric Analyser (“TGA”) on 1g samples dried to 1,000°C for 30 minutes based on ISO 6606:1986.

BRL use the FTIR analysis technique as a first pass screening of samples due to cost considerations. The accuracy of the technique is tested by analysing all samples returning values greater than 23% Av Al<sub>2</sub>O<sub>3</sub> by BOM digestion. The FTIR analysis requires careful calibration of analytical instrumentation. Results returned for samples analysed from the various drilling programs generally show reasonable repeatability of results.

During the 2010 and 2011 drill programs, available alumina and reactive silica were only assayed if the original XRF reading for the sample was equal to or greater than 27% total alumina. This created missing data in the database and a bias toward the higher values of available alumina and reactive silica. As the expected downstream process for the resources are controlled by extractable alumina and silica, a multiple linear regression of Al<sub>2</sub>O<sub>3</sub>, CaO, Fe<sub>2</sub>O<sub>3</sub>, K<sub>2</sub>O, LOI, MgO, P<sub>2</sub>O<sub>5</sub>, SiO<sub>2</sub>, SO<sub>3</sub>, TiO<sub>2</sub> and ZrO<sub>2</sub> was adopted to calculate the missing available alumina and reactive silica grades.

### **QA/QC**

Standard BRL QA/QC procedures include the use of field duplicates, coarse reference materials, laboratory standards, laboratory duplicates and repeats.

The insertion of standards with the primary samples was used to determine the accuracy of assaying at the laboratory. A combination of certified and un-certified reference materials were routinely analysed using both BRL provided standards and Nagrom internal standards.

The results show good repeatability of results with no obvious bias for analyses conducted using XRF and BOM. Although results by FTIR show consistent un-biased trends, the available alumina results tend to be lower than expected. Nagrom constantly re-calibrate the FTIR equipment and had recently conducted a re-calibration during the last batch of submitted assays. Generally, it was noted that FTIR over estimates grades in the order of 23% Av Al<sub>2</sub>O<sub>3</sub> and under estimates higher grades above 40% Av Al<sub>2</sub>O<sub>3</sub>.

Check sampling was performed to determine whether the sampling procedure was producing assay subsamples that were representative of the original sample. Field duplicates were routinely sampled at the drill rig at an average frequency of approximately 1:20 of samples that required splitting (samples greater than 2kg). Results for available alumina generally indicate good repeatability of results with no obvious bias.

### **Bulk Density Measurements**

For Athena, Cardea 3 and Dionysus the in-situ bulk density of 2.17t/m<sup>3</sup> was based on 89 measurements on diamond core samples taken by Bauxite Alumina Joint Venture (“BAJV”) during the 2013 drill program at the Felicitas deposit. The laterite profile intersected at these deposits is typical of laterites within the Darling Range and very similar in nature to that at the Felicitas deposit.

For Ceres and Cardea 1 & 2 deposits, a bulk density of 1.6t/m<sup>3</sup> was assigned. These estimates were completed prior to the measurements obtained from Felicitas.

### **DRM and Ashmore Review of the supporting data**

The drilling, sampling and sample preparation procedures are appropriate for the mineralisation style and thickness. The QA/QC results confirm the suitability of the drilling data for use in the Mineral Resource estimation.

The absence of available alumina and reactive silica for samples less than 27% total alumina during the 2010 and 2011 drilling programs is a low risk to the estimates for Cardea 1 & 2, Cardea 3 and Ceres. The procedure of deriving values based on regression equations is appropriate for missing data, although not ideal. The entire database for the Ceres and Cardea 1 & 2 deposits utilised the regression calculation for available alumina and reactive silica for samples less than 27% total alumina and approximately 25% of the Cardea 3 database contained calculated available alumina and reactive silica for samples less than 27% total alumina.

Snowden reported relatively poor repeatability for the FTIR versus BOM analysis for the Ceres drilling and RPM noted a slight bias towards the BOM results for grades greater than 32% Av Al<sub>2</sub>O<sub>3</sub> at Dionysus. This is not considered a risk

as the FTIR technique is simply used to screen which samples will undergo BOM digest, with all samples above 23% Av Al<sub>2</sub>O<sub>3</sub> being analysed by the BOM digest.

There is a low to moderate risk to the accuracy of the bulk density values assigned for all of BRL's deposits. There were no measurements prior to 2013, therefore the Ceres and Cardea 1 & 2 deposits have an average assigned based on an assumption. The bulk density assigned for the Athena, Cardea 3 and Dionysus deposits were based on 89 core measurements from the analogous Felicitas deposit. In Ashmore's opinion, the bulk densities for Ceres and Cardea 1 & 2 are conservative, so these estimates could be updated with a higher bulk density, such as what was applied at the Athena, Cardea 3 and Dionysus deposits. Ashmore strongly recommends drilling core and obtaining bulk densities at each deposit, however the current methodology of assigning bulk density based on Felicitas measurements is suitable for Inferred Mineral Resources, but not Indicated Mineral Resources.

## Resource Estimation

Wireframes were created from cross sectional interpretations taking into consideration down hole geochemistry and associated lithological logging. The optimum bauxite mineralisation is characterised by high available alumina and very low reactive silica (preferably with a ratio of better than 10:1). The basal extent of the bauxite was determined by a noticeable increase in reactive silica with an associated decrease in available alumina across a 0.5m interval. This geochemical change generally coincided with intervals logged as transitional or clay material. Whilst the mineralised lodes were constructed primarily based on geochemical changes down hole, it was noticeable that, in general, the available alumina grades captured within the interpreted lodes were greater than 25% available alumina and this was used as a nominal cut-off when constructing the wireframes. A minimum down hole length of 1m was used with occasional edge dilution.

Sample data from within the wireframes was selected and analysed to determine appropriate compositing lengths for grade estimation. As all samples were taken at 0.5m intervals, no compositing was required. Top-cuts were not applied to the data due to the low coefficients of variation. Variography for the Cardea 1 & 2, Cardea 3 and Ceres deposits was conducted using Supervisor software.

The block dimensions used in the Athena and Cardea 3 models was 40m NS by 40m EW by 1m vertical with sub-cells of 20m by 20m by 0.5m. The block dimensions used in the Cardea 1 & 2 model was 20m NS by 20m EW by 1m vertical with sub-cells of 5m by 5m by 0.5m. The block dimensions used in the Ceres model was 40m NS by 40m EW by 2m vertical with sub-cells of 2.5m by 2.5m by 0.5m. The block dimensions used in the Dionysus model was 80m NS by 80m EW by 1m vertical with sub-cells of 40m by 40m by 0.5m. Block sizes for the Athena, Cardea 3 and Dionysus deposits were determined based on approximately half the predominant drill hole spacing and block sizes for the Cardea 1 & 2 and Ceres deposits were determined as a result of Kriging Neighbourhood Analysis ("KNA").

The Athena and Dionysus deposits were estimated in standard Surpac block models using ID<sup>2</sup> interpolation. The Cardea 1 & 2, Cardea 3 and Ceres deposits were estimated in standard Surpac block models using OK interpolation.

An orientated 'ellipsoid' search was used to select data and adjusted to account for the variations in mineralisation orientations, however all other parameters were taken from the variography.

For Athena and Dionysus, the first pass had a range between 180 and 250m, with a minimum of 10 samples. For the second pass, the range was extended to between 250 and 400m, with a minimum of 6 samples. For the third pass, the range was extended to between 350 and 600m, with a minimum of 2 samples. A maximum of 32 samples was used for each pass.

For Cardea 1 & 2, the first pass had a range between 80 and 540m, with a minimum of 5 samples. For the second pass, the range was extended to between 160 and 1,080m, with a minimum of 3 samples. For the third pass, the range was extended to between 240 and 1,620m, with a minimum of 1 sample. A maximum of 20 samples was used for each pass.

For Cardea 3, the first pass had a range of 160m, with a minimum of 10 samples. For the second pass, the range was extended to 200m, with a minimum of 10 samples. For the third pass, the range was extended to 240m, with a minimum of 4 samples. A maximum of 32 samples was used for each pass.

For Ceres, no search distances were documented in the report. The first pass and second used a minimum of 6 samples, the third pass used a minimum of 3 samples and the fourth and final pass used 1 minimum sample. A maximum of 16 samples was used for each pass.

For the Athena, Cardea 3 and Dionysus deposits, a bulk density value of  $2.17\text{t/m}^3$  was assigned based on results from diamond core samples submitted by BAJV from the Felicitas deposit which is composed of similar Darling Range laterite material to that observed at Athena. The Felicitas deposit is located within the Darling Range approximately 80km northeast of Perth. For the Cardea 1 & 2 and Ceres deposits, a bulk density of  $1.6\text{t/m}^3$  was assigned.

### **DRM and Ashmore Review of Resource Estimation Methodology**

The interpretation and wireframing methodology is suitable for the mineralisation style and geometry. The variography analysis provided expected results and ranges, highlighting good grade continuity for the deposits it was conducted on. The use of ID<sup>2</sup> interpolation on some deposits is not seen as a risk in the grade interpolation considering that the drilling is generally evenly spaced, and the mineralised domains show low variability and good grade continuity. However, Ashmore recommends that variography is conducted on all deposits and using OK to interpolate all deposits. There is sufficient data for this to occur. In addition, Ashmore recommends KNA be conducted on the Athena, Cardea 3 and Dionysus deposits to verify block size and search neighbourhood parameters.

In general, the block sizes adopted for each estimate are appropriate, however the utilisation of two separate consultants has resulted in slightly different, although acceptable estimation parameters. Ashmore recommends that for future estimates that estimation methods and parameters are consistent across all deposits.

As previously mentioned, the bulk densities assigned in the Cardea 1 & 2 and Ceres estimates are conservative and could be increased. The bulk densities assigned in the Athena, Cardea 3 and Dionysus deposits are derived from measurements obtained at the analogous Felicitas deposit. Ashmore strongly recommends drilling core and obtaining bulk densities at each deposit, however the current methodology of assigning bulk density based on Felicitas measurements is suitable for Inferred Mineral Resources, but not Indicated Mineral Resources.

Overall, the estimation of the BRL Mineral Resources is conducted with industry standard techniques and are appropriate for the classified level of confidence at the deposits. Minor adjustments could be made to improve the estimate and ensure consistency across the deposits, but the changes would be immaterial to the reported tonnages and grades.

A material change that could be implemented for consistency across the deposits is to increase the assigned bulk density for the Cardea 1 & 2 and Ceres deposits to  $2.17\text{t/m}^3$ ; which would result in an approximate 35% increase in tonnage.

### **Resource Classification and Reporting**

The wide spaced drill programs of 160m by 160m down to 80m by 80m were adopted by BRL to determine if continuous bauxite lodes of sufficient thickness and quality could be modelled. The Mineral Resources were classified based on data quality, sample spacing, and continuity of the interpreted zones. Each deposit has been classified as Inferred Mineral Resource, apart from a small portion of the Cardea 3 deposit which was classified as Indicated Mineral Resource in areas drilled at 80m by 80m spacing. In addition, bulk densities were assigned and not measured.

The mineralisation could be mined using open pit mining techniques and the Mineral Resources were reported at a 25% available alumina cut-off grade.

### **Ashmore and DRM Analysis of Reasonableness of Classification and JORC Table 1**

In Ashmore's and DRM's opinion, the Indicated Mineral Resource classified at Cardea 3 should be classified as Inferred Mineral Resource in consideration that the bulk density was assigned based on measurements from another deposit. The classification of Inferred Mineral Resource is appropriate for the remaining deposits. Drill spacings of 80m by 80m could be considered for Indicated Mineral Resource if variogram ranges observed are greater than 120m and sufficient bulk density measurements are obtained (preferably more than 100 measurements from each deposit).

The BRL deposits are composed of near surface, laterally extensive mineralised lodes with reasonable mineralisation thicknesses. Alcoa has successfully been mining bauxite within the Darling Ranges since 1963. The deposits are representative of Darling Range bauxites and formed by the same leaching conditions as bauxite currently being mined by Alcoa. The Ore Reserve grade material at Alcoa has an average grade of 32.9% available alumina compared to similar grades for BRL. Therefore, in Ashmore's and DRM's opinion, the cut-off grade of 25% available alumina is appropriate for the deposits, however further studies are required to confirm this, especially given the location of the Bauxite Resources deposits.

#### JORC Table 1 Appropriateness

Overall the data presented in the JORC Table 1's are adequate, although more discussion on outcomes is recommended for the Cardea 1 & 2 and Ceres deposits. Some additional information that should be added includes:

- Further information on justification of reporting cut-off grades; and
- Further information on ore transport and possible processing options.

#### 2.2.7. Ore Reserves

No Ore Reserves have been estimated for the Darling Range Bauxite Project.

#### 2.2.8. Recent Exploration and Potential

As shown in Figure 4 and Figure 5 there are extensive areas within the current project tenements that have potential for resource extensions. Access to these extensions would require landowner access approvals. Some of the tenements may also be impacted by the extensive conservation reserves in the area which all create access issues. As access to several locations could be limited DRM has elected not to assign any significant additional value to the exploration upside within the tenements. Exploration activities within the tenements are ongoing however the activities are currently being limited to the minimum exploration expenditure commitment rather than extensive additional resource definition drilling.

### 2.3. East Esperance, Albany and Gingin Silica Sand Projects

Given the broadly similar geological settings and early exploration stage of these projects all three are summarised in one section. Any similarities and differences between the projects are detailed in the various headings.

#### 2.3.1. Location and Access

The East Esperance Silica Sand Project consists of two non-contiguous tenements with, E63/1853 located 16km to the east and E63/1854 approximately 55km ENE of Esperance in the great southern of Western Australia. Both tenements are granted exploration licences (Figure 8) covering a total of 152graticular blocks. Access to the various parts of the project tenements is via gazetted roads mostly unsealed however there are several sealed roads that traverse the project tenements. The local infrastructure associated with the extensive farming industry provides excellent supporting infrastructure for exploration and potentially development activities.

The Gingin Silica Sand Project consists of two exploration lease applications. One of the tenements, E70/5053 is 23km to the north east of Perth while the second, E70/5058 is 70km north Perth. The project consists of two exploration license applications covering 17 graticules (blocks) or a total of 46.3km<sup>2</sup>. The area of E70/5053 has been reduced to account for the priority of the tenement application in relation to the other granted tenements and priority tenement applications.

The Albany Silica Sand project consists of five exploration tenements within 40km of Albany. One of the tenements, E70/4982 is to the east of the active Mindijup silica sand mining operation, 35km to the NNE of Albany. Other known historical silica sand occurrences are located within the Bauxite Resources tenements including historical non JORC resources. Additional work is required at these sites to upgrade the historical exploration work to a standard where a JORC resource estimate could be estimated. As with the other projects there is an extensive road network that supports the farming industry and sand mining industry in the region. In addition to the road network the Albany project is also well serviced by a rail network and access to the deep-water port at Albany

#### 2.3.2. Infrastructure

All three projects are well serviced by a sealed road network, are well located close to port infrastructure and two of the projects have an existing rail network that may be available for transporting any products to the nearby port. Figure 8 to Figure 10 below show the road and rail network within the three silica sand project areas.

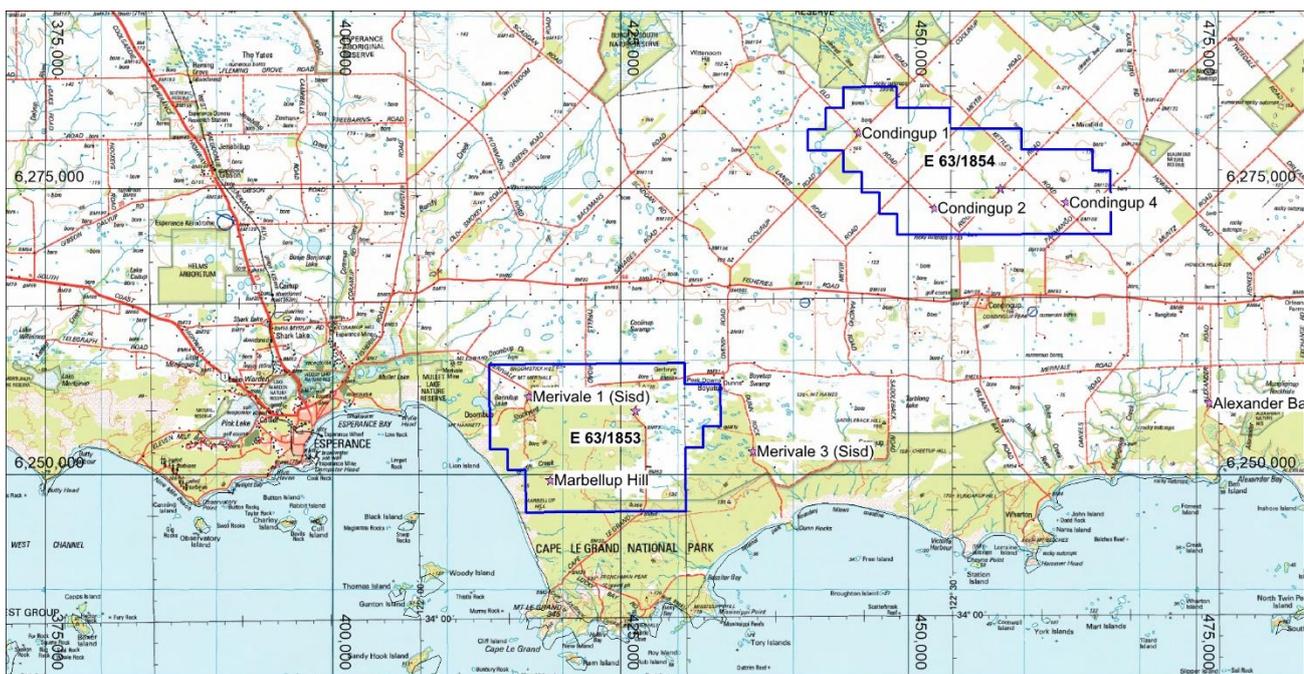
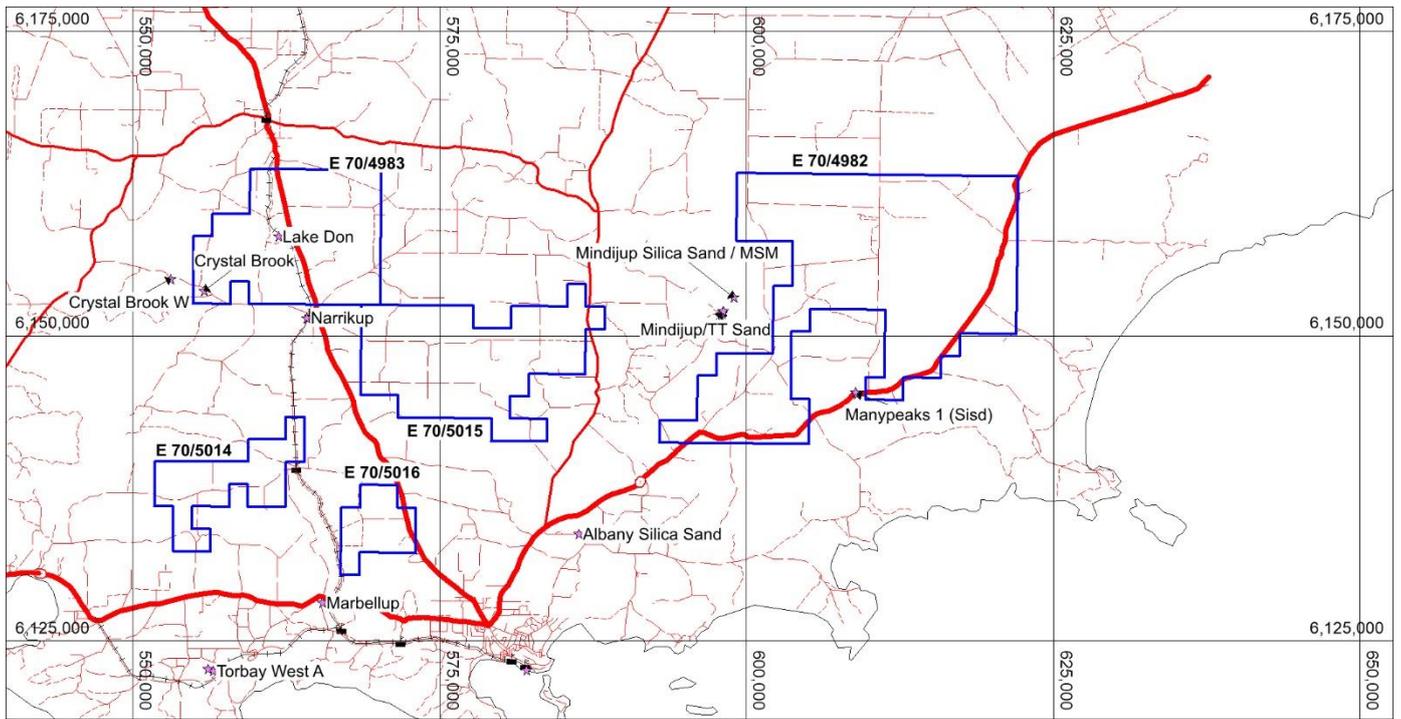
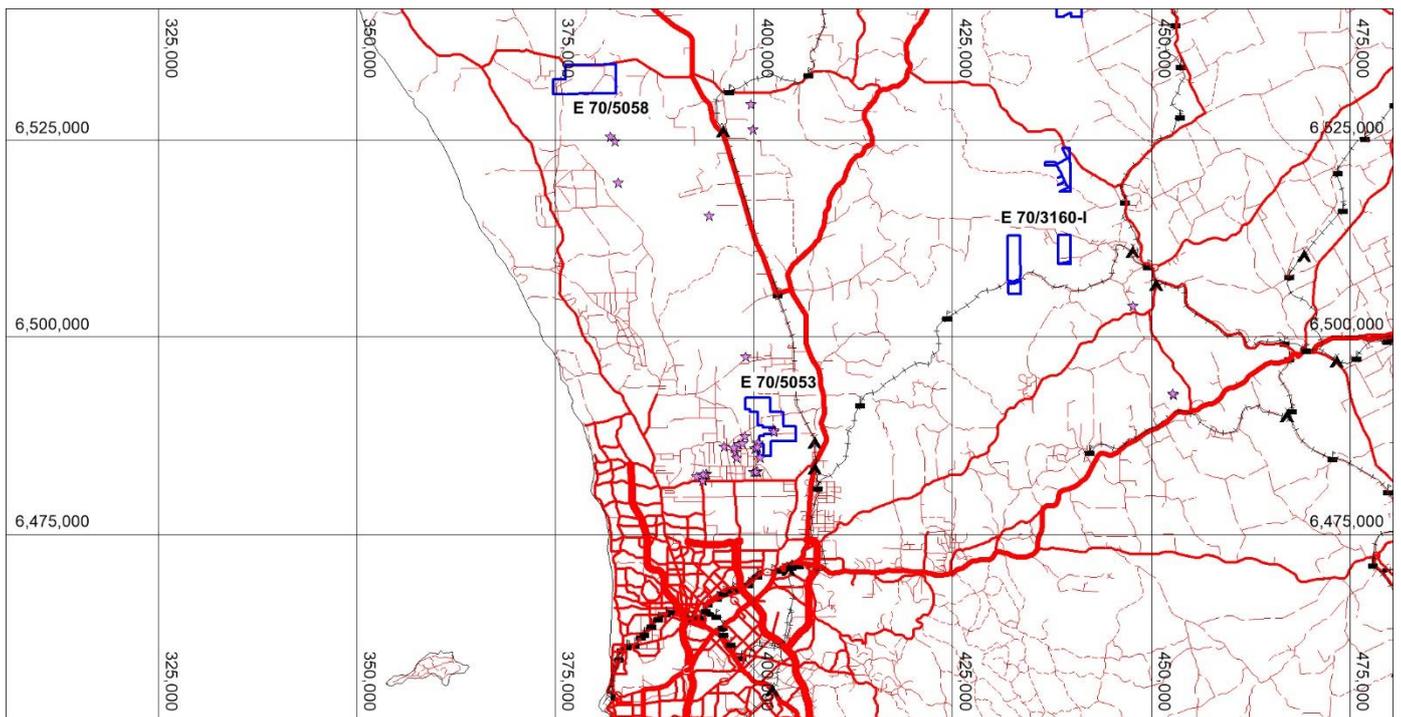


Figure 8 Infrastructure in the East Esperance project area



**Figure 9 Infrastructure in the Albany project area**



**Figure 10 Infrastructure in the Gingin project area**

### 2.3.3. Geology

The geology of the various project areas is well described in various Geological Survey of Western Australia (GSWA) publications including Abeysinghe (2003), Hassan (1998) and Fetherston and Searston (2004).

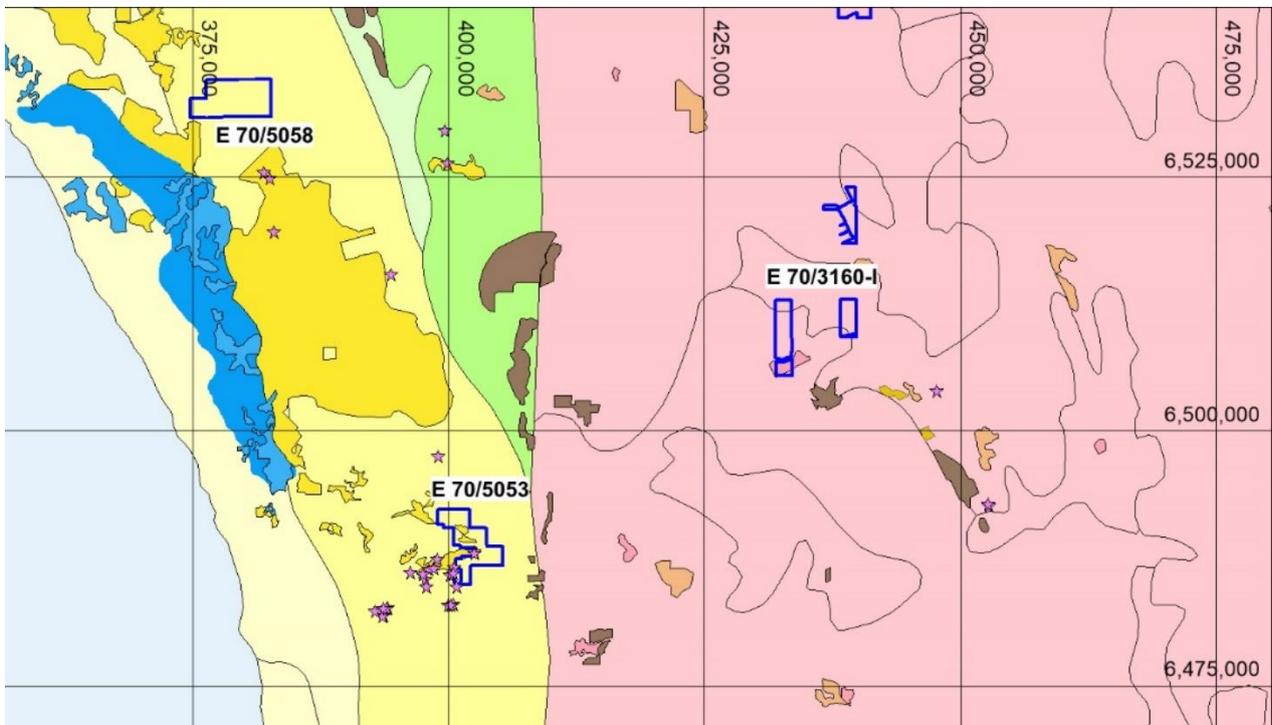
As there has been minimal work conducted on the tenements by Bauxite Resources the geology of the project areas is a summary of the work completed by the Geological Survey.

Within the Perth region there are high-grade silica sand deposits within the Pleistocene eolian Bassendean Sand units. The Bassendean Sand, which forms a broad 20km wide belt that is parallel and 5 – 10km inland of the present coastline. This broad zone extends along the Perth basin extending from north of Perth to south of Bunbury. Equivalent units are present in many places along the south coast, particularly in the Albany area. The silica grades are interpreted as being enriched by the removal of iron, alumina, and soluble salts by the movement of acidified rainwater. This results in a leached zone that can be up to 10m thick with known occurrences range in size from less than 200,000t to 200Mt. (Abeysinghe, 2003).

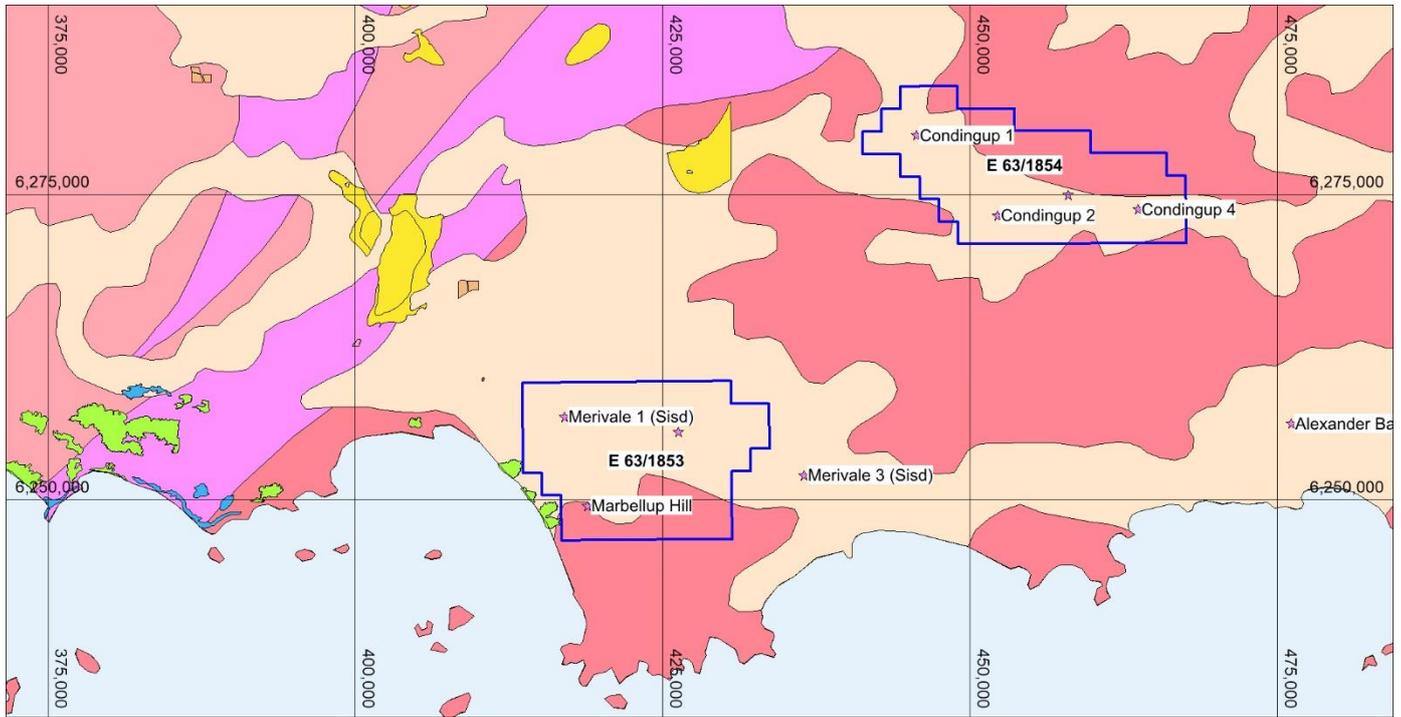
Most of the silica sand operations produce silica sand for export with washed product from coastal areas averaging 99.7% SiO<sub>2</sub>, with trace amounts of iron, titania, alumina, and other oxides. Chromium trioxide is absent from all coastal deposits. The silica sands from the Perth region are mostly into the 200–600 µm size range while sand in the Albany area is typically finer at 100–350 µm (Brown, 1986; Abeysinghe, 2003.).

There are several active silica sand operations in Western Australia, these are primarily within the Perth region at Gnangara, Bullsbrook and Jandakot, at Kemerton near Bunbury and Mindijup, 35km northeast of Albany.

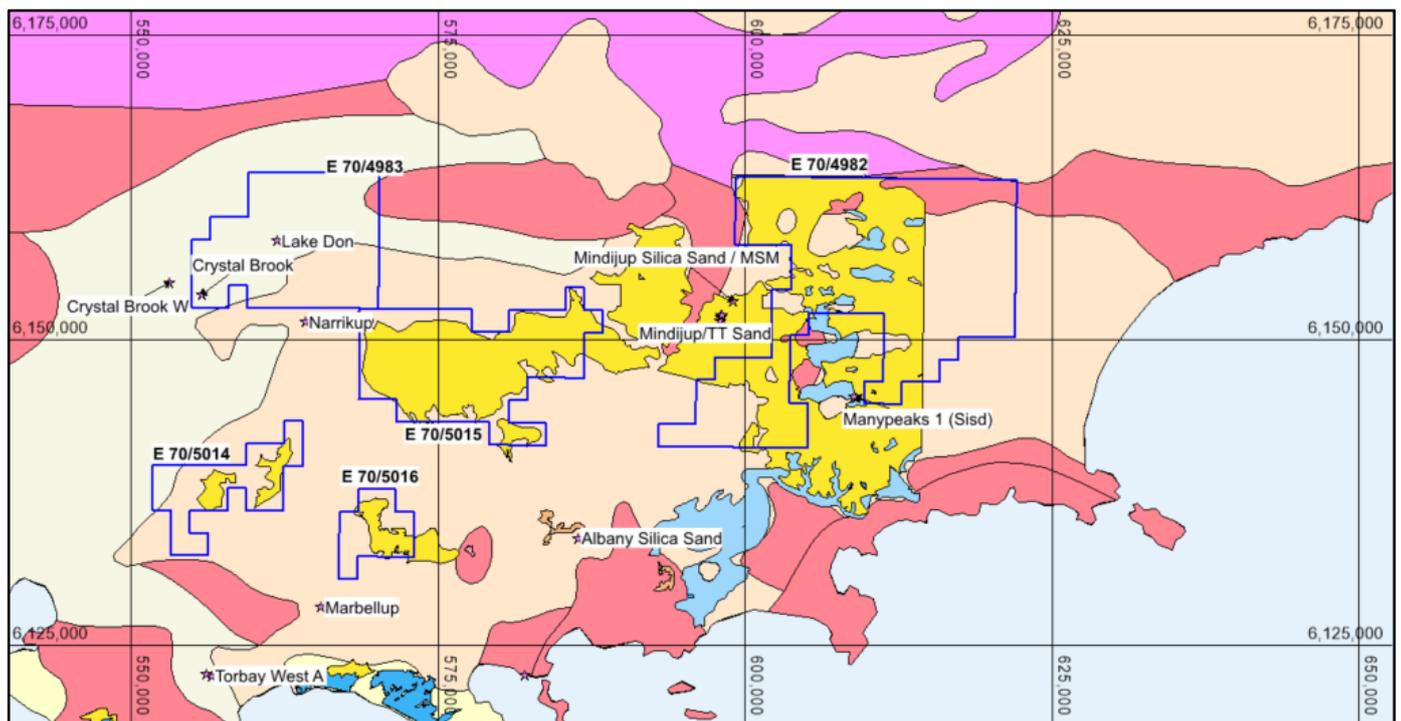
Figure 11 to Figure 13 show the regional geology of the Gingin, Albany and East Esperance silica sand projects. The yellow outlines are the prospective aeolian sands. Also shown on the figures are the Silica Sand occurrences from the Geological Survey of Western Australia. Important to note the tenement outline of both the Gingin tenement (E70/5053) and one of the Albany tenements (E70/4982) have been modified to reflect the actual area that will be granted to Bauxite Resources should the tenements proceed to grant. These changes have been done to reflect the priority in tenement applications.



**Figure 11 Geology of the Gingin Silica Project the tenements to the east are a part of the Darling Range Bauxite Project**



**Figure 12 Geology of the East Esperance Silica Project**



**Figure 13 Geology of the Albany Silica Project**

#### 2.3.4. Recent Exploration and Potential

As most of the tenements that constitute the silica sand projects remain as applications pending grant there has been minimal exploration activities within the tenements. There have been several grab samples collected from all three projects that provide encouragement and support for the targeting rationale.

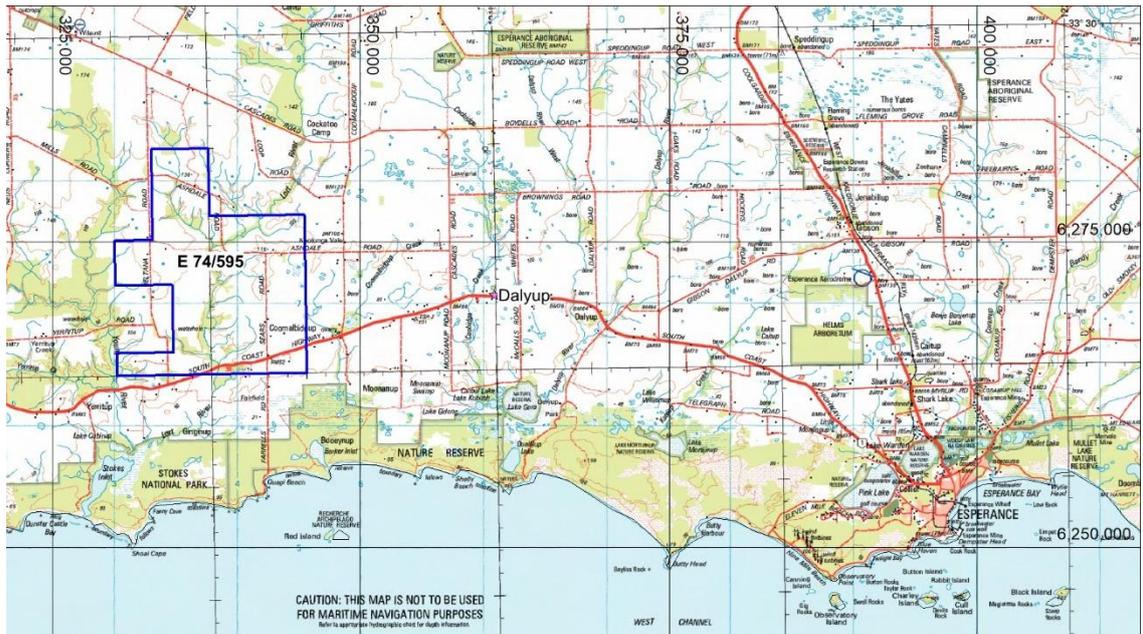
Within the Gingin project area there are several excisions from the tenement. These excisions include mining leases that are currently processing sand, primarily for local sources however the company is in preliminary discussions with several parties regarding the current mining activities and potential for expansion into the silica sand export market.

Adjacent to one of the Albany silica project tenements is an active sand mining operation which is currently exporting approximately 200,000t of high grade silica sand to Japan and Korea. Therefore, while there has been minimal work completed by Bauxite, DRM considers these projects to have considerable exploration upside.

## 2.4. Lort River Lithium Project

### 2.4.1. Location and Access

The Lort River project is located approximately 60km to the west of Esperance, southern Western Australia. Access to and infrastructure within the project is extensive including sealed and unsealed roads that are primarily supporting the large farming industry. Figure 1 shows the general location of the project with Figure 14 the detailed infrastructure and location.



**Figure 14 Lort River Lithium Project - Location**

### 2.4.2. Geology

Geologically the project is underlain by the southern margin of the Yilgarn Craton which is dominated by high grade metamorphic rocks including granitic gneiss. The bedrock is extensively covered by a thin veneer of quartz, feldspar and micaceous sands with a variably development of a thin lateritic duricrust in several sections. Within the creek systems the bedrock and is well exposed. The cover sequences, dominated by sand is generally less than 4m thick.

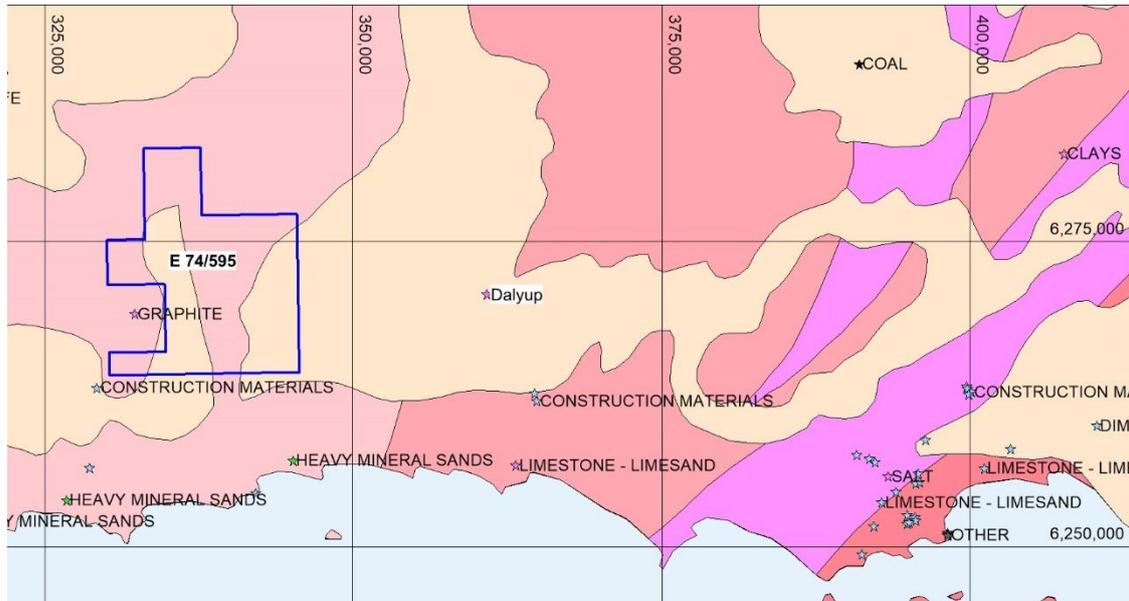
There has been no recent exploration within the Lort River Lithium Project.

### 2.4.3. Exploration History and Potential

Within the Lort River there is one very high lithium stream sediment sample collected by Geoscience Australia. In addition to this a previous explorer in the area undertook auger sampling along the road reserves on an adjacent tenement. These samples were assayed for an extensive multi-element geochemical suite. There were several samples that were elevated for lithium caesium tantalum (LCT) pegmatite pathfinder elements. Pioneer Resources previously held a tenement adjacent to the Bauxite Resources Lort River Lithium project. Pioneer has since surrendered one of the two tenements that they had in the area.

While there are several possible granitic intrusive bodies in the general area the lack of outcrop and the disturbed nature of the soil profile, given most of the tenement is cropped, exploration under the thin transported sand cover is expected to cause several targeting problems.

In DRM’s opinion the potential for the tenement to host a significant lithium pegmatite is considered minimal.



**Figure 15 Location and geology of the Lort River Lithium Project**

Bauxite has indicated that the next phase of exploration activity will include preliminary mapping along the drainages where the bedrock exposure is consistent and sampling any pegmatites.

## 2.5. Regional Western Australian Hard Rock Silica Projects

### 2.5.1. Location and Access

Bauxite Resources has recently applied for five additional exploration licences with the majority of these being in the northern wheatbelt of Western Australia. Four of these tenements are in areas of very good infrastructure and historical silica occurrences. These tenements are all single block exploration licences. The tenements can be accessed from the existing network of roads that occur throughout the agricultural regions of southwest Western Australia. Station tacks provide access to the tenement near Halls Creek in the Kimberley region of Northern Western Australia.



**Figure 16 Regional Silica Tenement Locations**

## 2.5.2. Geology

These tenements all cover historical hard rock silica sources including quartz veins and the quartz cores of highly differentiated pegmatites. The projects targeted using the GSWA publicly available information included in Bulletin 21 (Abeyasinghe 2003). This reference contains significant geological information on the targets and prospects. As Bauxite Resources has not undertaken any exploration activities the geological information is purely on the publicly available information. Figure 17 and Figure 18 show the regional geology around three of the five regional hard rock silica tenements. E70/5069 is an application over a known occurrence of quartz crystals however the size and potential of this prospect requires field validation. E80/5160, located near Halls Creek in the Northern Western Australia was targeted based on aerial and satellite imagery.

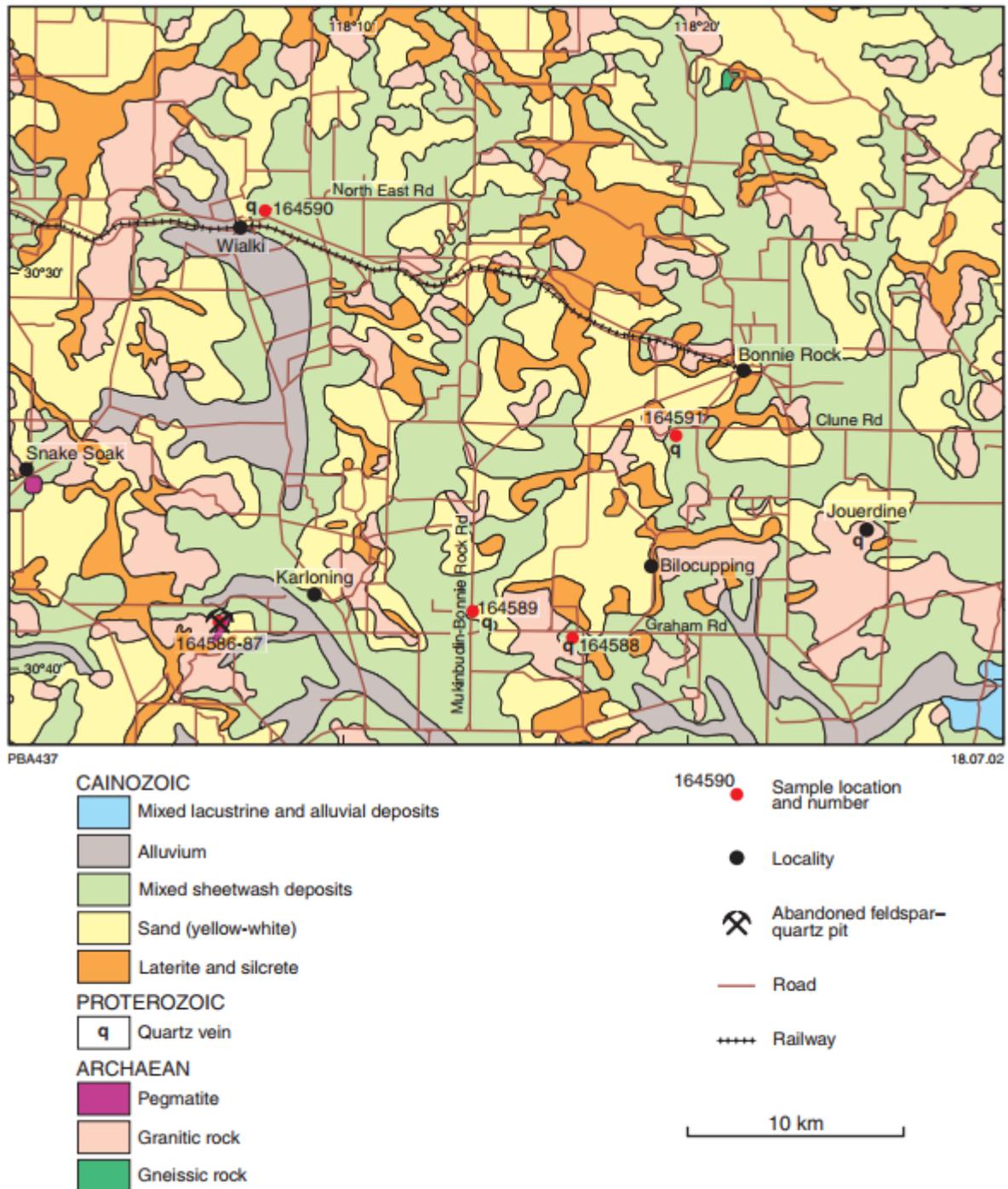
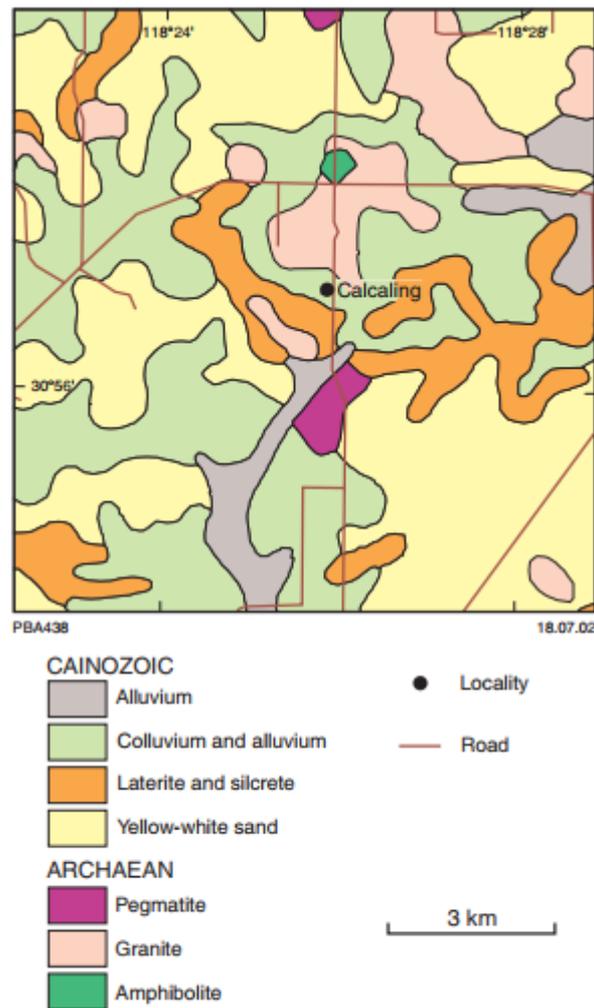


Figure 17 Geology of the region surrounding E70/5070 (Jouerdine) and E70/5071 (Bilocupping) (from Abeyasinghe, 2003).



**Figure 18 Geology of the region surrounding E70/5072 (Calaling) (from Abeysinghe, 2003).**

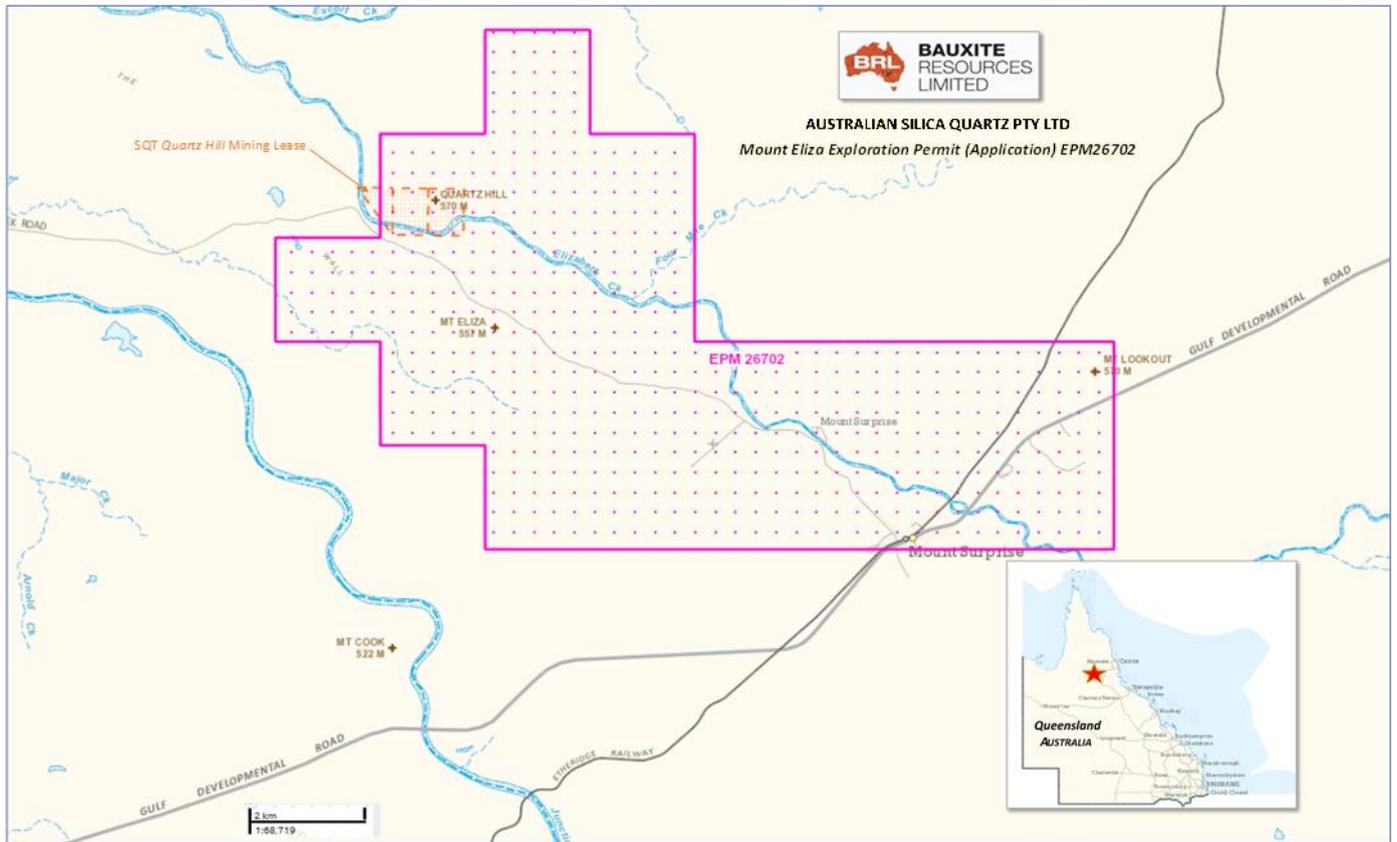
### 2.5.3. Exploration Potential

Bauxite Resources has only undertaken a preliminary desktop review of the projects.

## 2.6. Mt Eliza Queensland Silica Project

### 2.6.1. Location and Access

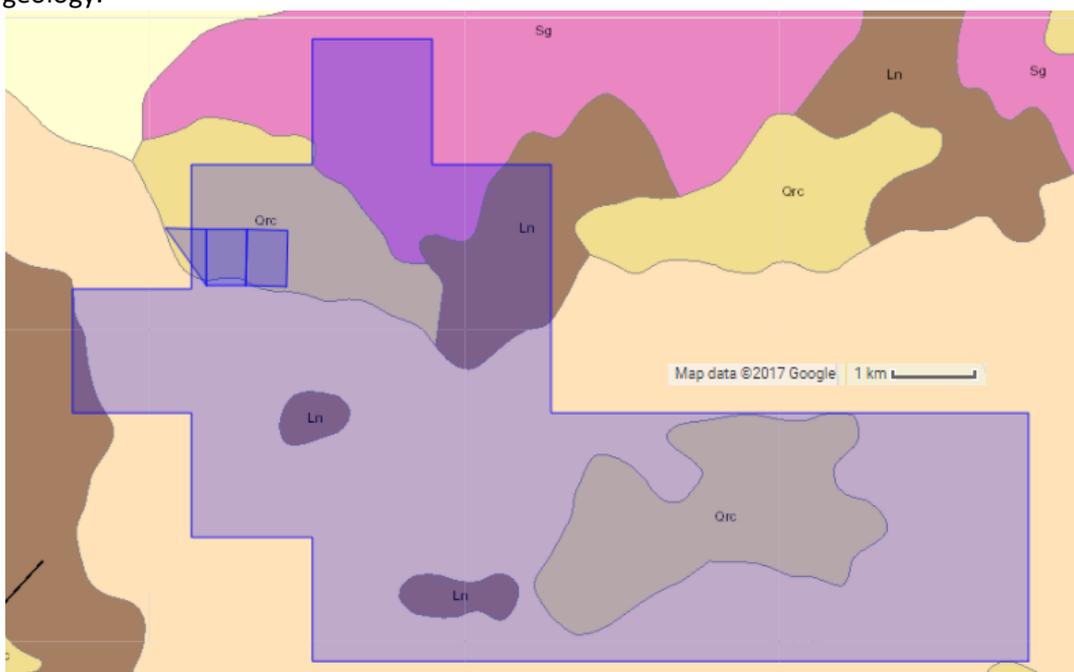
The Mt Eliza Hard Rock Silica project is located approximately 330km by road from Cairns in northern Queensland (Figure 19). Access to the project is via the sealed National Highway 1 / Gulf Development road which passes through the southern portion of the tenement. Access to the northern portion of the tenement is via the unsealed Obrien Creek Road.



**Figure 19 Location of the Mt Eliza Silica Project.**

### 2.6.2. Geology

Figure 20 shows the regional geology for the project with the pink unit labelled Sg interpreted as being a late stage granite. This may have a direct link to the quartz veins interpreted as being source of the high purity silica. Aerial photography indicates that there are several linear ridges interpreted as being quartz veins like the ridges that form the core of the excised mining lease applications. These are not at a scale that would allow them to be mapped on the regional geology.



**Figure 20 Regional Geology of the Mt Eliza hard rock Silica project (from Geoscience Australia)**

### 2.6.3. Recent Exploration

This project is a recent tenement application and remains as an application while the usual process to advance a tenement to grant is completed. As at 8 November there had been no on the ground exploration conducted on this tenement. However, in late November 2017 a site visit was conducted by Bauxite Resources and included preliminary sampling. Initial indications are that the project has significant potential to a host high purity silica occurrence. The requirement for extensive additional work including rock chip sampling and drilling remain critical prior in determining the potential of this project.

### 2.6.4. Exploration Potential

Excised from the project tenement is a series of three mining lease applications (ML30235, 30236 and 20237) that are part of the Quartz Hill deposit which combined with the White Springs mining leases (ML30238 and 30239, located approximately 40km to the southwest of the Quartz Hill leases) combined are reported to contain more than 15million tons of high purity quartz feedstock to feed the Solar Quartz Technology exclusive processing technology. Importantly this mineral occurrence does not comply with the JORC Code and there is significant uncertainty regarding the validity of the reported mineralisation at Quartz Hill and White Springs. These projects, along with the exclusive processing technologies were sold as a part of the \$530million transaction between Vanguard Energy and Solar Quartz Technology limited. This transaction was completed on 4 October 2017.

Within the Bauxite hard rock silica project tenement there are several ridges that appear similar to the outcropping quartz ridge in the centre of the Quartz Hill mining lease applications.

Significant additional work including rock chip sampling, mapping and drilling are required prior to determining if the interpreted quartz ridges are of high purity quartz material and the potential size of this mineral occurrence.

### 3. Valuation Methodology

The VALMIN code outlines various valuation approaches that are applicable for projects at various stages of the development pipeline. These include valuations based on market based transactions, income or costs as shown in Table 5 and provides a guide as to the most applicable valuation techniques for different assets.

**Table 5 VALMIN Code 2015 valuation approaches suitable for mineral projects**

Valuation Approach	Exploration Projects	Pre-development Projects	Development Projects	Production Projects
Market	Yes	Yes	Yes	Yes
Income	No	In some cases	Yes	Yes
Cost	Yes	In some cases	No	No

As no reserves have been declared for the Bauxite Resources projects DRM does not consider an income valuation methodology is appropriate. Therefore, the preferred valuations for the projects where mineral resource estimates have been completed are based on market transactions with support from a replacement cost valuation method.

The valuation approach for the remaining assets is a Market based approach with the details of the methodology detailed in Section 3.4 below.

#### 3.1. Previous Valuations

DRM has investigated if there are any relevant valuations undertaken or completed for Bauxite Resources or its mineral assets. This investigation included requesting copies of any valuations from the company and undertaking a search of the Bauxite Resources ASX releases. No previous valuations have been undertaken or reported.

#### 3.2. Valuation Subject to Change

The valuation of any mineral project is subject to several critical inputs most of these change over time and this valuation is using information available as of 8 November 2017. This valuation is subject to change due to variations in the geological understanding, variable assumptions and mining conditions, climatic variability that may impact on the development assumptions, the ability and timing of available funding to advance the project, the current and future bauxite, silica and lithium prices, exchange rates, political, social, environmental aspects of a possible development, a multitude of input costs including but not limited to fuel and energy prices, steel prices, labour rates and supply and demand dynamics for critical aspects of the potential development like mining equipment. While DRM has undertaken a review of multiple aspects that could impact the valuation there are numerous factors that are beyond the control of DRM. This valuation assumes several forward-looking production and economic criteria which would be unreasonable for DRM to anticipate.

#### 3.3. General assumptions

Mineral Assets of Bauxite Resources are valued using appropriate methodologies as described Table 5 in the following sections. The valuation is based on a number of specific assumptions detailed above, including the following general assumptions;

- That all information provided to DRM and its associates is accurate and can be relied upon,
- The valuations only relate to the mineral assets of Bauxite Resources and not Bauxite Resources nor its shares or market value,
- Bauxite Resources Equity in the Darling Range Bauxite Project will be diluted to 40% from the current 100% in accordance with the HD Mining Joint Venture.
- That the mineral rights, tenement security and statutory obligations were fairly stated to DRM by Bauxite Resources and that the mineral licences will remain active,
- That all other regulatory approvals for exploration and mining are either active or will be obtained in the required and expected timeframe
- That the owners of the mineral assets can obtain the required funding to advance the project as assumed,

- That the current mineral resource and / or mineral reserve estimates and any modifying factors assumed in their estimation remain reasonable and valid,
- The bauxite price assumed (where it is used in the valuation) is the CBIX price ([www.thebauxiteindex.com](http://www.thebauxiteindex.com)) assuming 32% available aluminium, 4% reactive Silica, 6% H2O (based on free water testing by the company) as at 30 November 2017, being US\$27.00 from and the US\$ - AUS\$ exchange rate of 0.757165 from [www.xe.com](http://www.xe.com).
- All currency in this report are Australian Dollars, unless otherwise noted, if a value is in United States Dollars, it is prefixed with US\$.

### 3.4. Market Based Valuations

As most the projects being valued in this report are bauxite and silica projects it is important to note the status of these markets prior to completing the valuation.

### 3.5. Bauxite Market

The bauxite price is fundamentally linked to the aluminium price as it is the primary source of aluminium. In recent years there has been a fundamental shift from production of alumina close to the bauxite source to a business model where large volume of bauxite is transported to alumina smelters and refineries, especially in China. As there is this fundamental link between bauxite and aluminium, this analysis is primarily on the historical Aluminium price and the consensus forecast in the coming years.

Figure 21 shows the aluminium price over the last five years.



Figure 21 Five-year US\$ Aluminium Price graph (source [www.kitcometals.com](http://www.kitcometals.com))

### 3.6. Silica Market

Unlike other commodities silica is not an openly traded commodity with contract prices often opaque to other industry operators. It is also highly variable depending on the impurities within the silica products, the grain size and market fundamentals for silica products. In recent years the high purity silica materials have been trading at an elevated level due to the increased demand, especially in photo-voltaic (PV) solar cells. Other uses for high and ultra-high purity silica include optic fibre cables, semi-conductors, halogen lamps, HD and LCD television screens, and Epoxy Moulding Compounds (EMC) and high-end electronics.

High Quality and moderate quality silica sands are extensively used for the manufacture of clear flat sheet glass and glass containers.

Table 6 below details the various grades of silica products along with an estimate of the annual demand and value per tonne of product. During research into the silica market there are industry participants who have quoted prices of Ultra-high-quality silica as high as US\$25,000 per ton (Solar Quartz Technologies Disclosure Statement 2017)

**Table 6 Global Silica Market**

Type or Application	SiO <sub>2</sub> minimum %	Other Elements maximum %	Other Elements maximum ppm	Market Size Mtpa	Typical price US\$/tonne
Clear glass-grade sand	99.5	0.5	5,000	>70	\$30
Semiconductor filler, LCD and optical glass	99.8	0.2	2,000	2	\$150
'Low grade' HPQ	99.95	0.05	500	0.75	\$300
'Medium grade' HPQ	99.99	0.01	100	0.25	\$500
'High grade' HPQ*	99.997	0.003	30	<0.1	>\$5,000

Modified from Richard Flook and Industrial Minerals December 2013 p25.

### 3.7. Valuation of Advanced Projects

There are several valuation methods that are suitable for advanced projects these include;

- Financial modelling including DCF valuations (limited to projects with published Reserves),
- Comparable Market Based transactions including Resource and Reserve Multiples
- Joint Venture Transactions
- Yardstick valuations

#### 3.7.1. Comparable Market Based Transactions

A comparable transactional valuation is a simple and easily understood valuation method which is broadly based on the real estate approach to valuation. It can be applied to a transaction based on the contained metal (for projects with Mineral Resource Estimated reported) or on an area basis for non-resource projects. Advantages of this type of valuation method include that it is easily understood and applied, especially where the resources or tenement area is comparable, and the resources are reported according to an industry standard (like the JORC Code or NI43-101). However, it is not as robust for projects where the resources are either historic in nature, reported according to a more relaxed standard or are using a cut-off grade that reflects a commodity price that is not justified by the current market fundamentals. If the projects being valued are in the same or a comparable jurisdiction, then it removes the requirement for a geopolitical adjustment. Finally, if the transaction being used is recent then it should reflect the current market conditions. Difficulties arise when there are a limited number of transactions, where the projects have subtle but identifiable differences that impact the economic viability of one of the projects, for example the requirement for a very fine grind required to liberate gangue from a sulphide rich ore or where the ore is refractory in nature and requires a non-standard processing method.

The information for the comparable transactions has been derived from various sources including the ASX releases associated with these transactions, a database compiled by DRM for exploration stage projects (with resources estimated) and development ready projects. The transactions have been normalised to the contained available aluminium in resources to account for the variable grades of the various deposits. This has allowed a resource multiple based on contained aluminium rather than resource tonnes.

This valuation method is the primary valuation method for exploration or advanced (pre-development) projects where Resources or Reserves have been estimated but no DCF or financial models have been completed. The preference is to limit the transactions and Resource / Reserve multiples to completed transactions from the past two to three years.

The comparable transactions have been compiled for advanced projects where resources have been estimated. Appendix A details the Resource Multiples for Australian transactions that are potentially comparable to the Darling Range Bauxite Project. As the Bauxite Resources silica projects are at an early stage DRM considers the potentially comparable transactions are not suitable in determining the fair market value. There are two potentially comparable

silica transactions that have been investigated however both involved the sale of complete operating business or technology related to beneficiation of silica products to produce a higher grade very low impurity silica product. Therefore, these transactions are not considered comparable to early stage exploration assets.

### 3.7.2. Exploration Asset Valuation

To generate an overall value of the entire project it is important to value all the separate parts of the mineral assets under consideration. In the case of the advanced projects (with reserves or resources) the most significant value drivers for the overall project are the Resources or Reserves for earlier stage projects a significant contributor to the projects value is the exploration potential. There are several ways to determine the potential of pre-resource projects, these being;

- A Geoscientific (Kilburn) Valuation
- Comparable transactions based on the projects' area
- Joint Venture Terms
- A prospectivity enhancement multiplier (PEM)

DRM considers for early stage projects, where insufficient work has been completed to enable the estimation of a mineral resource or reserve, the Geoscientific (Kilburn) Valuation method is the most robust. Therefore, for pre-resource projects this method should be used as the primary valuation method. If a mineral resource has been estimated, then in DRM's opinion the primary valuation method should be a resource multiplier as detailed above. For early stage projects the Geoscientific (Kilburn) Valuation method is checked using the other valuation methods with a preference toward Joint Venture terms and comparable area based transactions. It is the view of DRM that the least transparent, most variable and subjective valuation method is a PEM valuation.

#### 3.7.2.1. Geoscientific (Kilburn) Valuation

One valuation technique that is widely used to determine the value of a project that is at an early exploration stage without any mineral resources or reserve estimates was developed and is described in an article published in the CIM bulletin by Kilburn (1990). This method is widely termed the geoscientific method where a series of factors within a project are assessed for their potential. While this technique is somewhat subjective and open to interpretation it is a method that when applied correctly and by a suitably experienced specialist enables an accurate estimate of the value of the project. There are five critical aspects that need to be considered when using a Kilburn or Geoscientific valuation, these are the base acquisition cost, which put simply is the cost to acquire and continue to retain the tenements being valued. The other aspects are the proximity to both adjacent to and along strike of a major deposit (Off Property Factors), the occurrence of a mineral system on the tenement (On Property Factors), the success of previous exploration within the tenement (Anomaly Factors) and the geological prospectivity of the geological terrain covered by the mineral claims or tenements (Geological Factors)

While this valuation method is robust and transparent it can generate a very wide range in valuations, especially when the ranking criteria are assigned to a large tenement. This method was initially developed in Canada where the mineral claims are generally small therefore reducing the potential errors associated with spreading both favourable and unfavourable ranking criteria to be spread over a large tenement. Therefore, DRM either values each tenement or breaks down a larger tenement into areas of higher and lower prospectivity.

Table 7 documents the ranking criteria while the inputs and assumptions that were used to derive the base acquisition cost (BAC) for each tenement are detailed in the valuation section of each of the projects.

**Table 7 Ranking criteria are used to determine the geoscientific technical valuation**

Ranking	Off Property Factors	On Property Factors	Anomaly Factors	Geological Factors
0.1				Generally unfavourable geological setting
0.5			Extensive previous exploration with poor results	Poor geological setting
0.9			Poor results to date	Generally favourable setting, under cover
1.0	No Known Mineralisation in the district	No known mineralisation within the tenement	No targets defined	Generally favourable geological setting
1.5	Mineralisation identified	Mineralisation identified	Target identified, initial indications positive	
2.0	Resource Targets Identified	Exploration targets identified	Significant intersections – not correlated on section	Favourable geological setting
2.5				
3.0	Along Strike or adjacent to known mineralisation	Mine or abundant workings with significant previous production	Several Significant Ore grade intersections that can be correlated between sections	Mineralised zones exposed in prospective host rocks
3.5				
4.0	Along Strike from a major mine	Major mine with significant historical production		
5.0	Along strike from a world class mine			

The technical valuation derived from the Kilburn ranking factors are frequently adjusted to reflect the geopolitical risks associated with the location of the project and also the current market conditions toward a specific commodity or geological terrain. These adjustments can either increase or decrease the technical value to derive the fair market valuation.

Using the ranking criteria from Table 7 along with the base acquisition costs tabulated in the Appendices an overall technical valuation was determined.

The technical valuation was discounted to derive a market valuation. A market factor was derived to account for the geopolitical risks of operating in Australia (both Queensland and Western Australia) and the status of the market to advance bauxite, silica and lithium projects.

While Australia has lower geopolitical risks (governmental risks) there are higher risks of environmental compliance and approvals. One of the governmental risks is the potential for an increase in the state based royalties for mineral products for example the recent attempts by Western Australian government to increase the gold royalties. While this does not directly impact the commodities being explored by Bauxite Resources the WA governments attempts to increase the state's revenue could impact the royalties associated with other commodities. This is considered a significant risk to the minerals industry. Therefore, a 5% discount was applied to the Technical Valuation to account for this increased geopolitical risk.

In addition to the jurisdictional risks there are also market based factors that can dramatically change the market valuation. Therefore, an additional discount has been applied to some of the commodities to account for the current state of the commodity price and general market sentiment.

While the market for bauxite projects are currently depressed due to recently low aluminium prices along with environmental and market supply constraints being imposed, mainly by the Chinese government the market for

lithium and silica are both very well supported, mainly by the changed market for solar electricity and lithium ion batteries for the household (and small scale) electrical storage and electric vehicle market and forecast market fundamentals.

On the analysis above, the technical valuations are discounted by 5% for the geopolitical / environmental regulatory risks and the commodity price discount of 30% applied to the bauxite projects while the lithium and silica projects have had no additional discount applied as the lithium market is currently robust, mainly due to the increased demand and forecast demand for lithium for lithium ion batteries, primarily for the electrical vehicle market. The silica market is also highly supported by the requirement for low impurity silica for use in mainly high-end electronics and solar cell production.

### 3.7.2.2. Cost Based (Prospectivity Enhancement Multiplier) Valuation

As outlined in Table 5 above and in the VALMIN code a cost based or appraised value method is an appropriate valuation technique for an early stage exploration project. Under this method, the previous exploration expenditure is assessed as either improving or decreasing the potential of the project. The prospectivity enhancement multiplier (PEM) involves a factor which is directly related to the success of the exploration expenditure to advance the project. There are several alternate PEM factors that can be used depending on the specific project and commodity being evaluated. Onley, (1994) included several guidelines for the use and selection of appropriate PEM criteria. The PEM ranking criteria used in this report are outlined in Table 8 below. DRM considers the PEM valuation method as a secondary valuation method and no higher PEM ranges are used as once a resource has been estimated it is, in the opinion of the author, preferable to use resource multiples for comparable transactions once a resource has been estimated. Table 8 documents the previous expenditure within each of the tenements and the PEM used to determine the upper and lower valuation. The preferred valuation is the midpoint between the upper and lower valuations.

**Table 8 Prospectivity Enhancement Multiplier (PEM) ranking criteria**

Range	Criteria
0.2 – 0.5	Exploration downgrade the potential
0.5 – 1	Exploration has maintained the potential
1.0 - 1.3	Exploration has slightly increased the potential
1.3 – 1.5	Exploration has considerably increased the potential
1.5 – 2.0	Limited Preliminary Drilling intersected interesting mineralised intersections
2.0 – 2.5	Detailed Drilling has defined targets with potential economic interest
2.5 – 3.0	A Mineral Resource has been estimated at an Inferred category

## 4. Valuation of the Bauxite Resources Mineral Assets

### 4.1. Darling Range Bauxite Joint Venture

The valuation of the Darling Range Bauxite Project undertaken by DRM has been completed using several separate valuation methods, being a resource multiple based on comparable transactions, a yardstick valuation based on the underlying resources and the current bauxite price, a Kilburn or geoscientific valuation and a prospectivity enhancement multiplier (PEM).

As the resources cover a significant proportion of the project tenements no additional value, outside the resource multiple valuation is assigned to the projects. The exploration upside is included in the Kilburn or geoscientific valuation technique. The details of these valuations are below and are based on the technical information and tenement schedule detailed in section 3.

#### 4.1.1. Comparable Transactions

As detailed in Appendix A, DRM has reviewed a series of transactions that are considered broadly comparable to the Darling Range Bauxite Project.

These include the sale by Bauxite Resources of their 30% interest in the Bauxite Alumina Joint Venture (BAJV) to their Joint Venture party, the Yankuang Group for \$7.15M. The resources sold under this transaction totalled 308.7Mt at

an average available aluminium of 31.3%. This transaction derived a price per tonne of contained available aluminium of \$0.2465/t. This project was at a pre-development level and was broadly similar to the assets which were retained by Bauxite Resources.

Two other transactions were the much more advanced projects located on western Cape York peninsular, adjacent to the Weipa bauxite operation. As both these projects are more advanced than the Darling Range Bauxite Project the resource multiples have been reduced by 50% to reflect the differences in the development stage of the projects. Metro Mining purchased 100% of the assets of Cape Alumina, being mainly a 63.5Mt bauxite resource with 40.4% available aluminium for a total of \$16.81million. This derived a value per tonne of available aluminium of \$0.6553/t of available aluminium. When the discount of 50% was applied due to the Darling Range bauxite project being at an early development / exploration stage this is reduced to \$0.3276/tonne of available aluminium. The final transaction that was used in the comparable transaction valuation was the sale of the 3.8Mt (assumed 38% available aluminium) Hey Point bauxite resource by Metro Mining to a private company, Green Coast Resources Pty Ltd for a total of \$1.075M. This resulted in a resource multiple of \$0.7445/tonne of available aluminium. When the discount detailed above was applied this reduces to \$0.3722/t of available aluminium.

Based on the earlier development stage of the Darling Range Bauxite Project compared to the projects associated with the Cape Alumina and Hey Point project transactions DRM considers a 50% discount to the resource multiples from those transactions is reasonable.

The resource multiples detailed above and supported by the information in Appendix A along with the resources for the Darling Range Bauxite Project from section 2.1.5 to derive the value of the project as shown in Table 9.

**Table 9 Comparable transaction valuation summary for the Darling Range Bauxite Project.**

<b>Darling Range Bauxite Project Valuation</b>			
<b>Comparable Transaction</b>	<b>Yankuang – Bauxite Res.</b>	<b>Metro – Cape Alumina</b>	<b>Green Coast – Metro</b>
<b>Darling Range Bauxite Project</b>			
<b>Resource (Mt).</b>	87.54	87.54	87.54
<b>Resource (Mt) available Al</b>	27.92	27.92	27.92
<b>Resource Multiple (\$/t available Al)</b>	\$0.2465	\$0.3276*	\$0.3772*
<b>Resource Valuation</b>	<b>\$6.9</b>	<b>\$9.1</b>	<b>\$10.4</b>
<b>Value of Bauxite Resources 40% Share</b>	<b>\$2.8</b>	<b>\$3.7</b>	<b>\$4.2</b>

Notes:

1. the resource multiples for the Metro – Cape Alumina and Metro – Green Coast transactions have been reduced by 50% to account for the early development stage of the Darling Range Bauxite Project compared to those projects.
2. appropriate rounding has been applied to the resource estimate and the valuation and

Therefore, DRM considers the Resources within the Darling Range Bauxite Project to be valued, based on comparable transactions, at between **\$6.9 million** and **\$10.4 million** with a preferred (average) valuation of **\$8.6 million**. An additional discount has been applied to these valuations due to the beneficial economic interest in the projects under the HD Mining Joint Venture where Bauxite Resources will hold only 40% of the development assets. Therefore, the value attributed to bauxite resources is between **\$2.8 million** and **\$4.2 million** with a preferred valuation of **\$3.5 million**.

#### 4.1.2. Yardstick

A yardstick valuation was undertaken as a check of the comparable transactions. This yardstick valuation is based on a rule of thumb where resources and reserves at various degrees of confidence are multiplied by a percentage of the spot price of the commodity in question. The yardstick valuation factors used in this report are in line with other commonly used yardstick valuation factors such as Naidoo et.al. (2016) and McKibben (2016).

The CBIX bauxite price of US\$27.00/t based on the resource derived grade bauxite specifications of 32% available aluminium, 4% reactive silica and 6% H2O current as of late November 2017. This price was reduced to allow for freight by US\$9.45 (being 130% of the Panamax freight change from Northern Australia to China which in late

November 2017 was US\$7.27/t). This was then converted to Australian Dollars using the exchange rate (as of 30 November 2017) of 0.757165 to determine the yardstick valuation.

Table 10 details the yardstick multiples that were used to determine the value of the resources within the Darling Range Bauxite Project while Table 11 tabulates the valuation for the project based on the currently resource estimates and the CBIX price as detailed above.

**Table 10 Yardstick Multiples used for the Darling Range Bauxite Joint Venture**

Resource or Reserve Classification	Lower Yardstick Multiple	Upper Yardstick Multiple
	(% of Spot price)	(% of Spot price)
Ore Reserves	5%	10%
Measured Resources (less Proved Reserves)	2%	5%
Indicated Resources (less Probable Reserves)	1%	2%
Inferred Resources	0.5%	1%

**Table 11 Yardstick Valuation of the Resources within the Darling Range Bauxite JV**

	Resource / Reserve	AUS\$/t	Valuation (AUS\$ million)	
			Low	High
Reserves	0	\$23.18	-	-
Measured	0	\$23.18	-	-
Indicated	1.5Mt	\$23.18	\$0.35	\$0.70
Inferred	86.04Mt	\$23.18	\$9.97	\$19.94
<b>Total Valuation (AUS\$M)</b>			<b>\$10.3</b>	<b>\$20.6</b>
<b>Value of Bauxite Resources 40% JV equity</b>			<b>\$4.1</b>	<b>\$8.2</b>

Note: The yardstick valuation of uses the CBIX price as at November 2017 as detailed above and appropriate rounding has been applied to the resource and the valuation.

The yardstick valuation is slightly higher than the comparable transaction valuations. A yardstick valuation does not take into consideration the technical aspects of the project being valued as can be included in a technical comparable transaction valuation. As such DRM considers this method to be a useful guide of a possible valuation however it should not, in DRM's opinion be used as a primary valuation method.

#### 4.1.3. Geoscientific Valuation

There are several specific inputs that are critical in determining a valid geoscientific or Kilburn valuation, these are ensuring that the practitioner undertaking the valuation has a good understanding of the mineralisation styles within the overall region, the tenements and has access to all the exploration and geological information to ensure that the rankings are based on a thorough knowledge of the project. In addition to ensuring the rankings are correct deriving the base acquisition costs (BAC) is critical as that is the primary driver of the final value. In this case the BAC is derived by the current costs of applying for a tenement of the specific type and the exploration commitment to maintain the tenement in good standing. If the valuation is being undertaken on a large area it is preferable to break down the larger area into smaller zones to ensure that an area with a high ranking is not spread over a large area, thereby artificially increasing the valuation. The opposite can occur with large areas of low potential.

For the Darling Range Bauxite Project, each tenement was ranked individually as the areas of the tenements are relatively small. The BAC was derived from the Western Australian Department of Mines, Industry Regulation and Safety (DMIRS) and the costs are based on the updated tenement costs as at 1 July 2017.

The Geoscientific rankings were derived for each of the Exploration licences. The rankings that underpin this geoscientific valuation are tabulated in Appendix B.

Table 12 details the technical value of the exploration potential within the Darling Range Bauxite Project while the Fair Marker Valuation is detailed in Table 13 which is the technical valuation multiplied by two additional valuation factors, the geopolitical or sovereign risk factor and the market factor. In this case the location factor is 95%. As the bauxite industry in Australia is currently facing significant cost price pressures a market factor of 70% has been applied to the technical valuations in Table 12. Bauxite Resources currently holds 100% of the tenements diluting to 40%. It is assumed that HD Mining JV will continue, and that HD Mining will upon development earn 60% in accordance with the terms of the JV therefore, the valuation assumes Bauxite holds 40%.

As the Darling Range Bauxite Project has had resource estimation completed this valuation is a secondary valuation method, the Resource Multiple Valuation above is considered the primary valuation method.

**Table 12 Technical Valuation for the Darling Range Bauxite Project**

Tenement	Equity <sup>3</sup>	Technical Valuation (AUS\$) <sup>1</sup>		
		Lower	Preferred <sup>2</sup>	Upper
E70/3160	40%	939,700	1,500,850	2,062,000
E70/3179	40%	1,562,500	2,495,550	3,428,600
E70/3180	40%	715,900	1,143,350	1,570,800
E70/3405	40%	753,700	1,203,750	1,653,800
E70/3890	40%	698,500	1,115,650	1,532,800
<b>Total</b>	<b>40%</b>	<b>4,670,300</b>	<b>7,459,150</b>	<b>10,248,000</b>

Note;

1. The table above is the technical valuation which is the base acquisition cost multiplied by the ranking factors outlined in Appendix B.
2. The preferred value is the average of the upper and lower valuations
3. Bauxite Resources currently holds 100% diluting to 40% under the HD Mining Joint Venture, as per the General assumptions above it is assumed that HD mining JV will continue, and that HD Mining will upon development earn 60% in accordance with the terms of the JV. The valuation assumes Bauxite only holds 40%.

**Table 13 Fair Market Valuation for the Darling Range Bauxite Project**

Tenement	Equity <sup>3</sup>	Valuation (AUS\$ million) <sup>1</sup>		
		Lower	Preferred <sup>2</sup>	Upper
E70/3160	40%	<b>0.59</b>	<b>0.95</b>	<b>1.30</b>
E70/3179	40%	<b>0.98</b>	<b>1.57</b>	<b>2.16</b>
E70/3180	40%	<b>0.45</b>	<b>0.72</b>	<b>0.99</b>
E70/3405	40%	<b>0.47</b>	<b>0.76</b>	<b>1.04</b>
E70/3890	40%	<b>0.44</b>	<b>0.70</b>	<b>0.97</b>
<b>Total</b>	<b>40%</b>	<b>2.9</b>	<b>4.7</b>	<b>6.5</b>

Notes

1. Note appropriate rounding to the valuation has been undertaken.
2. The preferred value is the average of the upper and lower valuations
3. Bauxite Resources currently holds 100% diluting to 40% under the HD Mining Joint Venture, as per the General assumptions above it is assumed that HD mining JV will continue, and that HD Mining will upon development earn 60% in accordance with the terms of the JV. The valuation assumes Bauxite only holds 40%.

Based on this Geoscientific (Kilburn) valuation, DRM considers the **Darling Range Bauxite Project to be worth between \$2.9 and \$6.5 million with a preferred valuation of \$4.7 million.**

#### 4.1.4. Prospectivity Enhancement Multiplier (PEM)

As detailed in section 3.7.2.2 the prospectivity enhancement multiplier (PEM) or multiple of exploration expenditure (MEE) is a valuation method derived on the basis that money spent on exploration has either increased or decreased the value of the project.

Table 14 details the expenditure on the tenement, as reported in the Form 5 expenditure report since Bauxite Resources acquired the project, while Table 15 assigns the prospectivity enhancement multiplier to these expenditures based on the PEM rankings from Table 8. As all the tenements have a JORC resource estimate within the tenement they are all assigned a lower PEM multiple of 2.5 and an upper multiple of 3. The preferred PEM multiple is set at the average of the upper and lower PEM multiples. The preferred valuation is the lower valuation for the PEM valuations.

As this valuation is a secondary valuation method there has been no adjustment for inflation of the previous expenditure. This valuation is an estimate of the total value of the project

**Table 14 Previous expenditure as reported in the various Form 5 Expenditure reports for each of the tenements of the Darling Range Bauxite Project.**

Tenement	Area (blocks)	Expenditure (AUS\$)							Total
		2011	2012	2013	2014	2015	2016	2017	
E70/3160	10	876,902	504,810	78,615	81,931	60,180	17,609	10,103	1,630,150
E70/3179	34	438,829	1,042,140	296,674	105,940	98,222	113,425	87,871	2,183,101
E70/3180	25	-	-	76,249	186,639	157,881	85,581	53,958	560,308
E70/3405	19	-	78,666	79,116	225,461	120,465	100,660	63,409	667,777
E70/3890	20	-	-	96,334	100,376	39,565	46,241	-	282,516
<b>Total</b>	<b>108</b>	<b>1,315,731</b>	<b>1,625,616</b>	<b>626,988</b>	<b>700,347</b>	<b>476,313</b>	<b>363,516</b>	<b>215,341</b>	<b>5,323,852</b>

Note: where there is a “-” the tenement was granted during that year or the expenditure is yet to be reported due to the tenement anniversary date.

**Table 15 Valuation of the Darling Range Bauxite Project based on a prospectivity enhancement multiples (PEM)**

Tenement	Total Expenditure (\$)	Lower Multiple	Valuation Lower (\$M)	Preferred Multiple	Average Valuation (\$M)	Upper Multiple	Valuation Upper (\$M)
E70/3160	\$1,630,150	2.5	4.08	2.75	4.48	3	4.89
E70/3179	\$2,183,101	2.5	5.46	2.75	6.00	3	6.55
E70/3180	\$560,308	2.5	1.40	2.75	1.54	3	1.68
E70/3405	\$667,777	2.5	1.67	2.75	1.84	3	2.00
E70/3890	\$282,516	2.5	0.71	2.75	0.78	3	0.85
<b>Total</b>	<b>\$5,323,852</b>		<b>\$13.31</b>		<b>\$14.64</b>		<b>\$15.97</b>
<b>Value of Bauxite Resources Project Equity</b>			<b>\$5.32</b>		<b>\$5.86</b>		<b>\$6.39</b>

While the average PEM multiplied by the expenditure derives the average valuation in DRM’s opinion the preferred valuation is the valuation derived by the lower PEM factor.

Therefore, DRM estimates that the value of the Darling Range Bauxite Project based on previous expenditure by the Joint Venturer is between \$13.3 million and \$16 million with a preferred valuation being the average if these or \$14.6M. Therefore, the value of Bauxite Resources 40% equity in the Joint Venture is valued at between **\$5.3 and \$6.4M with a preferred valuation of \$5.3M**

In DRM's opinion, this valuation is in line with the current fair market valuation for a bauxite project of this size and resource base in the Darling Ranges of Western Australia.

## 4.2. Silica Projects

The mineral assets of Bauxite Resources as detailed in Section 2, include several recently acquired silica projects. These projects are very different in geological setting and style and as such are separated into two broad deposit types for valuation. The broad types are the silica sand projects which include the Albany, East Esperance and Gingin Silica Sand projects while the hard rock silica projects consist of a series of regional tenement applications in Western Australia and one tenement application in Queensland. As the hard rock silica projects cover two separate jurisdictions the Queensland project has been valued separately to the regional hard rock silica projects in Western Australia.

The Preferred valuation technique for these projects is a slightly modified Kilburn valuation, similar to the valuation undertaken for the Darling Range Bauxite project however an additional ranking factor was included to allow for important aspects of a bulk commodity like silica sands, that being infrastructure. This ranking factor was also used to discount the project valuation where the project tenements are applications rather than granted tenements. While there is a minimal risk that the tenements will not be granted there is a slight risk associated with applications compared to granted tenure.

### 4.2.1. East Esperance, Albany and Gingin Silica Sand Projects Geoscientific Valuation

For these projects each tenement was ranked separately, and the BAC was determined from the holding costs and exploration commitments from the Western Australian Department.

In deriving the fair market valuation, the technical valuation has been multiplied by 95% (a discount of 5%) to account for the geopolitical and sovereign risks of operating in Australia, while the risks are considered low the largest potential issue in Western Australia relates to the environmental approvals for sand mining above a significant water aquifer and permitting of a potential development. In addition to this locational factor an additional market factor is commonly assigned to the technical valuations to derive the fair market valuation. For the Silica projects there has been no market factor reduction used as the market for high purity silica products is currently robust and is considered likely to continue strong into the near future.

The exploration potential and historic exploration success has been summarised in Section 2.3.

The Geoscientific rankings for each of the tenements that constitute these projects are tabulated in Appendix C below.

**Table 16** details the technical value of the East Esperance, Albany and Gingin Silica Sand Projects while the Fair Market Valuation is detailed in **Table 17**.

**Table 16 Technical Valuation for the East Esperance, Albany and Gingin Silica Sand Projects**

Tenement	Technical Valuation (\$)		
	Lower	Preferred	Upper
E63/1853	79,800	189,550	299,300
E63/1854	77,800	184,700	291,600
<b>Total East Esperance</b>	<b>157,600</b>	<b>374,250</b>	<b>590,900</b>
E70/4982	248,500	603,450	958,400
E70/4983	126,700	334,850	543,000
E70/5014	16,800	48,950	81,100
E70/5015	43,800	127,550	211,300
E70/5016	16,000	46,550	77,100
<b>Total Albany</b>	<b>451,800</b>	<b>1,161,350</b>	<b>1,870,900</b>
E70/5053	106,000	229,650	353,300
E70/5058	15,800	46,000	76,200
<b>Total Gingin</b>	<b>121,800</b>	<b>275,650</b>	<b>429,500</b>
<b>Total</b>	<b>731,200</b>	<b>1,811,250</b>	<b>2,891,300</b>

**Table 17 Fair Market Valuation for the East Esperance, Albany and Gingin Silica Sand Projects**

Tenement	Fair Market Valuation (\$M)		
	Lower	Preferred	Upper
E63/1853	0.07	0.17	0.27
E63/1854	0.07	0.17	0.26
<b>Total East Esperance</b>	<b>0.14</b>	<b>0.34</b>	<b>0.53</b>
E70/4982	0.22	0.54	0.86
E70/4983	0.11	0.30	0.49
E70/5014	0.02	0.04	0.07
E70/5015	0.04	0.11	0.19
E70/5016	0.01	0.04	0.07
<b>Total Albany</b>	<b>0.40</b>	<b>1.03</b>	<b>1.68</b>
E70/5053	0.10	0.21	0.32
E70/5058	0.01	0.04	0.07
<b>Total Gingin</b>	<b>0.11</b>	<b>0.25</b>	<b>0.39</b>
<b>Total</b>	<b>0.7</b>	<b>1.6</b>	<b>2.6</b>

Notes

Bauxite Resources holds these projects 100% appropriate rounding to the valuation has been undertaken.

DRM considers that the three silica sand projects in Western Australia have a **combined fair market valuation of between \$0.7 and \$2.6M with a with a preferred valuation of \$1.6M.**

#### 4.2.2. Queensland Hard Rock Silica Project – Geoscientific Valuation

The same methodology as detailed for both the Darling Range Bauxite Project and the Western Australian Silica Sand Projects above has been applied to the Queensland Hard Rock Silica Project.

The exploration potential and historic exploration success has been summarised in Section 4.6 and the Geoscientific rankings for the tenement application EPM26702 is tabulated in Appendix C.

**Table 18** details the technical value of the Queensland Silica Project while the Fair Market Valuation is detailed in **Table 19**

**Table 18 Technical Valuation of the Queensland Hardrock Silica Project**

Tenement	Equity	Technical Valuation (AUS\$)		
		Lower	Preferred	Upper
EPM26702	100%	\$119,700	\$284,300	\$448,900
<b>Total</b>		<b>\$119,700</b>	<b>\$284,300</b>	<b>\$448,900</b>

**Table 19 Fair Market Valuation of the Queensland Hardrock Silica Project**

Tenement	Fair Market Valuation (AUS\$M)		
	Lower	Preferred	Upper
EPM26702	\$0.11	\$0.26	\$0.40
<b>Total</b>	<b>\$0.11</b>	<b>\$0.26</b>	<b>\$0.40</b>

DRM considers that the Queensland hard rock silica project has a fair market valuation of between **\$0.1 and \$0.4M with a with a preferred valuation of \$0.26M.**

#### 4.2.3. Regional Western Australian Hardrock Silica Projects – Geoscientific Valuation

The same methodology, detailed above, has been applied to the five regional Western Australian hard rock silica tenements.

The exploration potential and historic exploration success has been summarised in Section 2.5 with the Geoscientific rankings for the five regional tenements are tabulated in Appendix C. Due to the limited exploration undertaken on these tenements all have been ranked as having the same potential while in reality this would not be the case until exploration has either upgraded or downgraded the potential within the tenements assigning any additional favourable multiples is not considered justified. Just because there are mapped or previous silica occurrences within the tenements it is not reasonable to assume that the occurrences will be of a purity suitable for the high demand, high value industrial uses which would justify a significantly higher Kilburn ranking.

**Table 20** details the technical value of the Regional Hard Rock Silica tenements while the Fair Market Valuation is detailed in **Table 21**.

**Table 20 Technical Valuation of the Regional Western Australian Hardrock Silica Project**

Tenement	Equity	Technical Valuation (AUS\$)		
		Lower	Preferred	Upper
E70/5069	100%	<b>7500</b>	<b>21750</b>	<b>36000</b>
E70/5070	100%	<b>7500</b>	<b>21750</b>	<b>36000</b>
E70/5071	100%	<b>7500</b>	<b>21750</b>	<b>36000</b>
E70/5072	100%	<b>7500</b>	<b>21750</b>	<b>36000</b>
E80/5160	100%	<b>7500</b>	<b>21750</b>	<b>36000</b>
<b>Total</b>		<b>\$37,500</b>	<b>\$108,750</b>	<b>\$180,000</b>

**Table 21 Fair Market Valuation of the Regional Western Australian Hardrock Silica Project**

Tenement	Fair Market Valuation		
	Lower	Preferred	Upper
E70/5069	\$0.01	\$0.02	\$0.03
E70/5070	\$0.01	\$0.02	\$0.03
E70/5071	\$0.01	\$0.02	\$0.03
E70/5072	\$0.01	\$0.02	\$0.03
E80/5160	\$0.01	\$0.02	\$0.03
<b>Total</b>	<b>\$0.05</b>	<b>\$0.10</b>	<b>\$0.15</b>

DRM considers that the regional tenements have a fair market valuation of between \$50,000 and \$150,000 with a preferred valuation of \$100,000.

### 4.3. Lort River Lithium Project – Geoscientific Valuation

The same valuation methodology as detailed for both the bauxite and the silica projects above has been applied to the Lort River Lithium project in Western Australia.

The exploration potential and historic exploration success has been summarised in Section 2.4 and the Geoscientific rankings for the Lort River lithium tenement are also included in Appendix C.

**Table 22** details the technical value of the Lort River Lithium Project while the Fair Market Valuation is detailed in **Table 23**.

**Table 22 Technical Valuation of the Lort River Lithium Project**

Tenement	Equity	Technical Valuation (AUS\$)		
		Lower	Preferred	Upper
E74/595	100%	\$4,900	\$22,050	\$39,200
<b>Total</b>		<b>\$4,900</b>	<b>\$22,050</b>	<b>\$39,200</b>

**Table 23 Fair Market Valuation of the Lort River Lithium Project**

Tenement	Fair Market Valuation		
	Lower	Preferred	Upper
E74/595	\$0.01	\$0.02	\$0.04
<b>Total</b>	<b>\$0.01</b>	<b>\$0.02</b>	<b>\$0.04</b>

DRM considers that the Lort River Lithium Project has a fair market valuation of between \$10,000 and \$40,000 with a preferred valuation of \$20,000.

### 4.4. Prospectivity Enhancement Multiplier (PEM) – Silica and Lithium Projects

As detailed in Section 3.7.2.2 the prospectivity enhancement multiplier (PEM) or multiple of exploration expenditure (MEE) is a valuation method derived on the basis that money spent on exploration has either increased or decreased the value of the project.

Table 24 assigns the prospectivity enhancement multiplier to the tenement expenditures based on the PEM rankings from Table 8.

As this valuation is a secondary valuation method there has been no adjustment for inflation of the previous expenditure.

**Table 24 PEM Valuation of the Bauxite Resources Silica and Lithium Projects based**

Tenement	Project	Total Expenditure	PEM Low	PEM Valuation Low	PEM Preferred	PEM Valuation Preferred	PEM High	PEM Valuation High
E74/595	Lort River Lithium	43163	0.50	0.02	0.60	0.03	0.70	0.03
<b>Total Lort River Lithium</b>				<b>0.02</b>		<b>0.03</b>		<b>0.03</b>
E63/1853	East Esperance Silica	53652	1.00	0.05	1.25	0.07	1.50	0.08
E63/1854	East Esperance Silica	29042	1.00	0.03	1.25	0.04	1.50	0.04
<b>Total East Esperance</b>				<b>0.08</b>		<b>0.10</b>		<b>0.12</b>
E70/4982	Albany	58803	1.00	0.06	1.25	0.07	1.50	0.09
E70/4983	Albany	30362	1.00	0.03	1.25	0.04	1.50	0.05
E70/5014	Albany	19430	1.00	0.02	1.25	0.02	1.50	0.03
E70/5015	Albany	22649	1.00	0.02	1.25	0.03	1.50	0.03
E70/5016	Albany	16836	1.00	0.02	1.25	0.02	1.50	0.03
<b>Total Albany</b>				<b>0.15</b>		<b>0.19</b>		<b>0.22</b>
E70/5053	Gingin	58452	1.00	0.06	1.25	0.07	1.50	0.09
E70/5058	Gingin	33872	1.00	0.03	1.25	0.04	1.50	0.05
<b>Total Gingin</b>				<b>0.09</b>		<b>0.12</b>		<b>0.14</b>
<b>Total Silica Sand Projects</b>				<b>0.32</b>		<b>0.40</b>		<b>0.48</b>
EPMA 26702	Queensland Silica	16563	1.00	0.02	1.25	0.02	1.50	0.02
<b>Queensland Silica</b>				<b>0.02</b>		<b>0.02</b>		<b>0.02</b>
E70/5069	Regional WA Silica	14799	1.00	0.01	1.25	0.02	1.50	0.02
E70/5070	Regional WA Silica	14861	1.00	0.01	1.25	0.02	1.50	0.02
E70/5071	Regional WA Silica	14667	1.00	0.01	1.25	0.02	1.50	0.02
E70/5072	Regional WA Silica	14803	1.00	0.01	1.25	0.02	1.50	0.02
E80/5160	Regional WA Silica	14662	1.00	0.01	1.25	0.02	1.50	0.02
<b>Total Regional WA Projects</b>				<b>0.05</b>		<b>0.1</b>		<b>0.1</b>

Therefore, DRM estimates that the combined value of the Bauxite Resources silica and lithium projects based on previous expenditure is between \$0.44 million and \$0.65 million with a preferred valuation of \$0.54M.

In DRM's opinion, this valuation is significantly below the current fair market valuation for these projects, primarily due to the tenements not being granted and there being minimal exploration expenditure.

#### 4.5. Bauxite Royalty Valuation

When Bauxite Resources sold its equity in the Bauxite Alumina Joint Venture (BAJV) to its Joint Venture Partner, Yankuang Group a royalty of 0.9% was retained. This royalty is based on the FOB price paid for the first 100Mt of bauxite sold from the BAJV projects.

Given the current bauxite price as determined using the CBIX index of US\$27/t for material that is of a similar quality to the resources within the tenements that are subject to the royalty, one method is to multiply the estimated FOB bauxite price by the total tonnes that attract the royalty by the royalty rate. While the current bauxite price as derived from the CBIX index (from [www.thebauxiteindex.com](http://www.thebauxiteindex.com)) for material that is similar in available aluminium, reactive silica and contained water is approximately US\$27/t this price is a CIF price therefore the freight charges need to be deducted from this value. In 30 November 2017 the freight charge using a Panamax vessel from Northern Australia (Cape York) to China was quoted as being approximately US\$7.27/t. Assuming the current exchange rate (as of 30 November 2017) of 0.757165 and that the freight charge from an export port close to the resources that attract the royalty is 130% of the Northern Australian freight charge then the FOB price would be approximately AUS\$23.18/t. Assigning this price to the 100Mt of material that attracts the royalty and the royalty rate of 0.9% then the face value of this royalty is AUS\$20.9M. This is the full value of the royalty. This value does not consider the likelihood of the mining operation being undertaken nor the timeframe for any potential future royalty payments.

DRM has investigated several methods of determining the value of this royalty including comparable transactions. No bauxite royalty transactions were identified. As there were no bauxite royalty transactions the royalty transactions identified are not directly comparable to the royalty held by Bauxite Resources however the other royalty transactions identified all fall in the range of 5% and 12% of the full value of the royalty. This range provides support to the overall range in the royalty valuation.

Therefore, DRM considers that the royalty would be able to be sold in an open market for between 7.5% - 12.5% with a preferred value of 10% of the face value of the royalty.

Therefore, DRM has assigned a value of between \$1.6 million and \$2.6million with a preferred value of \$2.1million to the BAJV royalty.

## 5. Preferred Valuations

Based on the valuation techniques detailed above Table 25 provides a summary of the various valuation techniques with the preferred valuation techniques for Bauxite Resources mineral assets in **Bold**.

**Table 25 Summary of the Valuations completed for Bauxite Resources.**

Mineral Asset	Valuation Technique	Lower Valuation (AUS\$ million)	Preferred Valuation (AUS\$ million)	Upper Valuation (AUS\$ million)
Darling Range Bauxite JV Project	Comparable Transactions	<b>\$2.8</b>	<b>\$3.5</b>	<b>\$4.2</b>
	Yardstick	\$4.1	\$6.2	\$8.2
	Geoscientific / Kilburn	\$2.9	\$4.7	\$6.5
	PEM Valuation*	\$5.3	\$5.9	\$6.4
WA Silica Sand Projects	Geoscientific / Kilburn	<b>\$0.7</b>	<b>\$1.6</b>	<b>\$2.6</b>
	PEM	\$0.3	\$0.4	\$0.5
Queensland Hardrock Silica Project	Geoscientific / Kilburn	<b>\$0.1</b>	<b>\$0.25</b>	<b>\$0.4</b>
	PEM	\$0.02	\$0.02	\$0.02
Regional WA Hardrock Silica Projects	Geoscientific / Kilburn	<b>\$0.05</b>	<b>\$0.1</b>	<b>\$0.15</b>
	PEM	\$0.07	\$0.09	\$0.11
Lort River Lithium Project	Geoscientific / Kilburn	<b>\$0.01</b>	<b>\$0.02</b>	<b>\$0.04</b>
	PEM	\$0.02	\$0.03	\$0.03
<b>Bauxite Royalty Valuation</b>		<b>\$1.6</b>	<b>\$2.1</b>	<b>\$2.6</b>
<b>Total Bauxite Materials Mineral Asset Valuation</b>		<b>\$5.3</b>	<b>\$7.6</b>	<b>\$10.0</b>

Note: The Comparable transaction and Yardstick valuations are only undertaken for the Darling Range Bauxite Joint Venture Project where there are JORC 2004 and JORC 2012 mineral resource estimates completed. The valuations considered by DRM as the preferred valuations are **bold**. Appropriate rounding has been applied to the valuation.

## 6. Conclusion

DRM considers the total mineral asset valuation of Bauxite Resources to be within a range of **\$5.3 million to \$10.0 million with a preferred total mineral asset value of \$7.6 million.**

## 7. References

The reference list below is dominated by unpublished company reports. Where they are published the publication is noted. None of the ASX releases of Bauxite have been listed in the Reference list but are all available on the Bauxite Resources and the ASX websites.

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## 8. Glossary

Below are brief descriptions of some terms used in this report. For further information or for terms that are not described here, please refer to internet sources such as Webmineral [www.webmineral.com](http://www.webmineral.com), Wikipedia [www.wikipedia.org](http://www.wikipedia.org),

*The following terms are taken from the 2015 VALMIN Code*

**Annual Report** means a document published by public corporations on a yearly basis to provide shareholders, the public and the government with financial data, a summary of ownership and the accounting practices used to prepare the report.

**Australasian** means Australia, New Zealand, Papua New Guinea and their off-shore territories.

**Code of Ethics** means the Code of Ethics of the relevant Professional Organisation or Recognised Professional Organisations.

**Corporations Act** means the Australian Corporations Act 2001 (Cth).

**Experts** are persons defined in the Corporations Act whose profession or reputation gives authority to a statement made by him or her in relation to a matter. A Practitioner may be an Expert. Also see Clause 2.1.

**Exploration Results** is defined in the current version of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Refer to <http://www.jorc.org> for further information.

**Feasibility Study** means a comprehensive technical and economic study of the selected development option for a mineral project that includes appropriately detailed assessments of applicable Modifying Factors together with any other relevant operational factors and detailed financial analysis that are necessary to demonstrate at the time of reporting that extraction is reasonably justified (economically mineable). The results of the study may reasonably serve as the basis for a final decision by a proponent or financial institution to proceed with, or finance, the development of the project. The confidence level of the study will be higher than that of a Pre-feasibility Study.

**Financial Reporting Standards** means Australian statements of generally accepted accounting practice in the relevant jurisdiction in accordance with the Australian Accounting Standards Board (AASB) and the Corporations Act.

**Independent Expert Report** means a Public Report as may be required by the Corporations Act, the Listing Rules of the ASX or other security exchanges prepared by a Practitioner who is acknowledged as being independent of the Commissioning Entity. Also see ASIC Regulatory Guides RG 111 and RG 112 as well as Clause 5.5 of the VALMIN Code for guidance on Independent Expert Reports.

**Information Memoranda** means documents used in financing of projects detailing the project and financing arrangements.

**Investment Value** means the benefit of an asset to the owner or prospective owner for individual investment or operational objectives.

**Life-of-Mine Plan** means a design and costing study of an existing or proposed mining operation where all Modifying Factors have been considered in sufficient detail to demonstrate at the time of reporting that extraction is reasonably justified. Such a study should be inclusive of all development and mining activities proposed through to the effective closure of the existing or proposed mining operation.

**Market Value** means the estimated amount of money (or the cash equivalent of some other consideration) for which the Mineral Asset should exchange on the date of Valuation between a willing buyer and a willing seller in an arm's length transaction after appropriate marketing wherein the parties each acted knowledgeably, prudently and without compulsion. Also see Clause 8.1 for guidance on Market Value.

**Materiality** or being **Material** requires that a Public Report contains all the relevant information that investors and their professional advisors would reasonably require, and reasonably expect to find in the report, for the purpose of making a reasoned and balanced judgement regarding the Technical Assessment or Mineral Asset Valuation

being reported. Where relevant information is not supplied, an explanation must be provided to justify its exclusion. Also see Clause 3.2 for guidance on what is Material.

**Member** means a person who has been accepted and entitled to the post-nominals associated with the AIG or the AusIMM or both. Alternatively, it may be a person who is a member of a Recognised Professional Organisation included in a list promulgated from time to time.

**Mineable** means those parts of the mineralised body, both economic and uneconomic, that are extracted or to be extracted during the normal course of mining.

**Mineral Asset** means all property including (but not limited to) tangible property, intellectual property, mining and exploration Tenure and other rights held or acquired in connection with the exploration, development of and production from those Tenures. This may include the plant, equipment and infrastructure owned or acquired for the development, extraction and processing of Minerals in connection with that Tenure.

Most Mineral Assets can be classified as either:

(a) **Early-stage Exploration Projects** – Tenure holdings where mineralisation may or may not have been identified, but where Mineral Resources have not been identified;

(b) **Advanced Exploration Projects** – Tenure holdings where considerable exploration has been undertaken and specific targets identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A Mineral Resource estimate may or may not have been made, but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the Mineral Resources category;

(c) **Pre-Development Projects** – Tenure holdings where Mineral Resources have been identified and their extent estimated (possibly incompletely), but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance and properties held on retention titles are included in this category if Mineral Resources have been identified, even if no further work is being undertaken;

(d) **Development Projects** – Tenure holdings for which a decision has been made to proceed with construction or production or both, but which are not yet commissioned or operating at design levels. Economic viability of Development Projects will be proven by at least a Pre-Feasibility Study;

(e) **Production Projects** – Tenure holdings – particularly mines, wellfields and processing plants – that have been commissioned and are in production.

**Mine Design** means a framework of mining components and processes taking into account mining methods, access to the Mineralisation, personnel, material handling, ventilation, water, power and other technical requirements spanning commissioning, operation and closure so that mine planning can be undertaken.

**Mine Planning** includes production planning, scheduling and economic studies within the Mine Design taking into account geological structures and mineralisation, associated infrastructure and constraints, and other relevant aspects that span commissioning, operation and closure.

**Mineral** means any naturally occurring material found in or on the Earth's crust that is either useful to or has a value placed on it by humankind, or both. This excludes hydrocarbons, which are classified as Petroleum.

**Mineralisation** means any single mineral or combination of minerals occurring in a mass, or deposit, of economic interest. The term is intended to cover all forms in which mineralisation might occur, whether by class of deposit, mode of occurrence, genesis or composition.

**Mineral Project** means any exploration, development or production activity, including a royalty or similar interest in these activities, in respect of Minerals.

**Mineral Securities** means those Securities issued by a body corporate or an unincorporated body whose business includes exploration, development or extraction and processing of Minerals.

**Mineral Resources** is defined in the current version of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Refer to <http://www.jorc.org> for further information.

**Mining** means all activities related to extraction of Minerals by any method (e.g. quarries, open cast, open cut, solution mining, dredging etc).

**Mining Industry** means the business of exploring for, extracting, processing and marketing Minerals.

**Modifying Factors** is defined in the current version of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Refer to <http://www.jorc.org> for further information.

**Ore Reserves** is defined in the current version of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Refer to <http://www.jorc.org> for further information.

**Petroleum** means any naturally occurring hydrocarbon in a gaseous or liquid state, including coal-based methane, tar sands and oil-shale.

**Petroleum Resource** and **Petroleum Reserve** are defined in the current version of the Petroleum Resources Management System (PRMS) published by the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the World Petroleum Council and the Society of Petroleum Evaluation Engineers. Refer to <http://www.spe.org> for further information.

**Practitioner** is an Expert as defined in the Corporations Act, who prepares a Public Report on a Technical Assessment or Valuation Report for Mineral Assets. This collective term includes Specialists and Securities Experts.

**Preliminary Feasibility Study (Pre-Feasibility Study)** means a comprehensive study of a range of options for the technical and economic viability of a mineral project that has advanced to a stage where a preferred mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, is established and an effective method of mineral processing is determined. It includes a financial analysis based on reasonable assumptions on the Modifying Factors and the evaluation of any other relevant factors that are sufficient for a Competent Person, acting reasonably, to determine if all or part of the Mineral Resources may be converted to an Ore Reserve at the time of reporting. A Pre-Feasibility Study is at a lower confidence level than a Feasibility Study.

**Professional Organisation** means a self-regulating body, such as one of engineers or geoscientists or of both, that:

- (a) admits members primarily on the basis of their academic qualifications and professional experience;
- (b) requires compliance with professional standards of expertise and behaviour according to a Code of Ethics established by the organisation; and
- (c) has enforceable disciplinary powers, including that of suspension or expulsion of a member, should its Code of Ethics be breached.

**Public Presentation** means the process of presenting a topic or project to a public audience. It may include, but not be limited to, a demonstration, lecture or speech meant to inform, persuade or build good will.

**Public Report** means a report prepared for the purpose of informing investors or potential investors and their advisers when making investment decisions, or to satisfy regulatory requirements. It includes, but is not limited to, Annual Reports, Quarterly Reports, press releases, Information Memoranda, Technical Assessment Reports, Valuation Reports, Independent Expert Reports, website postings and Public Presentations. Also see Clause 5 for guidance on Public Reports.

**Quarterly Report** means a document published by public corporations on a quarterly basis to provide shareholders, the public and the government with financial data, a summary of ownership and the accounting practices used to prepare the report.

**Reasonableness** implies that an assessment which is impartial, rational, realistic and logical in its treatment of the inputs to a Valuation or Technical Assessment has been used, to the extent that another Practitioner with the same information would make a similar Technical Assessment or Valuation.

**Royalty or Royalty Interest** means the amount of benefit accruing to the royalty owner from the royalty share of production.

**Securities** has the meaning as defined in the Corporations Act.

**Securities Expert** are persons whose profession, reputation or experience provides them with the authority to assess or value Securities in compliance with the requirements of the Corporations Act, ASIC Regulatory Guides and ASX Listing Rules.

**Scoping Study** means an order of magnitude technical and economic study of the potential viability of Mineral Resources. It includes appropriate assessments of realistically assumed Modifying Factors together with any other relevant operational factors that are necessary to demonstrate at the time of reporting that progress to a Pre-Feasibility Study can be reasonably justified.

**Specialist** are persons whose profession, reputation or relevant industry experience in a technical discipline (such as geology, mine engineering or metallurgy) provides them with the authority to assess or value Mineral Assets.

**Status** in relation to Tenure means an assessment of the security of title to the Tenure.

**Technical Assessment** is an evaluation prepared by a Specialist of the technical aspects of a Mineral Asset. Depending on the development status of the Mineral Asset, a Technical Assessment may include the review of geology, mining methods, metallurgical processes and recoveries, provision of infrastructure and environmental aspects.

**Technical Assessment Report** involves the Technical Assessment of elements that may affect the economic benefit of a Mineral Asset.

**Technical Value** is an assessment of a Mineral Asset's future net economic benefit at the Valuation Date under a set of assumptions deemed most appropriate by a Practitioner, excluding any premium or discount to account for market considerations.

**Tenure** is any form of title, right, licence, permit or lease granted by the responsible government in accordance with its mining legislation that confers on the holder certain rights to explore for and/or extract agreed minerals that may be (or is known to be) contained. Tenure can include third-party ownership of the Minerals (for example, a royalty stream). Tenure and Title have the same connotation as Tenement.

**Transparency** or being **Transparent** requires that the reader of a Public Report is provided with sufficient information, the presentation of which is clear and unambiguous, to understand the report and not be misled by this information or by omission of Material information that is known to the Practitioner.

**Valuation** is the process of determining the monetary Value of a Mineral Asset at a set Valuation Date.

**Valuation Approach** means a grouping of valuation methods for which there is a common underlying rationale or basis.

**Valuation Date** means the reference date on which the monetary amount of a Valuation in real (dollars of the day) terms is current. This date could be different from the dates of finalisation of the Public Report or the cut-off date of available data. The Valuation Date and date of finalisation of the Public Report **must** not be more than 12 months apart.

**Valuation Methods** means a subset of Valuation Approaches and may represent variations on a common rationale or basis.

**Valuation Report** expresses an opinion as to monetary Value of a Mineral Asset but specifically excludes commentary on the value of any related Securities.

**Value** means the Market Value of a Mineral Asset.

## 9. Appendices

#### 4. Appendix A – Comparable Bauxite Transactions

The table is restricted to three potentially comparable bauxite transactions in Australia.

Project	Region	Date	Buyer	Seller	Equity	Transaction Value (AUS\$ million)	Total Resource (Mt Av Al)*	Resource Multiple (AUS\$/t)
Hey Point	Cape York	18/06/2015	Green Cape Resources	Metro Mining	100%	1.075	1.44	0.7445
Skardon River	Cape York	2/12/2015	Metro Mining	Gulf Alumina	100%	16.81	25.65	0.6553
Bauxite Alumina JV	Darling Range	18/01/2016	Yankuang Group	Bauxite Resources	30%	7.15	96.67	0.2465

\* The resource number detailed in this table is the contained available aluminium rather than the total resource tonnes. This is to allow a comparison and attain a resource multiple based on the contained available aluminium therefore allowing for variations in the available aluminium grades between the various deposits.

## 5. Appendix B –Darling Range Bauxite Joint Venture Project Geoscientific (Kilburn) Ranking

Tenement	Application Date	Grant Date	Expiry Date	Blocks	BAC (\$)	Equity	Off Property		On Property		Anomaly Factor		Geology Factor	
							Low	High	Low	High	Low	High	Low	High
E70/3160	25/03/2007	26/07/2010	25/07/2020	10	76,712	40%	3	4	2	3	4	4	3	3
E70/3179	11/04/2007	26/05/2010	25/05/2020	34	127,552	40%	3	4	2	3	4	4	3	3
E70/3180	11/04/2007	25/05/2012	24/05/2022	25	58,437	40%	3	4	2	3	4	4	3	3
E70/3405	25/02/2008	29/04/2011	28/04/2021	19	61,527	40%	3	4	2	3	4	4	3	3
E70/3890	27/04/2010	29/10/2012	28/10/2017	20	57,022	40%	3	4	2	3	4	4	3	3

## 6. Appendix C – Bauxite Resources Lithium and Silica Projects Geoscientific (Kilburn) Ranking

Tenement	Application Date	Grant Date	Expiry Date	Blocks	BAC (\$)	Equity	Off Property		On Property		Anomaly Factor		Geology Factor	
							Low	High	Low	High	Low	High	Low	High
<b>Lort River Lithium</b>														
E74/595	17/05/2016	6/07/2016	5/07/2021	68	78474	100%	0.5	1.0	0.5	1.0	0.5	1.0	0.5	1.0
<b>East Esperance</b>														
E63/1853	7/04/2017	7/07/2017	6/07/2022	77	88680	100%	1	2	1	2	1	2	1	2
E63/1854	7/04/2017	7/07/2017	6/07/2022	75	86412	100%	1	2	1	2	1	2	1	2
<b>Albany</b>														
E70/4982	23/05/2017			124	141978	100%	3	3	1	2	1	2	1	2
E70/4983	23/05/2017			52	60330	100%	1	2	2	3	2	2	1	2
E70/5014	22/08/2017			20	24042	100%	1	2	1	2	1	2	1	2
E70/5015	22/08/2017			54	62598	100%	1	2	1	2	1	2	1	2
E70/5016	22/08/2017			11	22836	100%	1	2	1	2	1	2	1	2
<b>Gingin</b>														
E70/5053	24/10/2017			8	22434	100%	3	4	2	2	1	2	2	2
E70/5058	9/11/2017			9	22568	100%	1	2	1	2	1	2	1	2
<b>Queensland Hard Rock Silica</b>														
EPMA 26702	8/11/2017			21	37999	100%	3	4	2	2	1	2	1	2
<b>Western Australia Hard Rock Silica</b>														
E70/5069	16/11/2017			1	10662	100%	1	2	1	2	1	2	1	2
E70/5070	16/11/2017			1	<b>10662</b>	100%	1	2	1	2	1	2	1	2
E70/5071	16/11/2017			1	<b>10662</b>	100%	1	2	1	2	1	2	1	2
E70/5072	16/11/2017			1	<b>10662</b>	100%	1	2	1	2	1	2	1	2
E80/5160	16/11/2017			1	<b>10662</b>	100%	1	2	1	2	1	2	1	2

The Kilburn ranking factor for the tenement applications are a low of 0.7 and a high of 1 for all tenement applications, the infrastructure ranking for the granted tenements is 0.9 to 1.0 for the east Esperance project while the ranking for the Lithium project is 1.



## Appendix 4 - LMW Valuation Report

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# Rural Valuation Report

Property	Lots 1 and 2 Wells Glover Road, Bindoon WA 6502
Prepared for	BDO Corporate Finance (WA) Pty Ltd
Instructed by	Sherif Andrawes
Purpose	To establish Current Market Value for Acquisition purposes
Registered Proprietor	V A Holdings (WA) Pty Ltd
Valuation date	30 November 2017
LMW ref	3161957



## National Property Valuers and Consultants

LMW trading as Latrobe Holdings Pty Ltd trading as LMW Perth ABN 85 009 324 403 ACN 009 324 403  
Level 2, 420 Bagot Road, Subiaco WA 6008  
PO Box 124, Subiaco WA 6904 Australia Subiaco  
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National Offices: NSW VIC QLD WA & SA



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*IMPORTANT: All data provided in this summary is wholly reliant on and must be read in conjunction with the information provided in the attached report. It is a synopsis only designed to provide a brief overview and must not be acted on in isolation.*

*For the purpose of this report "LMW" means the company identified on the front of this report.*

## 1.1 Property being valued

<b>Address</b>	Lots 1 & 2 Wells Glover Road, Bindoon WA 6502					
<b>Title Details</b>						
<b>Registered Proprietor(s)</b>	<b>Lot</b>	<b>Plan/Diagram</b>	<b>Number</b>	<b>Vol</b>	<b>Fol</b>	<b>Area (Ha)</b>
V A Holdings (W) Pty Ltd	1	Deposited Plan	34115	2577	546	132.81
	2	Deposited Plan	34115	2577	547	121.42
<b>Total Land Area</b>						<b>254.23</b>
<b>Encumbrances</b>	Encumbrances are noted under Section 4 of the report					
<b>Title Search Date</b>	20 November 2017					

## 1.2 Instructions and property details

<b>Interest Being Valued</b>	Fee Simple in Possession.			
<b>Basis for assessment</b>	Market Value			
<b>Relevant dates</b>	<b>Valuation Date:</b>	30 November 2017	<b>Inspection Date:</b>	30 November 2017
	<b>Date of Report Issue</b>	7 December 2017		
<b>Special Instructions</b>	Instructions were provided and are referenced under Heading 3.1 Instructions.			
<b>Site Identified By</b>	The property has been satisfactorily identified by visual inspection and reference to the cadastral map.			
<b>Local Authority/Zoning</b>	Shire of Chittering	Agricultural Resource		
<b>Town Planning Scheme</b>	The current Town Planning Scheme is Local Planning Scheme No. 6 District Zoning Scheme			
<b>Highest and Best Use</b>	The highest and best use is considered to be Rural farming and lifestyle pursuits.			
<b>Brief Description</b>	An attractive 254ha rural lifestyle property situated just north of Bindoon in a well-established farming area. It comprises two adjoining lots and have been valued as if sold in a single parcel. The arable 78 ha section of the property has a strong fertile soil profile and the elevated scarp to Bindoon Hill forms an attractive backdrop. There is a single residence that was modest with a shed and excellent water across the property.			

## 1.3 Recent Sale History

<b>Sale Date/Price</b>	24 March 2009	\$1,800,000
<b>Comment</b>	No details around this sale known. Values have fallen since the date of this sale. There was a prior transaction in 2007 at \$2,000,000 but again no details relating to the sale were known other than it was a buoyant time in the market.	



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

#### 1.4 Analysed results

	Area ha
Arable Area	78.5
Total Area	254.23

#### Apportionment of adopted value

Land	\$1,195,000
Buildings & Improvements	\$220,000
Resource value	nil
<b>Total</b>	<b>\$1,415,000</b>

#### Analysis of adopted value

Rate per cleared arable hectare excluding buildings (CHXB)	\$9,200
Overall rate per hectare excluding buildings (OHXB)	\$4,700
Overall rate per hectare including buildings (OHIB)	\$5,566

#### 1.5 Valuation (exclusive of GST)

**Market Value** **\$1,415,000**

**Valuer** Ross Sharp  
AAPI CPV 64955  
WA Licence No. 655

**Entity Office** Latrobe Holdings Pty Ltd trading as LMW Perth  
Subiaco



## 2.1 Risk Profile

*The purpose of risk ratings is to alert the reader to anything that is readily apparent and known to the Valuer at the date of valuation and that may impact on the current market value or marketability of the subject property, limited to the Valuers area of professional expertise.*

*The indicators in this risk summary are drawn from opinions of the Valuer and are expressed as opinion not fact.*

## 2.2 Asset Profile

Asset Risk	Low	Low/Medium	Medium	Medium/High	High
Location					
Tenure/Planning/Licences					
Environmental Issues					
Buildings/Improvements					
Insurance					
Soil types					
Biological Assets					

<b>Location</b>	This property is well located within close proximity to relevant services and amenities at Bindoon.
<b>Tenure/Planning/Licences</b>	The land is freehold and there is no further potential for subdivision. There are no extractive industry licenses attached to the property but the hill section has been drilled in the past.
<b>Environmental Issues</b>	The farm has significant bushland and there would be an elevated fire risk in this locality.
<b>Buildings/Improvements</b>	The old homestead could be renovated and made better however the cost would be significant and may not be justified. The older style hay/machinery shed is in serviceable condition. General farm improvements are in fair and average condition.
<b>Insurance</b>	Adequate farm insurance should be maintained on the buildings.
<b>Soil types</b>	The soils are good productive clay loams to the lower farming section 78ha with some granite rocky areas on the base of the scarp leading to lateritic gravel soils to the top of the hill and in bush area.
<b>Biological Assets</b>	This valuation is on a vacant possession basis and excludes all biological assets.



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

2.3 Market Segment

Market risk	Low	Low/Medium	Medium	Medium/High	High
Management/Production					
Marketability					
Market activity					
Market volatility					

<b>Management/Production</b>	The farm appears to be reasonably well managed and maintained during a long-term lease having a good production history.
<b>Marketability</b>	The farm is considered to be readily marketable and would have reasonable attraction to the local market with main interest expected from lifestyle farmers.
<b>Market activity</b>	Market activity currently is subdued. The lifestyle market is cautious and wants value for money while the agricultural market is reluctant to pay values above those that are viable from farming. There has been reasonable leasing demand. Market sales activity is slow.
<b>Market volatility</b>	Market volatility would be best described as steady after an easing in values. The locality is recognised as reliable with good rainfall which has contributed to steady market movements.



## 3.1 Instructions

Following instructions received from Sherif Andrawes of BDO Corporate Finance (WA) Pty Ltd, I have prepared a valuation report with a valuation date of 30 November 2017 of the property known as Lots 1 and 2 Wells Glover Road, Bindoon WA 6502 which is to be used to establish Current Market Value for To establish Current Market Value for Acquisition purposes purposes.

The property has two lots and has been valued in one line assuming a sale to a single buyer.

## 3.2 Assumptions, Conditions and Limitations

- The valuation is subject to an unencumbered fee simple title with the exception of interests notified on the certificate of title that run with the title.
- The valuation has been conducted on an “existing use” basis. This is inclusive of all integral plant and equipment which is required for the normal operation of this property for this purpose. Where this value includes integral plant and equipment, water licences/entitlements/royalties/goodwill etc, the value of these items are separately identified. The valuation excludes **non** integral plant and equipment such as tractors/silos/produce sorting machines etc unless included in the report value and separately identified. The value has been assessed on a vacant possession basis. It excludes all biological assets such as crops/stock etc.
- The improvements comply with the approvals, conditions and requirements of all appropriate authorities.
- Any additions and/or renovations to the property have been granted the necessary approvals from the relevant authorities.
- All the information supplied/sourced, including tenancy information, in conducting this valuation consists of a full and accurate disclosure of all information that is relevant.
- Unless otherwise stated in the report, the valuation assumes that the site is not affected by environmental contamination.
- Unless otherwise outlined in the instruction and detailed in the report. I have specifically valued the property excluding the added value of Biological Assets.
- The valuation assumes there is no asbestos related health risk with any building construction materials on site.
- No encroachment of the building over the lot boundaries, nor any encroachment of adjoining buildings onto the subject land.
- The property is not affected by historical or anthropological matters.
- Any objective information, data or calculations set out in the valuation will be accurate so far as is reasonably expected from a qualified and experienced Valuer, reflecting due skill, care and diligence (except where the information, data or calculation originates from a third party source).
- It should be noted that this valuation does not purport to be a structural survey of the improvements nor was any such survey sighted or undertaken. This valuation is conditional upon detailed reports in respect of the structure and serviced installations of the property not revealing any defects requiring significant expenditure. Additionally, in the absence of a Building Certificate issued by Council or other approved certifier, this valuation is conditional upon the property complying with all relevant statutory requirements in respect of such matters as health, building and fire safety regulations.
- Verifiable assumptions relate to environmental issues, structural integrity of the improvements, compliance with applicable building regulations, condition of building services, zoning and encroachments, and can be confirmed by obtaining appropriate documentation relating to each.



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

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- Should any of the assumptions upon which our valuation assessment is made prove to be incorrect or inaccurate, this report should be referred to LMW for reassessment.
- The valuation is valid for 90 days from the date of valuation, or such earlier date if you become aware of factors that have any effect on the valuation.

### 3.3 Definitions

---

**Market Value** is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

**Market Value – In One Line** is the value inclusive of all Titles assuming a sale to a single entity.

**Highest and Best Use** is the use of an asset that maximises its potential and that is physically possible, legally permissible and financially feasible.

**Biological Assets** are defined as, crops (current produce), plantations, livestock, biological certifications.

**Overall \$/hectare including buildings (OHIB)** is the sale price or adopted value divided by the overall land area inclusive buildings and all other integral value components.

**Overall \$ / hectare excluding buildings (OHXB)** is the sale price or adopted value divided by the overall land area after an allowance for the added value of the building improvements and other integral value components (i.e. water licences and royalties) has been deducted from the sale price or adopted value.

**\$/cleared arable hectare excluding buildings (CHXB)** is the sale price or adopted value divided by the cleared arable land area. The cleared arable land area is land that has been cleared of native vegetation and developed as farmland which is capable of being utilised for cropping or grazing activity but could also be utilised for laneways or building and water supply envelopes. The rate per hectare is arrived at after added value of building improvements, non-arable land value and other integral value components (i.e. water licences and royalties) have been deducted from the overall sale price or adopted value.



# Land Particulars

Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

## 4.1 Title details

**Address** | Lots 1 & 2 Wells Glover Road, Bindoon WA 6502

### Title Details

Registered Proprietor(s)	Lot	Plan/Diagram	Number	Vol	Fol	Area (Ha)
V A Holdings (WA) Pty Ltd. Registered 3 April 2009	1	Deposited Plan	34115	2577	546	132.81
	2	Deposited Plan	34115	2577	547	121.42
<b>Total Land Area</b>						<b>254.23</b>

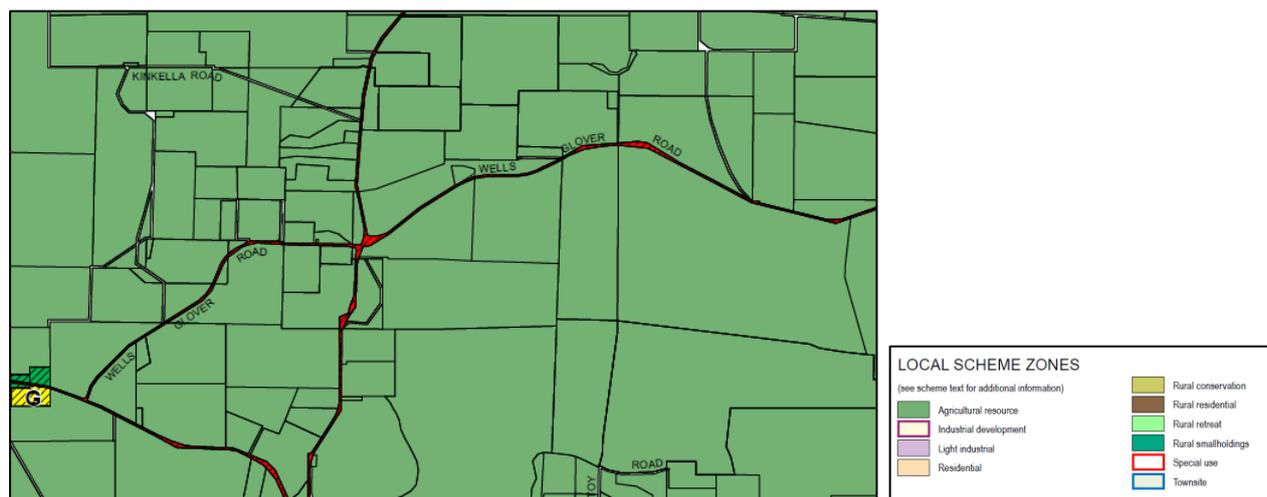
### Encumbrances and Interests

Lot Number	Encumbrances and Interests
1 & 2	<ol style="list-style-type: none"> <li>11037657 Easement Burden. Registered 8/3/2002. Right of access across south end of property.</li> <li>*I263648 Memorial. Soil and Land Conservation Act 1945. As to Portion Only. Registered 14/10/2002. (conservation order, refer to section 4.10 for further details)</li> </ol>

Overall, there are considered to be no onerous covenants or interests reported on Title that adversely affect the value, marketability and continued utility of the property. If there are any encumbrances, encroachments, restrictions, leases or covenants which are not noted in this report, I should then be advised and asked as to whether they affect the assessment of value.

The valuation is provided on the basis that the land is not subject to any encumbrances or restrictions on Title other than those noted here and that the property is unaffected by any road alteration proposals.

## 4.2 Town planning summary



<b>Local authority</b>	Shire of Chittering
<b>Planning Scheme</b>	Local Planning Scheme No. 6 District Zoning Scheme
<b>Zoning</b>	Agricultural Resource



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

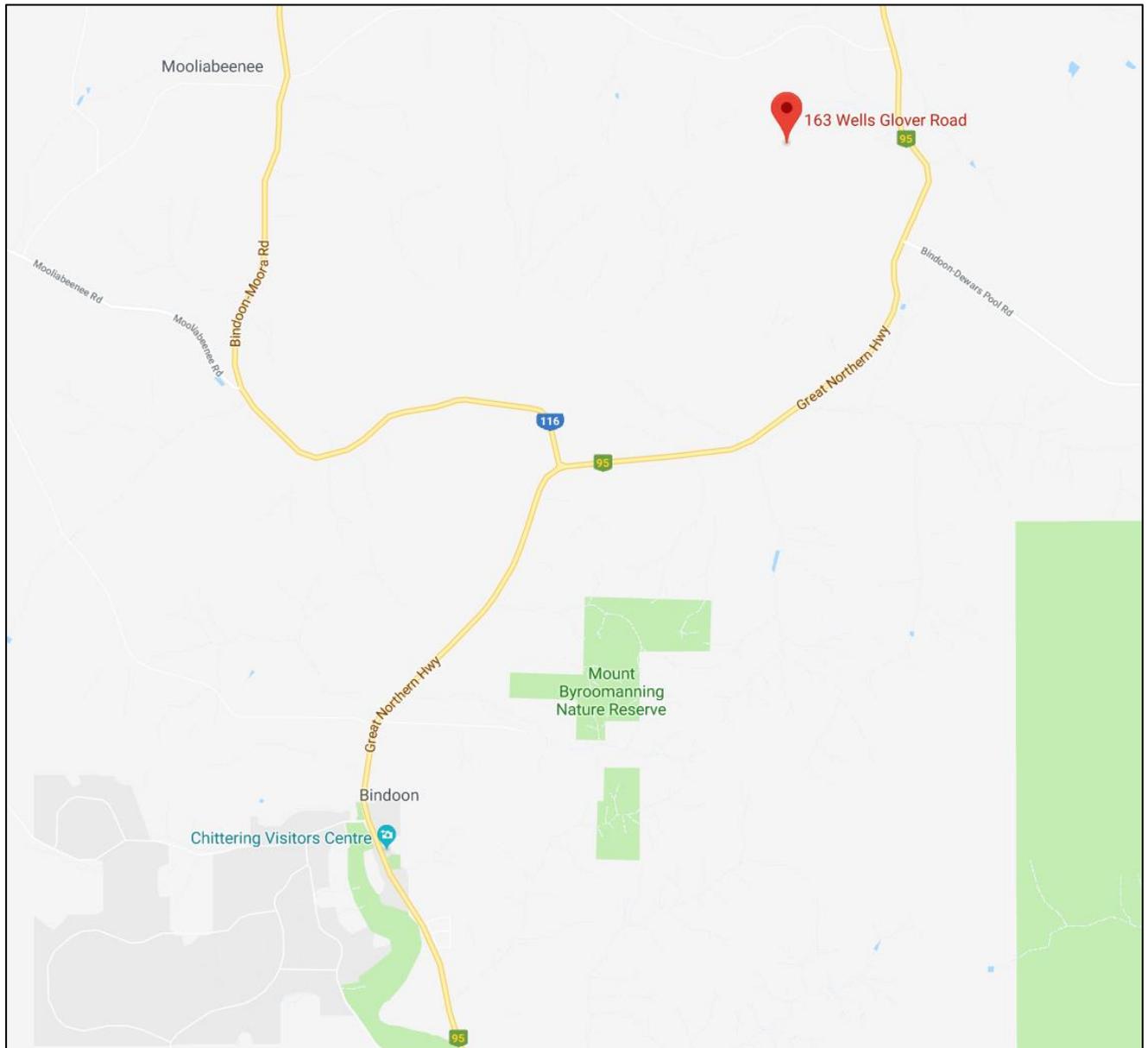
<b>Zoning objectives</b>	a) preserve productive land suitable for grazing, cropping and intensive horticulture and other compatible productive rural uses in a sustainable manner; b) protect the landform and landscape values of the district against despoliation and land degradation; c) encourage intensive agriculture and associated tourist facilities, where appropriate; d) allow for the extraction of basic raw materials where it is environmentally and socially acceptable.
<b>Permissible uses</b>	The current use appears to fully comply with the permissible uses under the zoning.
<b>Other matters</b>	The property could be sold as two separate lots if required. Further subdivision to smaller lots would not be supported by the council.

The planning information noted has been obtained from the relevant local authority. This information has been relied upon in my assessment of value and no responsibility is accepted for the accuracy of the planning information provided. Should the information prove incorrect in any significant respect, the matter should be referred to me for review of the valuation.



## Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

### 4.3 Location



Source: Google Maps

The subject is situated approximately 12km North from the Bindoon townsite. It is 93km north east of Perth.

### 4.4 Climate

Rainfall	Rainfall	Approximately 682mm. Source: Bureau of Meteorology
	Reliability	Medium/High
	Growing season	May to September.



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

#### 4.5 Services

Domestic water	Rain water tanks only.
Electricity	Mains electricity is connected.
Gas	Bottled gas is only available and connected.
Effluent disposal	Septic tank
Telephone	Available on the property dependent on carrier and equipment.
Nearest main shopping	Basic shopping is available within approximately 12km at Bindoon
Nearest primary school	Bindoon approx. 12km
Nearest secondary school	Midland approx. 50km
Nearest medical facility	Bindoon approx. 12km
Road services	Bitumen with some gravel all weather surfaces.
Nearest livestock selling facility	Muchea approx. 41km

#### 4.6 Aerial Maps



Source: Google Maps, Area in Blue is bush with bauxite/gravel, Shaded Fluoro arable farmland.



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

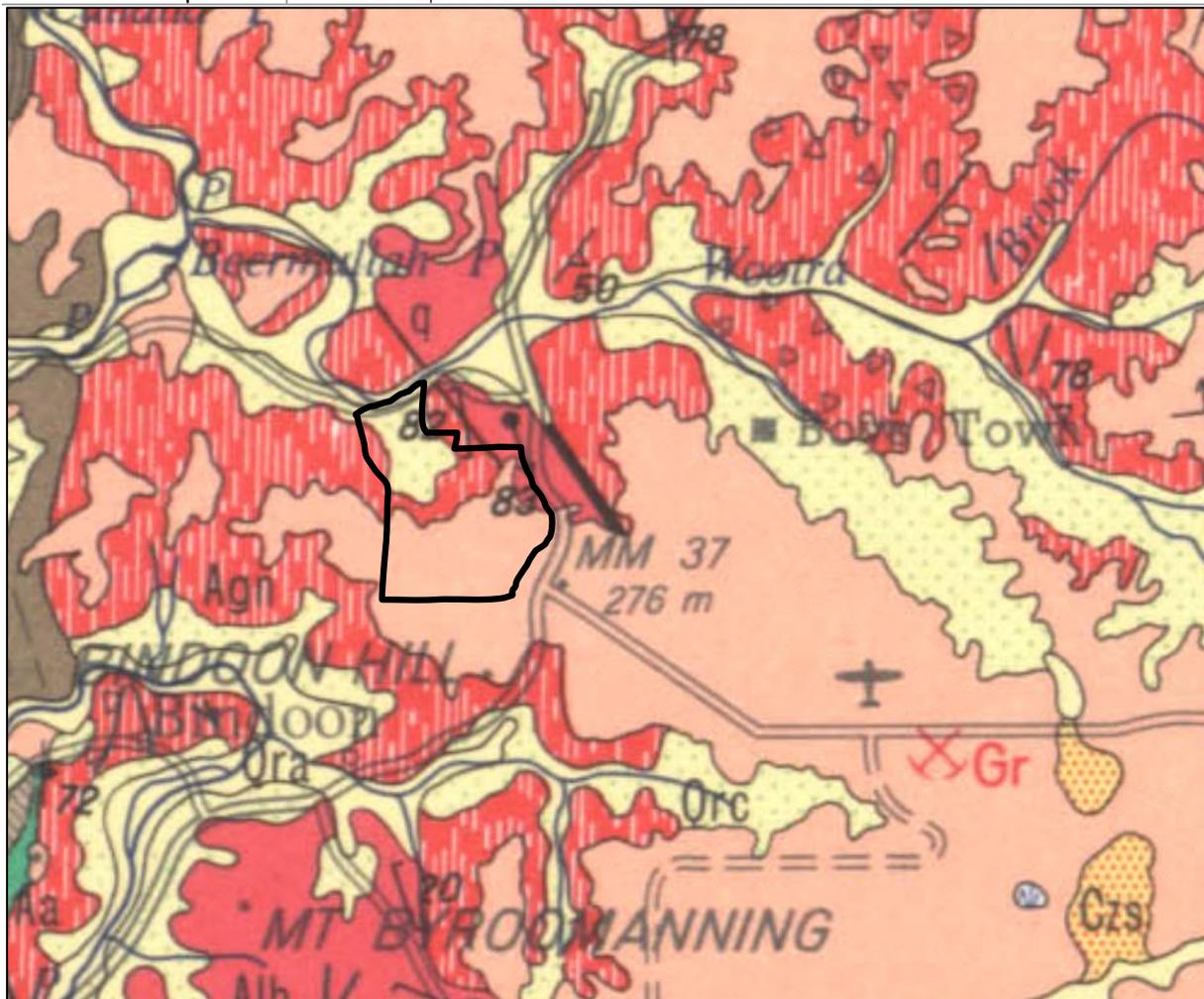
#### 4.7 Land Utilisation

Land Utilisation		
Description	Area (ha)	%
Arable	78.5	31%
Bushland	175.73	69%
<b>Total</b>	<b>254.23</b>	<b>100%</b>

Land utilisation apportionment is as per on site ground inspection and aerial mapping.

#### 4.8 Land Description

<b>Soil Description</b>	Fertile lateritic clay loams to the arable farmland with granite rock foundations to the scarp edge of the hill. The top of the hill and bush area has laterite soils with gravel deposits. See Geoscience map below with geology formations.
<b>Topography</b>	Mostly gently undulating with steep country to the south rising to a gravel plateau.
<b>Original Vegetation</b>	York Gum, Jam, Sheoak, Marri, Parrot bush and some White Gum. Natural vegetation varies with soil profile and the subject has 3 distinct soil profiles.
<b>Level of Development</b>	Well-developed cleared land. With bushland to the south section.





Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

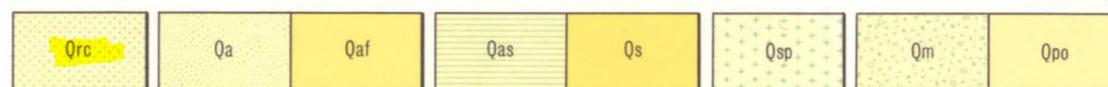


- Cz1** Laterite—chiefly massive, but includes overlying pisolithic gravel and lateritized sand
- Czs Sand overlying laterite—yellow, white or grey and often associated with drainage courses
- Czq Quartzose duricrust developed over Archaean quartzite bands



- Age Even-grained granitic rocks—fine to coarse-grained granodiorite, adamellite and granite
- Agp Porphyritic granite—medium to coarse-grained granite with microcline megacrysts
- Agv Fine to medium-grained adamellite and granite with scattered microcline megacrysts
- Agg Leucocratic adamellite, fine to medium-grained with abundant pegmatite
- Agm Mixed granitic rocks, chiefly interdeveloped even-grained and porphyritic granite
- Agn** Gneissic granite, with cataclastic foliation

Qrsm calcareous quartzose sand (mobile dunes)



- Qrc** Colluvium, including valley-fill deposits, variably lateritized and podsolized
- Qa Alluvium and minor colluvium developed on laterite of the Darling Range
- Qaf Older sandy alluvium in eastern part of Sheet, dissected by present drainage
- Qas Sand—variously reworked, associated with older stream channels
- Qs Sand—bright yellow, hummocky deposits marginal to stream channels
- Qsp Thin veneer of sand, with bands of ferruginous pisoliths, overlying Archaean granitic rocks
- Qm Sandy colluvium from Cretaceous rocks, variably lateritized

Source: geoscience.gov.au

#### 4.9 Land Development

Fencing	Boundary	Basic not stockproof fencing in the bush section. Fencing to arable sections is steel post and ringlock with plain wire and barb on top. Internal fencing in arable section is stockproof. The area rising up the scarp is unfenced and cannot be grazed.
	Paddocks	Number 7
	Laneways	No
Water Supply	Scheme	Rain water tanks only.
	Water Licence	Nil.
	Dams	4
	Bores	Single solar pump with bore pumping to a 325,000L header tank in high location behind house.
	Wells	Nil
	Soaks	There are 4 soaks on the farm formed into small dams
	Pumps and Irrigation	Nil
	Rain Water Tanks	2 smaller 5000 – 7000 L at house, large 325,000L header tank behind house.
	Fertiliser history	The arable section is leased and the tenant has been putting normal cropping inputs in. The recent amendment of the lease requires the tenant to apply fertiliser in accordance with agronomist report to maintain the fertility.
	Comparison to District average	Equal



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

Pasture	Variety	Natural grasses of varying species on the scarp. The rest of the arable area is cropped.
	Quality/Management	The tenant would appear to be managing the property correctly.
Agronomy	Soil testing	Have been advised from the new lease renewal will be completed more regularly.
Cropping Yields	Grains	unknown
	Hay	Unknown but appears to yield well from bale count on site at inspection.
Stocking Rate	unknown	
Noxious Weeds	There are no noxious or controllable weeds of any significance on this property.	
Chemical Resistance	The majority of broad scale continuous cropping properties in the region have some form of chemical resistance to certain chemical groups utilised in the broad-acre cropping process. As such the presence of minor chemical resistance is not considered to have a major impact on the overall market value of these properties.	
Vermin	The subject property has an apportionment of bush and the vermin population is considered to be similar to the district average but roos do challenge the fencing out of the bush areas.	
Drainage, Salinity	The farm is well drained and there is no salinity evident.	
Flood Status	Our enquiries indicate that the property is not subject to flooding.	
Conservation	The farm has significant remnant natural bushland that provides shade and shelter. There is a conservation order over 42ha of land in the bush section. We would not expect this section to be farmed or cleared and accordingly it is not considered to have a detrimental impact on value.	
Fire Risk	The property is within a "Bush Fire Prone Area" as defined by FESA in 2016. See map below.	



Source: DFES Department of Fire and Emergency Services



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

#### 4.10 Environmental issues

Issues	
Current use and commencement	farming
Existing issues raising concern	Bushfire risk
Uses identified on API Guidance Note 1	Agricultural Activities (Vineyards, Tobacco, Sheep Dips, Market Gardens). Heavy metals.
Previous uses	General farming and vineyard to arable section. Bush area was part once cleared but has regrown to an established bushland.
Environmental report provided	No, an environmental report has not been provided.
WA contaminated sites act	By the Commencement of the Contaminated Sites Act 2003, a Public Register is now kept in Western Australia of land that has been classified as being either contaminated – remediation required; contaminated – restricted use or remediated for restricted use. In arriving at any assessment of the value of the land, a basic search of that register has been undertaken which discloses that the land is <b>not contaminated</b> . I do not accept any responsibility or liability whatsoever for the accuracy of the information contained in the search of the Contaminated Sites Register.

I note that some common farming practises may result in contamination to some areas of the farm. These potential events include however are not limited to the following; previous use of sheep and cattle dips, sources of concentrated effluent disposal such as with feed lots and dairies, chemicals used in fertilisers or sprays, fuel storage tanks, domestic/farm waste dump sites and crop and/or livestock diseases. Our inspection of the farm did not uncover any significant areas of contamination unless outlined in the report. I am however not qualified to accurately assess contamination and the client may require an environmental audit to fully explore any potential issues.

Should it be revealed that this property is subject to a greater level of contamination than is normally expected, then I reserve the right to review my valuation.

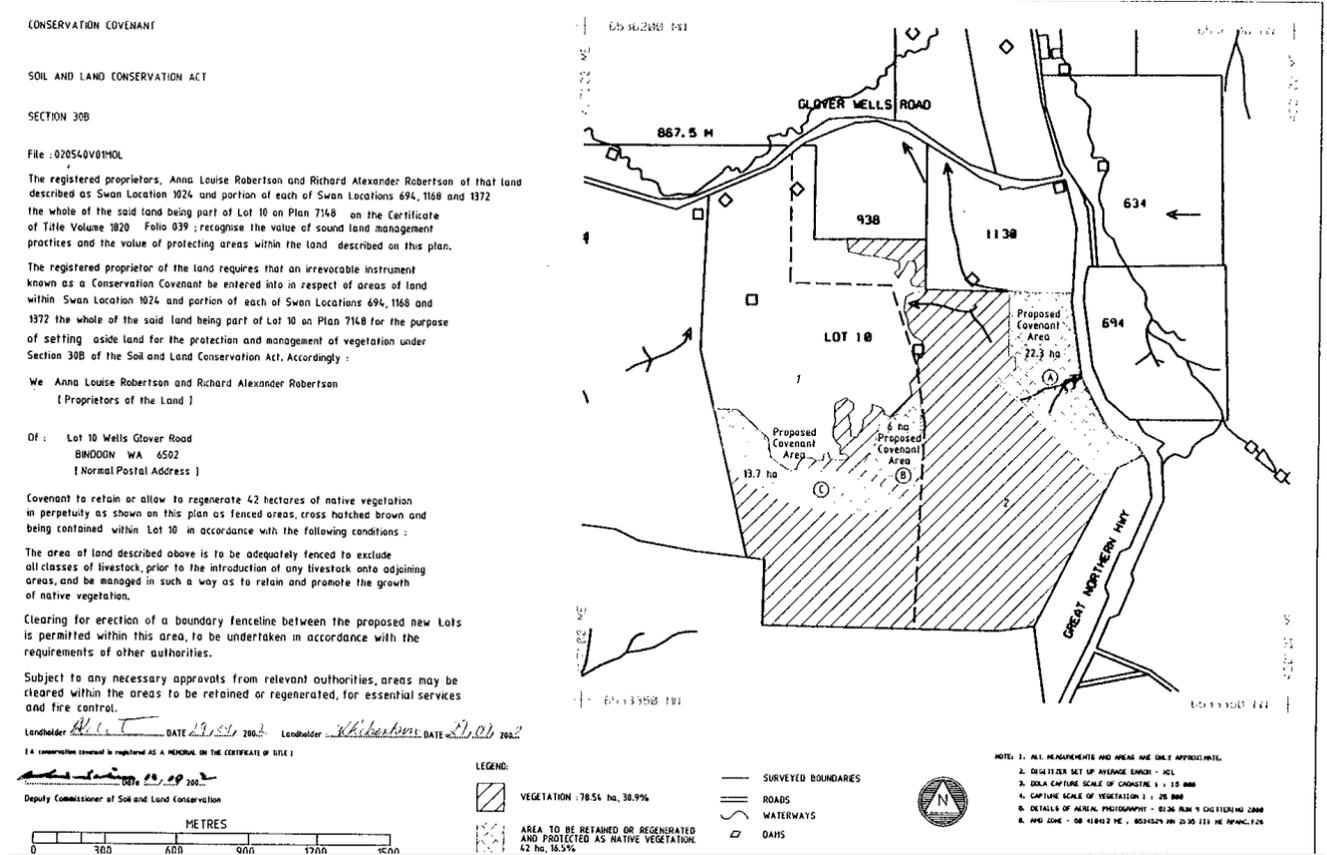
No soil tests or environmental studies have been made available for my perusal. Therefore, it should be noted that my valuation is subject to there being no surface or sub-surface soil problems including instability, toxic or hazardous wastes, toxic mould, asbestos or building material hazards in or on the property that would adversely affect its existing or potential use or reduce its marketability. Should any problems be known or arise, then the valuation should be referred to me for review of the valuation as I deem appropriate.

I am not an expert in this regard and if more detailed advice is required, an environmental consultant should be retained.



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

We note the following conservation order is in place over the property and registered on the title.



4.11 Asbestos

Our inspection revealed that asbestos is not likely to have been used in the construction of the buildings. But we cannot be sure.

The house is painted and sealed and is not likely to present a health problem however special removal procedures are required in the event of demolition.

It should be noted that an Asbestos Materials Report has not been provided. Should any such matters be known or discovered, no reliance should be placed on our assessment of value unless I have been advised of these matters and I have confirmed that our assessment is not affected.



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

4.12 Native title

The value and utility of land can be adversely affected by the presence of Aboriginal sacred sites. I have made no investigations in this regard, as Aboriginal requirements can only be determined by the appointment of an appropriate expert. Under these circumstances, I cannot warrant that there are no such sites on the land and if it is subsequently determined that the realty is so affected I reserve the right to review this valuation.

4.13 Heritage issues

From our inspection there were no signs to indicate the property was listed either by the Heritage Council of Western Australia, National Trust, or the Local Authority. The property is not considered to have historical significance.

<b>Local council Listing</b>	Municipal Inventory – Adopted 19 August 1999 Category 4
<b>Statement of significance</b>	The place has associations with the Foulkes Taylor family.
<b>History</b>	Cunnillife Foulkes Taylor originally took over the 'Mooramurra' homestead. In 1929, he had the new homestead constructed (named Carrievale after his favourite aunt, Aunty Carrie [Caroline]) and had 40 acres of vines cultivated. 12 acres were currents and 28 acres of sultanas, and despite local predictions that it wouldn't be successful, the products regularly won first prizes at the annual Royal Agricultural Show in Perth during the 1930s. 15-20 workers also lived at the property. The property was the social centre of the district during the 1930s, with tennis parties and social events. During World War Two when the Japanese bombed Darwin, the homestead was selected as a possible military hospital. After Cunillife Foulkes Taylor died in 1955, the family carried on the property until John sold it to the current owner in 1975.
<b>History</b>	Poor
<b>Physical description</b>	Cement brick construction with a formed cement cellar. The original surrounding verandahs are supported by bush poles. The hipped roof is clad with corrugated iron and has a gable front feature and tall chimneys. The men's quarters (timber framed and clad) is located at the rear of the dwelling and is now a shed and not habitable or even suitable as a shed.

The heritage information has been obtained from the local Bindoon Shire Council. The information provided is made available in good faith and is derived from sources believed to be reliable and accurate. However, the information is provided solely on the basis that readers will be responsible for making their own assessment of the matters discussed herein and are advised to verify all relevant representations, statements and information.



## 5.1 Improvements

### 5.1.1 Residence

Year built	Circa 1929
Main walls & roof	Rendered concrete block and iron roof
Accommodation	6 bedrooms, 2 bathrooms, kitchen, laundry, lounge, meals family, hallways, verandahs
Main living areas	344m <sup>2</sup>
Verandahs	156m <sup>2</sup>
shed	162m <sup>2</sup>
Internal condition	Fair to poor
External condition	Fair to poor
Internal features	Period features, timber floors, high ceilings,
Ancillary improvements	Extensive verandahs, old run down shed, hay/machinery shed, 325,000L rainwater tank,

There is a main residence located on Lot 1 and situated in the south western section of the property. It is circa 1930's rendered concrete block residence with an iron roof. It is classic farmhouse design with wide verandah's, large hallways, bedrooms with doors opening internally and externally and occupies a semi elevated position with views across the property. The general condition and level of upkeep was quite poor and the property would benefit from renovation in time. It offers a six bedroom, two bathroom accommodation with two main living areas. The kitchen was renovated approximately 30 years ago and was quite basic. The laundry facilities are also basic. The general décor was dated but has high ceilings, some ornate features and would be adequate enough to renovate but at a considerable cost.

#### Ancillary improvements

Solar pump and bore, two rain water tanks coming off the house with pressure pump.

325,000 litre near new galvanised iron header tank connected to the solar bore.

9 x 18m open sided machinery shed with dirt floor circa 25 years of age and in basic to reasonable condition.

Old dilapidated house that was wrecked.

#### Condition of improvements

As a general statement the buildings were in poor condition and have a lack of ongoing maintenance over recent years.

Refer to photographs of property below.



5.2 Photographs



Bush at southern end (previously cleared and shows level of regrowth)



Surface gravel at south end of property



Bush at south end



Bush midway of south section



Decline in bush coming down off scarp section



Gravel/bauxite profile



View from lot 2 cleared scarp looking west



Grazing land on scarp section, not fenced well.



Good arable cropping soil profile



Solar pump and bore



Drive into property off Wells Glover



Central dam could be spring fed but holding water well.



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502



2 rainwater tanks



meals



kitchen



bathroom



Rear of house



Old shed/house, considered a wreck



325,000L header tank



Hay/Machinery shed



Cropping paddocks looking south to scarp



verandah



View down from scarp



View down from scarp



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

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Rocky scarp looking up to ridge line



Gravelly soils with white gums



Cleared section in bush that can be used as future gravel pit and is already cleared



Mobile phone tower



## 6.1 General Comments

The subject property comprises two adjoining lots situated on the south western intersection of Great Northern Highway and Wells Glover Road. The property is effectively in two sections. The northern section is elevated and forms part of Bindoon Hill and comprises steep elevated rocky country. It forms approximately 65 percent of the land area and this section is heavily vegetated with bush. This section of the property was purchased with the intention of extracting bauxite/gravel. It has been extensively drilled and logged with 60 to 70m centres between drill points. It comprises predominantly lateritic gravel soils. The topography on the top section of the hill is predominantly moderately undulating with steeper faces forming a scarp edge on the northern section that falls down to the farmland area.

Natural vegetation in the bush comprises a combination of marri, jarrah, white gum with smaller acacia and parrot bush understorey. There is a reasonably large circa 3-4 hectare cleared section of land which is level and ideally suited to stripping gravel. This is in the bush.

The southern section of the property incorporates the main farm block and this soil and natural vegetation profile changes dramatically to what is encountered at the southern end of the property.

This section predominantly has marri and York gum vegetation and comprises highly fertile Valley red laterite clay loams. The profile is gently undulating. Most of the property is suitable for cropping apart from the steeper sections leading up to the scarp. These areas are suitable for grazing yet fencing is poor in these areas and it would appear they have not been grazed for a number of years. The farming area is divided into six main cropping paddocks with smaller paddocks and perimeter paddocks suitable for grazing. There are four dams plus an established bore at the roadside. In addition there are a further 4 soaks at the northern end of the block. The soil profile throughout the arable section of the property is very strong. In addition it is a very picturesque block with the surrounding Bindoon hill providing a nice backdrop to productive farmland. Fencing is predominantly steel post and ring lock with the single plain wire plus barb at the top. The fencing was considered stock proof in part but still quite basic.

We understand a local farmer has leased the property for a number of years and is keeping the property generally well maintained. There is a small arrangement with a neighbour to agist sheep around a small paddock at the north eastern side of the block in return for keeping the grass down and maintaining fences.

Land Utilisation		
Description	Area (ha)	%
Arable	78.50	31%
Bushland	175.73	69%
<b>Total</b>	<b>254.23</b>	<b>100%</b>

## 6.2 Lease Details

The following income is being achieved as advised by BRL.

House leased at \$400 per week gross (\$20,800pa).

The paddocks are leased by the adjoining owner at \$10,000pa with the tenant responsible for fertiliser application, firebreaks, weed management. It also includes use of the shed.



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

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### 6.3 Market Comment

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Currently rural confidence is improving after an above average 2016 season and a reasonable 2017 season. While grain/hay prices have been steady, Wool and livestock values have risen strongly in the last 2 years. There is a more promising outlook from locals. The driver of higher values in the locality is the city farmer lifestyle market but this continues to be flat but there are some signs of a slight increase in interest but this is not translating into higher prices.

The WA economy still struggles after the commodity price boom and the completion of the construction phase of the mining boom.

Some overseas buying for large holdings has been evident in the past 3 years mainly for farms in reliable grain grown districts. The Bindoon district will have increasing appeal being well regarded as reliable, productive land. Values are likely to rise in the general region as farmers are competing against each other to secure a limited offering of well-maintained farms on the market. There is however a tendency from farmers to acquire large sites and they don't want to pay a lot for excess bush or non-arable land.

The resource potential on the site while difficult to accurately gauge without approvals may add to the appeal of buyers looking to landbank long term.



## 7.1 Valuation Approach

The most appropriate method of valuation is **Direct Comparison**. This involves the comparison of the subject property to comparable sales on the basis of a rate per cleared arable hectare excluding the added value of the building improvements. The analysed cleared arable land value plus the added value of the buildings and non-arable areas are then summated together to form market value. The **Summation approach** is used in conjunction with direct comparison.

By using a “cleared arable hectare excluding buildings” rate this provides a more accurate basis for Direct Comparison between properties reflecting the differences with cleared arable areas, buildings, other improvements and non-arable areas.

The added value attributed to the building improvements is derived from analysis of comparable sales evidence. The value of farm improvements is limited by the degree of economic and functional obsolescence.

### Valuation of the Resource potential.

The subject has the Aurora North bauxite deposit on site. It was drilled in 2011 and shows an indicated and also inferred deposit of 1.3 -6.5 Million Tonnes. This is a small bauxite deposit in the scheme of other areas in WA such as Boddington/Quindanning along the Darling Scarp. We note there is some gravel on the site also and there is a cleared section that would be an ideal area to strip. It does not have any approvals to extract or further clear. We had been initially instructed to provide a value for the bauxite resource. We have been provided with an updated mineral resource estimate prepared by Runge Pincock Minarco. It outlines the grades and drills results of the resource. It is difficult in this market to see any likelihood that a full scale bauxite mine would open up in the short term. We have also been given some estimates of value attributable to the resource in an email from BRL 25/08/2017 referring to carrying Value of the bauxite/gravel at \$562,000. The approach to value was not quantified but we can assume it was based on a royalty to owner of circa 60c/tonne (based on 1.3mT) then discounted back to a NPV over a 4 year period. While this approach is basic it is a common way of looking at resource in the ground especially for basic raw material resource such as sand, gravel, limestone. Royalty at the gate to owner will vary based on ease of access to resource approvals and most importantly feasibility of mining related to proximity of projects. The concern we have in assessing an added value on this basis is that

- No clearing permits or extractive industry approvals are in place.
- Strong opposition from local surrounding owners would delay approvals.
- There has been past public opposition to removing bushland for gravel.
- The bushland on site is now 15-20 years old regrowth and was well established and has environmental value.
- There are limited large projects with demand for gravel in the vicinity other than the roadworks for the Bindoon bypass.
- There are existing gravel suppliers in the immediate vicinity (adjoining the subject to the south).
- The cleared section of bush that could be used to strip gravel still requires access to the main road or possibly an arrangement can be made with adjoining owner to share the haul track (unlikely).
- Rehabilitation costs are high.

Having regard to the above points we feel we cannot provide an allocated value to the resource, however we have adopted a higher rate/ha to the non arable bush section of land on the subject to reflect this longer term potential, but mainly for gravel.

It is common for a farm to have resource components such as sand and gravel but until a viable immediate demand exists the added value is generally reflected in the overall rate/ha rather than a separate assessment.



## 7.2 Sales Evidence

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The following sales provide a sample of the information that has been investigated and analysed for the purpose of this assessment. Whilst I believe the information to be accurate, it was obtained from third party sources and not all details have been formally verified.

Properties that are under offer with an unsettled contract of sale are listed as unsettled. The sale date in these circumstances is the best known date of the contract being signed by both parties. These unsettled transactions are used with caution when making comparisons. Though often the most recent evidence they are not finalised transactions.

I have reviewed all available evidence carefully and have included the most recent and comparable sales in the report to the best of our knowledge.

When undertaking this comparison factors such as, but not limited to, the following are assessed and then related back to the subject property as a whole.

- Location
- Land Area
- Road frontages
- Topography
- Soil types
- Zoning
- General Presentation
- Services and Access
- Farm Improvements
- Water Resources
- Type of Buildings
- Design and Function
- Construction Materials
- Age and Quality
- Degree of Obsolescence



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

	Address	Sale Date	Sale Price	Analysis																																																																			
				Land Area	OHXB																																																																		
<b>1.</b>	<i>3349 Bindoon-Dewars Pool Road, Bindoon</i>	<i>30/03/2016</i>	<i>\$980,000</i>	<i>175.4ha</i>	<i>\$4,447</i>																																																																		
<b>Comments:</b>	The site area is 175.4ha and the block has frontage to Great Northern Highway and Bindoon-Dewars Pool Road It has a single level residential house with brick veneer walls and a corrugated galvanised iron roof that was built circa 1985. It is of fair condition/presentation and has four bedrooms, two bathrooms and a single garage. The house has ducted air conditioning. Site improvements include: 25 x 10m shed, workshop and 14 x 7m brick/iron studio. Access to the property is easy and direct. Landscaping is of a basic standard. It has approximately 35% of the land area as arable and in some parts of this could be cropped. Soil profile is generally strong. A large dam provides water for stock.																																																																						
<b>Analysis:</b>	<table> <tr> <td>Area (Ha)</td> <td>175.4</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Arable (Ha)</td> <td>61.4</td> <td>35%</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Non-Arable (Ha)</td> <td>114.0</td> <td>65%</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Sale Price</td> <td></td> <td></td> <td>\$980,000</td> <td></td> <td></td> </tr> <tr> <td>Buildings</td> <td></td> <td>\$200,000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Non-Arable Land Value</td> <td></td> <td><u>\$342,000</u></td> <td></td> <td>\$3,000 /Ha</td> <td>\$1,214 /ac</td> </tr> <tr> <td>Total</td> <td></td> <td><u>\$542,000</u></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Value Excluding Buildings and Non-Arable Land Value</td> <td></td> <td>(XB)</td> <td>\$438,000</td> <td></td> <td></td> </tr> <tr> <td>Land Value</td> <td>Arable (Cleared Hectare)</td> <td>(CHXB)</td> <td></td> <td>\$7,135 /Ha</td> <td>\$2,887 /ac</td> </tr> <tr> <td>Land Value</td> <td>Overall Land Value Excl. Buildings</td> <td>(OHXB)</td> <td></td> <td>\$4,447 /Ha</td> <td>\$1,800 /ac</td> </tr> <tr> <td>Land Value All In</td> <td>Overall Farm Value/Ha</td> <td>(OHIB)</td> <td></td> <td>\$5,587 /Ha</td> <td>\$2,261 /ac</td> </tr> </table>					Area (Ha)	175.4					Arable (Ha)	61.4	35%				Non-Arable (Ha)	114.0	65%				Sale Price			\$980,000			Buildings		\$200,000				Non-Arable Land Value		<u>\$342,000</u>		\$3,000 /Ha	\$1,214 /ac	Total		<u>\$542,000</u>				Value Excluding Buildings and Non-Arable Land Value		(XB)	\$438,000			Land Value	Arable (Cleared Hectare)	(CHXB)		\$7,135 /Ha	\$2,887 /ac	Land Value	Overall Land Value Excl. Buildings	(OHXB)		\$4,447 /Ha	\$1,800 /ac	Land Value All In	Overall Farm Value/Ha	(OHIB)		\$5,587 /Ha	\$2,261 /ac
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<b>Comparison:</b>	This smaller property is situated approximately 2km South-East from the subject which is considered to be a similar location. This property has slightly inferior quality soils and has slightly inferior land development. Farm improvements are considered to be similar. Overall a higher OHXB rate is considered to apply to the subject. Overall inferior.																																																																						
<b>2.</b>	<i>Various Lots, Mooliabeenee Road, Gingin</i>	<i>26/05/2016</i>	<i>\$2,025,000</i>	<i>307.4ha</i>	<i>\$6,555</i>																																																																		
<b>Comments:</b>	An attractive undulating mostly cleared and pastured holding with main road frontage adjoining the Gingin townsite and comprising 4 lots with one lot having a long frontage to the permanent free flowing Gingin Brook. Three lots have relatively high land with good views. One lot is cut into two sections by the Midland Railway Line which is a hindrance to management however access to the excised northern section is available via an adjoining Lot which had been farmed in conjunction. The farm was vacant and was somewhat run down and in need of significant maintenance. The holding needed significant capital to improve the pastures, waters and fencing. The smaller lots varying from 40 ha to 59 ha have reasonably good appeal to lifestyle purchasers however the larger lot (153ha) is less attractive because of size. The property was sold under Mortgagee In Possession terms and considered a slightly low sale because of presentation. The portion of the farm with buildings was sold at the same time.																																																																						
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<b>Comparison:</b>	This much larger property is situated approximately 16km South-West from the subject which is considered to be a better location. This property has better quality soils and has superior land development. Farm improvements are considered to be inferior. Overall a lower OHXB rate is considered to apply to the subject.																																																																						



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

	Address	Sale Date	Sale Price	Analysis	
				Land Area	OHXB
<b>3.</b>	<i>52 Calingiri Road, Wannamal</i>	<i>23/10/2016</i>	<i>\$1,200,000</i>	<i>193.4ha</i>	<i>\$5,170</i>
<b>Comments:</b>	This holding comprises 193.43ha of predominantly medium gravelly sandy loam country located on the corner of great Northern Highway. Property is mostly park cleared and pastured with some uncleared ironstone rocky hillocks. Buildings include an older style 3 bedroom 1 bathroom cottage and some old sheds. Water supply is a feature with several spring fed dams. The farm is well presented and has a fair and average level of improvements.				
<b>Analysis:</b>	Area (Ha)	193.4			
	Arable (Ha)	164.4	85%		
	Non-Arable (Ha)	29.0	15%		
	Sale Price		\$1,200,000		
	Buildings		\$200,000		
	Non-Arable Land Value		<u>\$81,000</u>	\$2,800 /Ha	\$1,133 /ac
	Total		\$281,000		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$919,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$5,589 /Ha	\$2,262 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$5,170 /Ha	\$2,092 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$6,204 /Ha	\$2,511 /ac
<b>Comparison:</b>	This property is situated approximately 10km North-East from the subject which is considered to be a slightly better location. This property has better quality soils and has superior land development. Farm improvements are considered to be inferior. Overall a slightly lower OHXB rate is considered to apply to the subject. Overall inferior.				
<b>4.</b>	<i>136 Valley View Drive, Chittering</i>	<i>15/06/2016</i>	<i>\$835,000</i>	<i>82.2ha</i>	<i>\$10,158</i>
<b>Comments:</b>	This lifestyle property is located on a hill and is of irregular shape comprising mostly gravelly sandy loam soils with some clay loams soils broken by granite outcrops. The property has no buildings. There are good valley views and the holding has views to the Chittering Lakes to the north. Access is slightly below average at the end of a cul de sac. Farm improvements are fair and average.				
<b>Analysis:</b>	Area (Ha)	82.2			
	Arable (Ha)	69.9	85%		
	Non-Arable (Ha)	12.3	15%		
	Sale Price		\$835,000		
	Buildings		\$0		
	Non-Arable Land Value		<u>\$49,000</u>	\$4,000 /Ha	\$1,619 /ac
	Total		\$49,000		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$786,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$11,249 /Ha	\$4,552 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$10,158 /Ha	\$4,111 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$10,158 /Ha	\$4,111 /ac
<b>Comparison:</b>	This smaller property is situated approximately 29km South from the subject which is considered to be a better location. This property has better quality soils and has superior land development yet very difficult to crop due to steepo terrain. Farm improvements are considered to be inferior. Overall a lower OHXB rate is considered to apply to the subject. Overall inferior.				



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

	Address	Sale Date	Sale Price	Analysis																																																																			
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5.	1527 Mooliabeenie Road, Gingin	26/05/2016	\$850,000	122.9ha	\$5,940																																																																		
Comments:	<p>An attractive undulating mostly cleared and pastured holding with main road frontage and overlooking the Gingin townsite. The relatively high land has good views and buildings included 1970's large brick/tile house with two adjoining large sheds. The house was run down and needed significant upgrading although liveable. The farm was vacant and the property was somewhat run down and in need of significant maintenance. There was no water connected at the buildings because the main water source on the southern end of the farm (Lot 5) had the pump removed or stolen. The overall farm was not well presented because the farm improvements had been neglected for some years and declared weeds had proliferated and needed control. The holding needed significant capital to improve the pastures, waters and fencing. The property was sold under Mortgagee In Possession terms and considered a slightly low sale because of presentation.</p>																																																																						
Analysis:	<table> <tr> <td>Area (Ha)</td> <td>122.9</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Arable (Ha)</td> <td>67.6</td> <td>55%</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Non-Arable (Ha)</td> <td>55.3</td> <td>45%</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Sale Price</td> <td></td> <td></td> <td>\$850,000</td> <td></td> <td></td> </tr> <tr> <td>Buildings</td> <td></td> <td>\$120,000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Non-Arable Land Value</td> <td></td> <td><u>\$194,000</u></td> <td></td> <td>\$3,500 /Ha</td> <td>\$1,416 /ac</td> </tr> <tr> <td>Total</td> <td></td> <td>\$314,000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Value Excluding Buildings and Non-Arable Land Value</td> <td></td> <td>(XB)</td> <td>\$536,000</td> <td></td> <td></td> </tr> <tr> <td>Land Value</td> <td>Arable (Cleared Hectare)</td> <td>(CHXB)</td> <td></td> <td>\$7,930 /Ha</td> <td>\$3,209 /ac</td> </tr> <tr> <td>Land Value</td> <td>Overall Land Value Excl. Buildings</td> <td>(OHXB)</td> <td></td> <td>\$5,940 /Ha</td> <td>\$2,404 /ac</td> </tr> <tr> <td>Land Value All In</td> <td>Overall Farm Value/Ha</td> <td>(OHIB)</td> <td></td> <td>\$6,916 /Ha</td> <td>\$2,799 /ac</td> </tr> </table>					Area (Ha)	122.9					Arable (Ha)	67.6	55%				Non-Arable (Ha)	55.3	45%				Sale Price			\$850,000			Buildings		\$120,000				Non-Arable Land Value		<u>\$194,000</u>		\$3,500 /Ha	\$1,416 /ac	Total		\$314,000				Value Excluding Buildings and Non-Arable Land Value		(XB)	\$536,000			Land Value	Arable (Cleared Hectare)	(CHXB)		\$7,930 /Ha	\$3,209 /ac	Land Value	Overall Land Value Excl. Buildings	(OHXB)		\$5,940 /Ha	\$2,404 /ac	Land Value All In	Overall Farm Value/Ha	(OHIB)		\$6,916 /Ha	\$2,799 /ac
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Comparison:	<p>This smaller property is situated approximately 27km West from the subject which is considered to be a slightly better location. This property has better quality soils in part but other lighter country is inferior. It has similar land development. Farm improvements are considered to be inferior. Overall a lower OHXB rate is considered to apply to the subject.</p>																																																																						
6.	682 Bindoon-Moora Road, Mooliabeenee	15/05/2017	\$495,000	20.7ha	\$11,836																																																																		
Comments:	<p>This lifestyle property with a long main road frontage and is of irregular shape comprising mostly clay loams soils and some alluvial soils adjoining the Brockman River in the north east corner. The property has a renovated 1980 3 bedroom 1 bathroom brick/tile house with a study having ducted air conditioning, a below ground pool and extensive timber decking. There is a large shed, shearing shed, 3 water tanks, horse arena and round yard. A bore provides a good supply and there is a dam. A small vineyard and orchard provide some potential income. There are good valley views. Farm improvements are fair and average.</p>																																																																						
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Comparison:	<p>This smaller property is situated approximately 10km West from the subject which is considered to be a similar location. This property has similar quality soils and has similar land development. Farm improvements are considered to be inferior. Overall a lower OHXB rate is considered to apply to the subject. This sale reflects a high rate due to smaller land area. Overall inferior</p>																																																																						



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

	Address	Sale Date	Sale Price	Analysis	
				Land Area	OHXB
<b>7.</b>	<i>Lot 27 Cook Road, Mooliabeenee</i>	<i>22/06/2017</i>	<i>\$210,000</i>	<i>40.9Ha</i>	<i>\$4,890</i>
<b>Comments:</b>	A gently undulating, attractive mostly park land cleared and pastured L-shaped block with a main frontage to Cook Road and another small frontage to the same road further west. Soils vary from medium heavy loams north of a creek line to sandy soils south of the creek and adjoining the road. The relatively high land has a good valley outlook and buildings included 1970's old shed and a small accommodation hut. Water is from the creek and bores. The overall property is reasonably well presented and has some mature pine trees. The holding adjoins a private sport car club and rock music venue with established facilities on 2 boundaries and there would be noise and dust from time to time when operating on weekends.				
<b>Analysis:</b>	Area (Ha)	40.9			
	Arable (Ha)	28.6	70%		
	Non-Arable (Ha)	12.3	30%		
	Sale Price		\$210,000		
	Buildings		\$10,000		
	Non-Arable Land Value		<u>\$31,000</u>	\$2,500 /Ha	\$1,012 /ac
	Total		\$41,000		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$169,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$5,903 /Ha	\$2,389 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$4,890 /Ha	\$1,979 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$5,134 /Ha	\$2,078 /ac
<b>Comparison:</b>	This smaller size property is situated approximately 21km North-West from the subject which is considered to be an inferior location. This property has inferior quality soils and has inferior land development. Farm improvements are considered to be inferior. Overall a similar OHXB rate is considered to apply to the subject.				
<b>8.</b>	<i>161 Cook Road, Mooliabeenee</i>	<i>03/08/2015</i>	<i>\$800,000</i>	<i>161.4Ha</i>	<i>\$4,647</i>
<b>Comments:</b>	Comprises a large 161ha lot featuring sandy loam soils with good natural water supplies with a central creek line and dam. Some sections of soil are very light. It has approval for a 500 head cattle lot feed, which was not operational but has steel fencing in place. It has good cattle yards. There is a 2 bed weekender plus basic sheds. Overall run down				
<b>Analysis:</b>	Area (Ha)	161.4			
	Arable (Ha)	113.0	70%		
	Non-Arable (Ha)	48.4	30%		
	Sale Price		\$800,000		
	Buildings		\$50,000		
	Non-Arable Land Value		<u>\$126,000</u>	\$2,600 /Ha	\$1,052 /ac
	Total		\$176,000		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$624,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$5,523 /Ha	\$2,235 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$4,647 /Ha	\$1,880 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$4,957 /Ha	\$2,006 /ac
<b>Comparison:</b>	This smaller size property is situated approximately 21km North-West from the subject which is considered to be an inferior location. This property has inferior quality soils and has inferior land development. Farm improvements are considered to be inferior. Overall a similar OHXB rate is considered to apply to the subject.				



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

	Address	Sale Date	Sale Price	Analysis	
				Land Area	OHXB
9.	258 Gallahawk Road, Bindoon	22/03/2017	\$1,235,000	509.5Ha	\$2130
<b>Comments:</b>	Comprises a large 509ha lot that features mostly bush and scrub and is difficult to farm. It has some paddocks running down the middle of the property in sections that don't have bush or steep undulations. Soil profile in arable sections was good with red sandy loams. It has 2 old sheds plus 3 bed fibro cottage. It has 3 soaks, 4 dams. This is a picturesque site but difficult property to farm with small long undulating paddocks.				
<b>Analysis:</b>	Area (Ha)	509.5			
	Arable (Ha)	101.9	20%		
	Non-Arable (Ha)	407.6	80%		
	Sale Price		\$1,235,000		
	Buildings	\$150,000			
	Non-Arable Land Value	\$734,000		\$1,800 /Ha	\$728 /ac
	Total	\$884,000			
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$351,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$3,445 /Ha	\$1,394 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$2,130 /Ha	\$862 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$2,424 /Ha	\$981 /ac
<b>Comparison:</b>	This larger size property is situated approximately 19km North from the subject which is considered to be an inferior location. This property has inferior quality soils and has inferior land development. Farm improvements are considered to be inferior. Overall a higher OHXB rate is considered to apply to the subject.				

### 7.3 Analysis of Sales Evidence

The sales analysed show a broad range of values which is common in areas such as Bindoon with wide variation in size and soil profile. As outlined previously we have not applied an added value for the bauxite but have allowed in the rate/ha for future potential for gravel extraction. We have been reluctant to add any value for the gravel that is outside the cleared section, given difficulty in clearing the bush section.

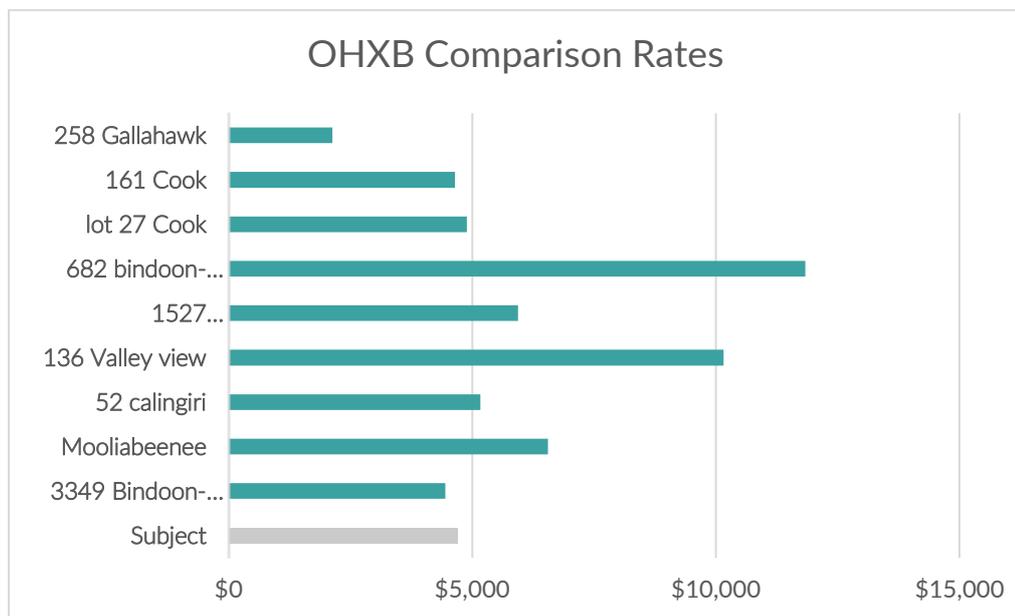
We also note the subject is over two titles and though we have valued on an in one line basis the two sections could be sold off separately.

Sales Summary						
No.	Address	Date of Sale	Area (ha)	Cleared Arable (ha)	CHXB	Comparison
	<b>Subject</b>	<b>excel</b>	<b>254.2</b>	<b>78.5</b>	<b>\$9,200</b>	
1	3349 Bindoon-Dewars	Mar 2016	175.4	61.4	\$7,135	Inferior
2	Mooliabeenee	Aug 2016	307	276.7	\$6,893	Inferior
3	52 Calingiri	Sep 2016	193.4	164.4	\$5,589	Inferior
4	136 Valley View	Oct 2016	82.2	69.9	\$11,249	Superior
5	1527 Mooliabeenee	Nov 2016	122.9	67.6	\$7,930	Inferior
6	682 Bindoon-Moora	Dec 2016	20.7	18.6	\$12,614	Superior
7	lot 27 Cook	Jan 2017	40.9	28.6	\$5,903	Inferior
8	161 Cook	Feb 2017	161.4	113	\$5,523	Inferior
9	258 Gallahawk	Mar 2017	509	101.9	\$3,445	Inferior



Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

Sales Summary					
No.	Address	Date of Sale	Area (ha)	OHXB	Comparison
	<b>Subject</b>	<b>excel</b>	<b>254.2</b>	<b>\$4,700</b>	
1	3349 Bindoon-Dewars	Mar 2016	175.4	\$4,447	Inferior
2	Mooliabeenee	Aug 2016	307	\$6,555	Superior
3	52 calingiri	Sep 2016	193.4	\$5,170	Broadly Comparable
4	136 Valley view	Oct 2016	82.2	\$10,158	Superior
5	1527 Mooliabeenee	Nov 2016	122.9	\$5,940	Slightly Superior
6	682 bindoon-Moora	Dec 2016	20.7	\$11,836	Superior
7	lot 27 Cook	Jan 2017	40.9	\$4,890	Slightly Inferior
8	161 Cook	Feb 2017	161.4	\$4,647	Inferior
9	258 Gallahawk	Mar 2017	509	\$2,130	Inferior





Lots 1 and 2 Wells Glover Road, Bindoon WA 6502

#### 7.4 Valuation Calculation

Based on analysis of comparable sales in the locality I have established an underlying land value. To this I have added the depreciated value of the building improvements and other value components. The value attributed to the building improvements is reflective of the added value of these improvements after allowance for physical and functional depreciation. The land value and applied depreciation rate are assessed by comparison to the available sales evidence.

The calculation in respect to the land value plus the added value of the building improvements and other value components is as follows:

Calculations						
<b>Land Value</b>						
<b>Description</b>	<b>Area (ha)</b>	<b>\$/ha</b>	<b>\$/acre</b>	<b>Coverage</b>	<b>Value</b>	
Arable	78.5	\$9,200	\$3,723	31%	\$722,200	
Bushland	175.73	\$2,700	\$1,093	69%	\$474,471	
<b>Overall Land Value</b>	<b>254.23</b>	<b>\$4,700</b>	<b>\$1,902</b>	<b>100%</b>	<b>\$1,196,671</b>	
					<b>\$1,195,000</b>	
<b>Improvements Added Value</b>						
<b>Description</b>	<b>Area m<sup>2</sup></b>	<b>\$/m<sup>2</sup></b>	<b>Replacement Cost</b>	<b>Added Value (Rounded)</b>		
<b>Integral Buildings</b>						
House	344	\$2,300	\$791,200	\$158,000		
Machinery Shed	162	\$350	\$56,700	\$17,000		
<b>TOTAL</b>			<b>\$847,900</b>	<b>\$175,000</b>		
<b>Non-Integral Buildings</b>						
0	0	0	0	0		
<b>TOTAL</b>				<b>nil</b>		
<b>Other Farm Improvements</b>						
	<b>Unit</b>	<b>\$/Unit</b>	<b>Replacement Cost</b>	<b>Added Value (Rounded)</b>		
Water Tanks	1	\$35,000	\$35,000	\$30,000		
water Tanks old	2	\$3,000	\$6,000	\$2,000		
solar pump/bore	1	\$15,000	\$15,000	\$11,000		
<b>TOTAL</b>			<b>\$56,000</b>	<b>\$43,000</b>		
<b>Other</b>						
	<b>Unit</b>	<b>\$/Unit</b>		<b>Added Value</b>		
0	0	0		0		
<b>TOTAL</b>				<b>nil</b>		
<b>Total Value of Buildings &amp; Improvements</b>				\$218,000	say	\$220,000
<b>Value of Other</b>					say	nil
<b>Overall Value</b>						<b>\$1,415,000</b>
<b>Cleared Arable Hectare Excluding Buildings (CHXB)</b>						<b>\$9,200</b>
<b>Overall Hectare Excluding Buildings (OHXB)</b>						<b>\$4,700</b>
<b>Overall Hectare Including Buildings (OHIB)</b>						<b>\$5,566</b>
<b>Insurance Value Calculations</b>						
Replacement Value (Integral, Non-Integral & Other Farm Improvements)				\$903,900		
Replacement Value of Integral Improvements				\$847,900		
Allowance for Professional Fees, Removal Costs & Contingency				15%		
<b>Adopted Total Replacement Value</b>				\$1,039,485	say	<b>\$1,040,000</b>
<b>Adopted Replacement Value of Integral Improvements</b>				\$975,085	say	<b>\$975,000</b>



## 8.1 Adopted Value

Apportionment of adopted value	
Land	\$1,195,000
Buildings & Improvements	\$220,000
Other	nil
<b>Total</b>	<b>\$1,415,000</b>

Market Value Range adopted, \$1,345,000 to \$1,485,000

Analysis of adopted value	
Rate per cleared arable hectare excluding buildings (CHXB)	\$9,200
Overall rate per hectare excluding buildings (OHXB)	\$4,700
Overall rate per hectare including buildings (OHIB)	\$5,566

## 8.2 Rental Value

The most probable rental value of the subject property is considered to be approximately \$30,800 per annum.

## 8.3 GST Implications

- Unless otherwise stated all valuation figures and calculations within this report are exclusive of GST.
- Section 38-480 of A New Tax System (Goods and Services Tax) Act 1999 (GST Act) provides exemption for the supply of a freehold interest in land based on the use of that land.
- Generally, a freehold interest in land includes the land as described on the title deed, as well as buildings, trees, crops and minerals attached to the land. Section 38-480 of the GST Act also applies to leases by an Australian government agency and long term leases.
- Supplies of farmland will be GST free under Section 38-480 of the GST Act if two requirements are met. The requirements are:
  - the land is land on which a farming business has been carried on for at least five (5) years preceding the supply; and
  - the recipient of the supply intends that, that a farming business be carried on, on the land.

## 8.4 Replacement value for insurance purposes

*An assessment of the replacement value of improvements is provided as indicative advice only and should an accurate assessment be required the services of a qualified Architect and / or Quantity Surveyor should be engaged.*

The replacement value of the building improvements for insurance purposes including removal of debris, council and professional fees and likely escalation in building costs during the redevelopment period and period of indemnity, is considered to be \$1,040,000 excluding GST.



9.1 Adopted Value

Subject to the qualifications and assumptions contained within the body of this report, I assess the Market Value exclusive of GST, as at 30 November 2017, to be:

MARKET VALUE  
\$1,415,000  
(ONE MILLION FOUR HUNDRED AND FIFTEEN THOUSAND DOLLARS)

This valuation is for the private and confidential use only of BDO and to be used for prospectus use for an intending buyer and for the specific purpose for which it has been requested. No third party is entitled to use or rely upon this report in any way and neither the valuer nor LMW shall have any liability to any third party who does not have authority to rely on the document.

Only an electronically signed valuation submitted through a digital valuation instruction broker system, a signed hardcopy original of this valuation, a scanned version of a signed hardcopy original of this valuation or an electronic version of this valuation signed with an electronic signature should be relied upon and no responsibility or liability will be accepted for unauthorised copies of the valuation.

No part of this valuation or any reference to it may be included in any other document or reproduced or published in any way without written approval of the form and context in which it is to appear.

Neither the valuer nor LMW has any pecuniary interest giving rise to a conflict of interest in valuing the property.

This valuation is current at the date of valuation only. It is subject to no significant event occurring between the date of inspection and the date of valuation that would impact upon the value of the subject property. The value assessed herein may change significantly and unexpectedly over a relatively short period including as a result of general market movements or factors specific to the particular property. I do not accept liability for losses or damage arising from such subsequent changes in value including consequential or economic loss. Without limiting the generality of the above comment, I do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of three months from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.

The opinion of value expressed in this report is that of the valuer who is the prime signatory to the report. I the counter signatory, whilst not having inspected the property, have reviewed the valuation and based on that review, I have obtained reasonable satisfaction that the value opinion obtained in the valuation has been reached based on reasonable grounds.

**Valuer**  
Ross Sharp  
AAPI CPV 64955  
WA Licence No. 655

**Entity Office**  
Latrobe Holdings Pty Ltd trading as LMW Perth  
Subiaco

**Reviewing party**  
Will Gamlin  
AAPI CPV 65316  
WA Licence No. 44338  
**Position**  
Director

Liability limited by a scheme approved under Professional Standards Legislation.

# Rural Valuation Report

Property	6 Cullalla Road, Mooliabeenee WA 6504
Prepared for	BDO Corporate Finance (WA) Pty Ltd
Instructed by	Sherif Andrawes
Purpose	To establish Current Market Value for Acquisition purposes
Registered Proprietor	BRL Landholdings Pty Ltd
Valuation date	30 November 2017
LMW ref	3161929



National Property Valuers and Consultants

LMW trading as Latrobe Holdings Pty Ltd trading as LMW Perth ABN 85 009 324 403 ACN 009 324 403  
Level 2, 420 Bagot Road, Subiaco WA 6008  
PO Box 124, Subiaco WA 6904 Australia Subiaco  
T: (08) 9489-9489 F: (08) 9388-2701 [www.lmw.com.au](http://www.lmw.com.au)  
National Offices: NSW VIC QLD WA & SA



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*IMPORTANT: All data provided in this summary is wholly reliant on and must be read in conjunction with the information provided in the attached report. It is a synopsis only designed to provide a brief overview and must not be acted on in isolation.*

For the purpose of this report "LMW" means the company identified on the front of this report.

## 1.1 Property being valued

<b>Address</b>	6 Cullalla Road, Mooliabeenee WA 6504					
<b>Title Details</b>						
<b>Registered Proprietor(s)</b>	<b>Lot</b>	<b>Plan/Diagram</b>	<b>Number</b>	<b>Vol</b>	<b>Fol</b>	<b>Area (Ha)</b>
BRL Landholdings Pty Ltd	101	Deposited Plan	60629	1591	940	41.3
<b>Total Land Area</b>						<b>41.3</b>
<b>Encumbrances</b>	Encumbrances are noted under Section 4 of the report					
<b>Title Search Date</b>	20 November 2017					

## 1.2 Instructions and property details

<b>Interest Being Valued</b>	Fee Simple in Possession.					
<b>Basis for assessment</b>	Market Value					
<b>Relevant dates</b>	<b>Valuation Date:</b>	30 November 2017	<b>Inspection Date:</b>	30 November 2017		
	<b>Date of Report Issue</b>	7 December 2017				
<b>Special Instructions</b>	Instructions were provided and are referenced under Heading 3.1 Instructions.					
<b>Site Identified By</b>	The property has been satisfactorily identified by visual inspection and reference to the cadastral map.					
<b>Local Authority/Zoning</b>	Shire of Chittering			Agricultural Resource		
<b>Town Planning Scheme</b>	The current Town Planning Scheme is Local Planning Scheme No. 6					
<b>Highest and Best Use</b>	The highest and best use is considered to be as rural lifestyle. Not viable as standalone for agriculture.					
<b>Brief Description</b>	Comprises a 41.3 ha rural lifestyle lot situated between Bindoon and Gingin. The site has an existing basic residence plus two sheds. It is mostly cleared and divided into a number of smaller paddocks. Soils are lighter sands. The site adjoins the railway line and is close to the proposed Bindoon bypass route 800m to the east. It has a small water license.					

## 1.3 Recent Sale History

<b>Sale Date/Price</b>	18 December 2009	\$1,000,000
<b>Comment</b>	Considered that a premium was paid to acquire the site to facilitate a trial run of Bauxite from the close by railway line. Market values have softened since this date in conjunction with a premium being paid.	

## 1.4 Analysed results

	Area ha
Arable Area	41.3
Total Area	41.3



6 Cullalla Road, Mooliabeenee WA 6504

Apportionment of adopted value	
Land	\$310,000
Buildings & Improvements	\$165,000
Water license	\$5,000
<b>Total</b>	<b>\$480,000</b>

Analysis of adopted value	
Rate per cleared arable hectare excluding buildings (CHXB)	\$7,500
Overall rate per hectare excluding buildings (OHXB)	\$7,506
Overall rate per hectare including buildings (OHIB)	\$11,622

1.5 Valuation (exclusive of GST)

**Market Value** **\$480,000**

Valuer

Ross Sharp  
AAPI CPV 64955  
WA Licence No. 655

Entity  
Office

Latrobe Holdings Pty Ltd trading as LMW Perth  
Subiaco



## 2.1 Risk Profile

*The purpose of risk ratings is to alert the reader to anything that is readily apparent and known to the Valuer at the date of valuation and that may impact on the current market value or marketability of the subject property, limited to the Valuers area of professional expertise.*

*The indicators in this risk summary are drawn from opinions of the Valuer and are expressed as opinion not fact.*

## 2.2 Asset Profile

Asset Risk	Low	Low/Medium	Medium	Medium/High	High
Location					
Tenure/Planning/Licences					
Environmental Issues					
Buildings/Improvements					
Insurance					
Soil types					
Biological Assets					

<b>Location</b>	This property is reasonably well located within close proximity to relevant services and amenities at Bindoon and Gingin.
<b>Tenure/Planning/Licences</b>	The land is freehold and there is no further potential for subdivision.
<b>Environmental Issues</b>	The farm adjoins bushland and there would be an elevated fire risk in this locality.
<b>Buildings/Improvements</b>	The homestead and sheds are older style and are of modest added value.
<b>Insurance</b>	Adequate farm insurance should be maintained on the buildings.
<b>Soil types</b>	The soils are mostly mixed sand plain and there are some deeper sandy patches.
<b>Biological Assets</b>	The property has no biological assets applicable to the valuation.

## 2.3 Market Segment

Market risk	Low	Low/Medium	Medium	Medium/High	High
Management/Production					
Marketability					
Market activity					
Market volatility					

<b>Management/Production</b>	The property appears to be neglected and needs considerable building up to achieve reasonable productivity.
<b>Marketability</b>	The property is slightly run down and not well presented and marketing is more difficult on the present market.
<b>Market activity</b>	The market has eased down in recent years after several difficult farming seasons and lack of lifestyle buyer interest it is likely that the market may stabilise in the short term as demand in the market generally improves.
<b>Market volatility</b>	Market volatility would be best described as steady after an easing in values. The locality is recognised as reliable with generally steady interest from lifestyle buyers.



## 3.1 Instructions

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Following instructions received from Sherif Andrawes of BDO Corporate Finance (WA) Pty Ltd, I have prepared a valuation report with a valuation date of 30 November 2017 of the property known as 6 Cullalla Road, Mooliabeenee WA 6504 which is to be used to establish Current Market Value for acquisition purposes.

## 3.2 Assumptions, Conditions and Limitations

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- The valuation is subject to an unencumbered fee simple Certificate of Title.
- The valuation has been conducted on an “existing use” basis. This is inclusive of all integral plant and equipment which is required for the normal operation of this property for this purpose. Where this value includes integral plant and equipment, water licences/entitlements/royalties/goodwill etc, the value of these items are separately identified. The valuation excludes **non** integral plant and equipment such as tractors/silos/produce sorting machines etc unless included in the report value and separately identified. The value has been assessed on a vacant possession basis. It excludes all biological assets such as crops/stock etc.
- The added value of the water licence is attributable to the licensee (registered owner of the licence) and is not attached to the land title. I have included a value for the water licence in the adopted market value. Our valuation assumes the water licence would transfer to the registered proprietor upon sale of the property subject to the same conditions.  
  
I recommend a reliant party register a charge over the licence to protect their interest as the water allocation is integral to the value of the property.  
  
The valuation assumes the details pertaining to the water licence as provided are accurate and there are no outstanding unrectified breaches of trigger levels or allocations.
- The improvements comply with the approvals, conditions and requirements of all appropriate authorities.
- Any additions and/or renovations to the property have been granted the necessary approvals from the relevant authorities.
- All the information supplied/sourced, including tenancy information, in conducting this valuation consists of a full and accurate disclosure of all information that is relevant.
- Unless otherwise stated in the report, the valuation assumes that the site is not affected by environmental contamination.
- Unless otherwise outlined in the instruction and detailed in the report. I have specifically valued the property excluding the added value of Biological Assets.
- The valuation assumes there is no asbestos related health risk with any building construction materials on site.
- No encroachment of the building over the lot boundaries, nor any encroachment of adjoining buildings onto the subject land.
- The property is not affected by historical or anthropological matters.
- Any objective information, data or calculations set out in the valuation will be accurate so far as is reasonably expected from a qualified and experienced Valuer, reflecting due skill, care and diligence (except where the information, data or calculation originates from a third party source).



6 Cullalla Road, Mooliabeenee WA 6504

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- It should be noted that this valuation does not purport to be a structural survey of the improvements nor was any such survey sighted or undertaken. This valuation is conditional upon detailed reports in respect of the structure and serviced installations of the property not revealing any defects requiring significant expenditure. Additionally, in the absence of a Building Certificate issued by Council or other approved certifier, this valuation is conditional upon the property complying with all relevant statutory requirements in respect of such matters as health, building and fire safety regulations.
- Verifiable assumptions relate to environmental issues, structural integrity of the improvements, compliance with applicable building regulations, condition of building services, zoning and encroachments, and can be confirmed by obtaining appropriate documentation relating to each.
- Should any of the assumptions upon which our valuation assessment is made prove to be incorrect or inaccurate, this report should be referred to LMW for reassessment.
- The valuation is valid for 90 days from the date of valuation, or such earlier date if you become aware of factors that have any effect on the valuation.

### 3.3 Definitions

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***Market Value** is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*

***Highest and Best Use** is the use of an asset that maximises its potential and that is physically possible, legally permissible and financially feasible.*

***Biological Assets** are defined as, crops (current produce), plantations, livestock, biological certifications.*

***Overall \$/hectare including buildings (OHIB)** is the sale price or adopted value divided by the overall land area inclusive buildings and all other integral value components.*

***Overall \$ / hectare excluding buildings (OHXB)** is the sale price or adopted value divided by the overall land area after an allowance for the added value of the building improvements and other integral value components (i.e. water licences and royalties) has been deducted from the sale price or adopted value.*

***\$/cleared arable hectare excluding buildings (CHXB)** is the sale price or adopted value divided by the cleared arable land area. The cleared arable land area is land that has been cleared of native vegetation and developed as farmland which is capable of being utilised for cropping or grazing activity but could also be utilised for laneways or building and water supply envelopes. The rate per hectare is arrived at after added value of building improvements, non-arable land value and other integral value components (i.e. water licences and royalties) have been deducted from the overall sale price or adopted value.*



## 4.1 Title details

**Address** | 6 Cullalla Road, Mooliabeenee WA 6504

### Title Details

Registered Proprietor(s)	Lot	Plan/Diagram	Number	Vol	Fol	Area (Ha)
BRL Landholdings Pty Ltd. Registered 8 January 2010	101	Deposited Plan	60629	1591	940	41.3
<b>Total Land Area</b>						<b>41.3</b>

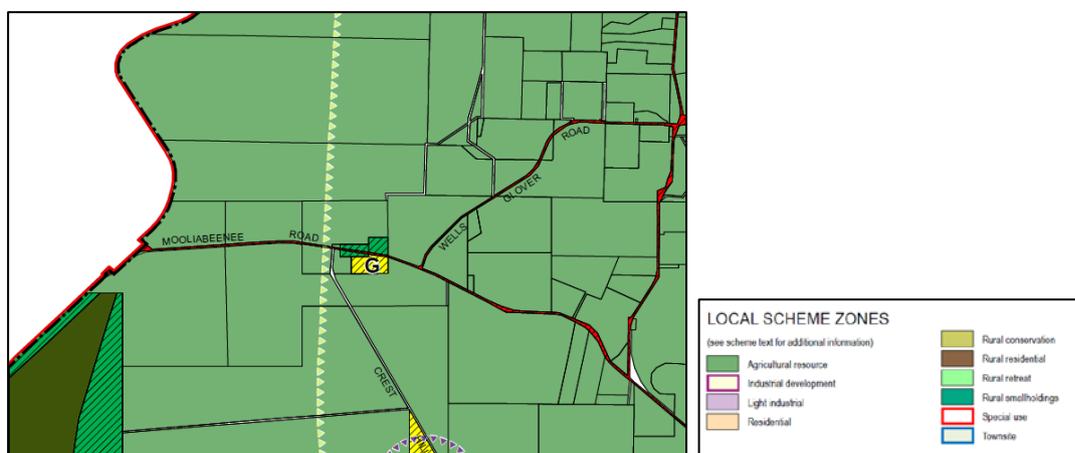
### Encumbrances and Interests

Lot Number	Encumbrances and Interests
	Nil listed on the Title

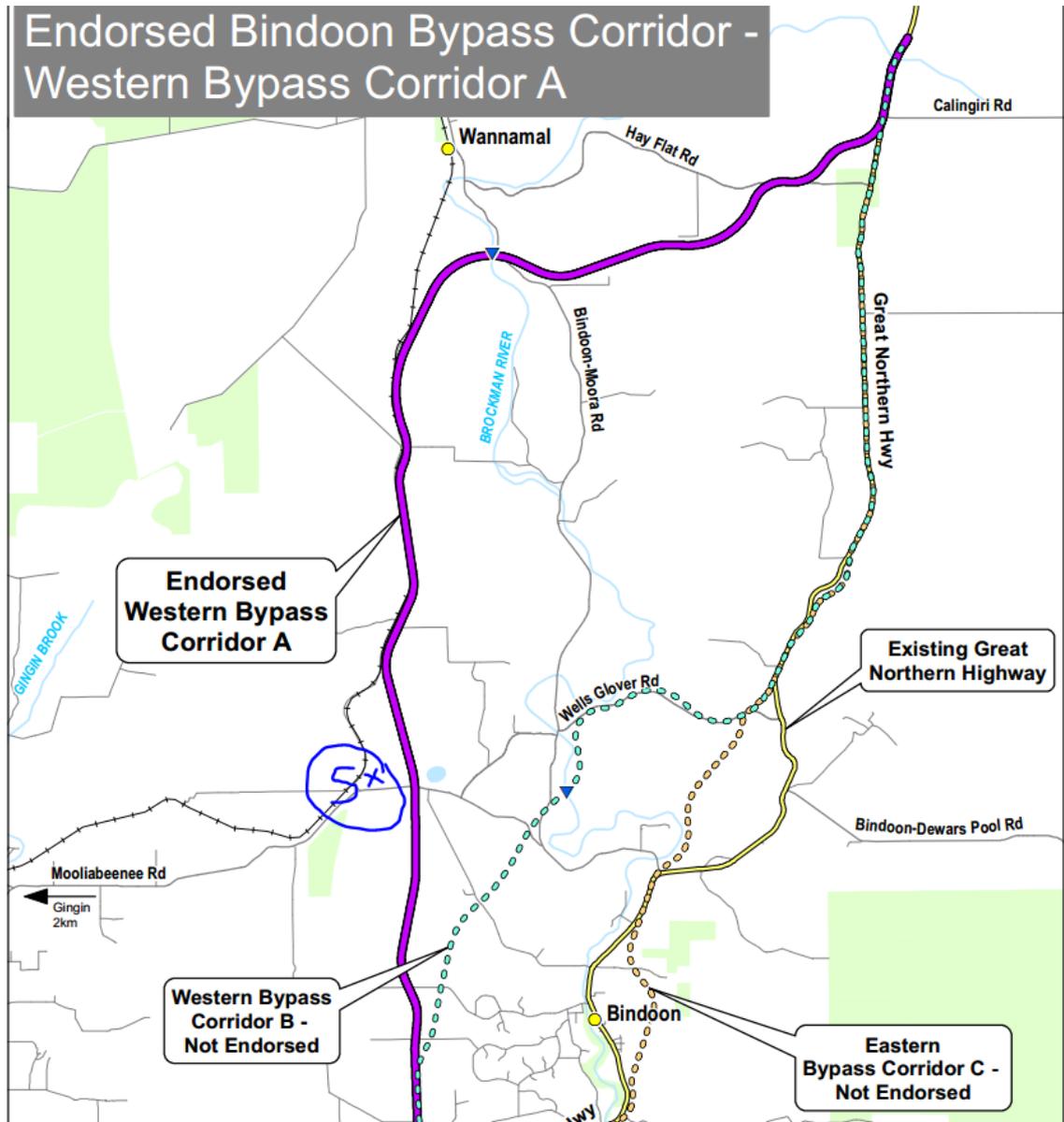
Overall, there are considered to be no onerous covenants or interests reported on Title that adversely affect the value, marketability and continued utility of the property. If there are any encumbrances, encroachments, restrictions, leases or covenants which are not noted in this report, I should then be advised and asked as to whether they affect the assessment of value.

The valuation is provided on the basis that the land is not subject to any encumbrances or restrictions on Title other than those noted here and that the property is unaffected by any road alteration proposals.

## 4.2 Town planning summary



<b>Local authority</b>	Shire of Chittering
<b>Planning Scheme</b>	Local Planning Scheme No. 6 District Zoning Scheme
<b>Zoning</b>	Agricultural Resource
<b>Zoning objectives</b>	<ul style="list-style-type: none"> <li>a) preserve productive land suitable for grazing, cropping and intensive horticulture and other compatible productive rural uses in a sustainable manner;</li> <li>b) protect the landform and landscape values of the district against despoliation and land degradation;</li> <li>c) encourage intensive agriculture and associated tourist facilities, where appropriate;</li> <li>d) allow for the extraction of basic raw materials where it is environmentally and socially acceptable.</li> </ul>
<b>Permissible uses</b>	The current use appears to fully comply with the permissible uses under the zoning.
<b>Other matters</b>	The subject is positioned just to the west of the proposed Bindoon Bypass. See diagram below from Main Roads



The planning information noted has been obtained from the relevant local authority. This information has been relied upon in my assessment of value and no responsibility is accepted for the accuracy of the planning information provided. Should the information prove incorrect in any significant respect, the matter should be referred to me for review of the valuation.



6 Cullalla Road, Mooliabeenee WA 6504

#### 4.3 Location



Source: Google Maps

The subject is situated approximately 10.3km North-East from the Bindoon townsite and 14.5km east of Gingin.

#### 4.4 Climate

Rainfall	Rainfall	Approximately 632mm, 1996-2017. Source: Bureau of Meteorology
	Reliability	Medium/High
	Growing season	May to September.

#### 4.5 Services

Domestic water	Rain water tanks only with back up bore water if needed.
Electricity	Mains electricity is connected.
Gas	Bottled gas is only available and connected.
Effluent disposal	Septic tank
Telephone	Available on the property dependent on carrier and equipment.
Nearest main shopping	Shopping at Gingin or Bindoon is available within approximately 15km
Nearest primary school	Bindoon approximately 10km
Nearest medical facility	Bindoon approximately 10km
Road services	Bitumen with some gravel all weather surfaces.

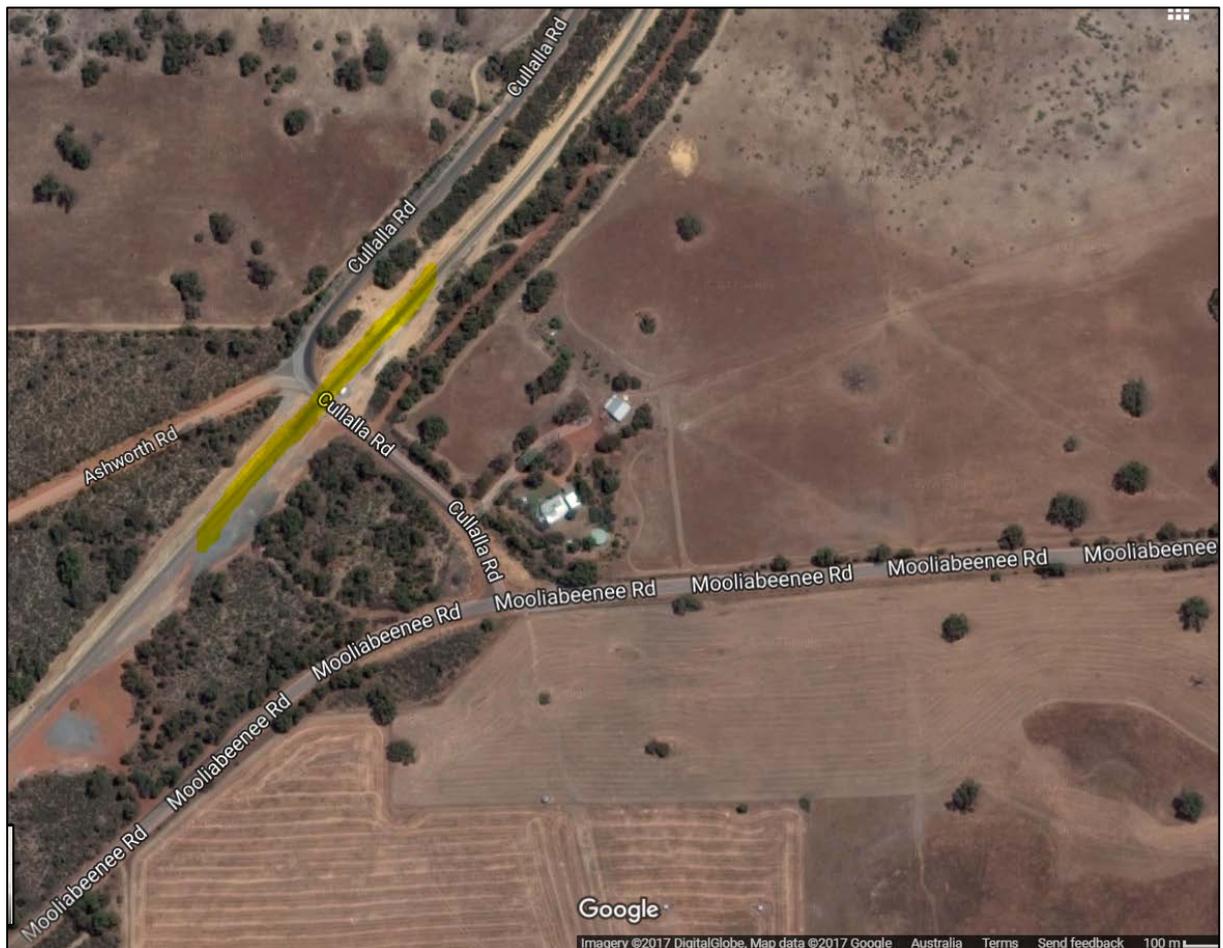


6 Cullalla Road, Mooliabeenee WA 6504

4.6 Aerial Maps



Source: Landgate Mapping System



Source Google Maps (Highlighted section shows rail siding)



6 Cullalla Road, Mooliabeenee WA 6504

#### 4.7 Land Utilisation

Land Utilisation		
Description	Area (ha)	%
Arable	41.3	100%
<b>Total</b>	<b>41.3</b>	<b>100%</b>

The site can be mostly used for grazing and limited hay growing.

#### 4.8 Land Description

<b>Soil Description</b>	Course sandy loams towards southern boundary with deep yellow/white sands to northern boundary. Fertility is limited in the lighter sandy areas to the north side.
<b>Topography</b>	moderately undulating
<b>Original Vegetation</b>	Red gum, Jarrah, Banksia, Grass trees and Christmas Tree.
<b>Level of Development</b>	Developed cleared land.

#### 4.9 Land Development

<b>Fencing</b>	<b>Boundary</b>	Mostly ring lock with plain and barb wires on steel/timber posts. Overall in stock proof but only average condition.
	<b>Internal</b>	Mostly ring lock with plain and barb wires on steel/timber posts. Overall in poor condition and barely stock proof. .
	<b>Paddocks</b>	6
	<b>Laneways</b>	Yes in part
<b>Water Supply</b>	<b>Scheme</b>	Rain water tanks only.
	<b>Water Licence</b>	Details regarding the water licence are in section 4.11 of this report.
	<b>Dams</b>	Nil
	<b>Bores</b>	There is 1 bore on the farm equipped with an electric submersible pump.
	<b>Wells</b>	There are no wells on the farm.
	<b>Soaks</b>	There are no soaks on the farm.
	<b>Pumps and Irrigation</b>	Old irrigation not working. Piping to troughs in place.
	<b>Rain Water Tanks</b>	1 large 200,000L tank behind the house.
<b>Fertiliser History</b>	<b>Application rates</b>	Unknown
	<b>Comparison to District average</b>	Below average condition of pasture
<b>Pasture</b>	<b>Variety</b>	Varying seasonal winter grasses
	<b>Type</b>	Modern ryegrass, silver grass, wild oats,
	<b>Quality/Management</b>	Poor
<b>Agronomy</b>	<b>Soil testing</b>	Unknown.
<b>Noxious Weeds</b>	There are no noxious or controllable weeds of any significance on this property.	
<b>Vermin</b>	The subject property has a minor apportionment of bush and the vermin population is considered to be similar to the district average.	
<b>Drainage, Salinity</b>	The farm is well drained and there is no salinity evident.	
<b>Flood Status</b>	Our enquiries indicate that the property is not subject to flooding.	
<b>Fire Risk</b>	The property is not located within a designated "Bush Fire Prone Area" as defined by FESA in 2016.	



6 Cullalla Road, Mooliabeenee WA 6504

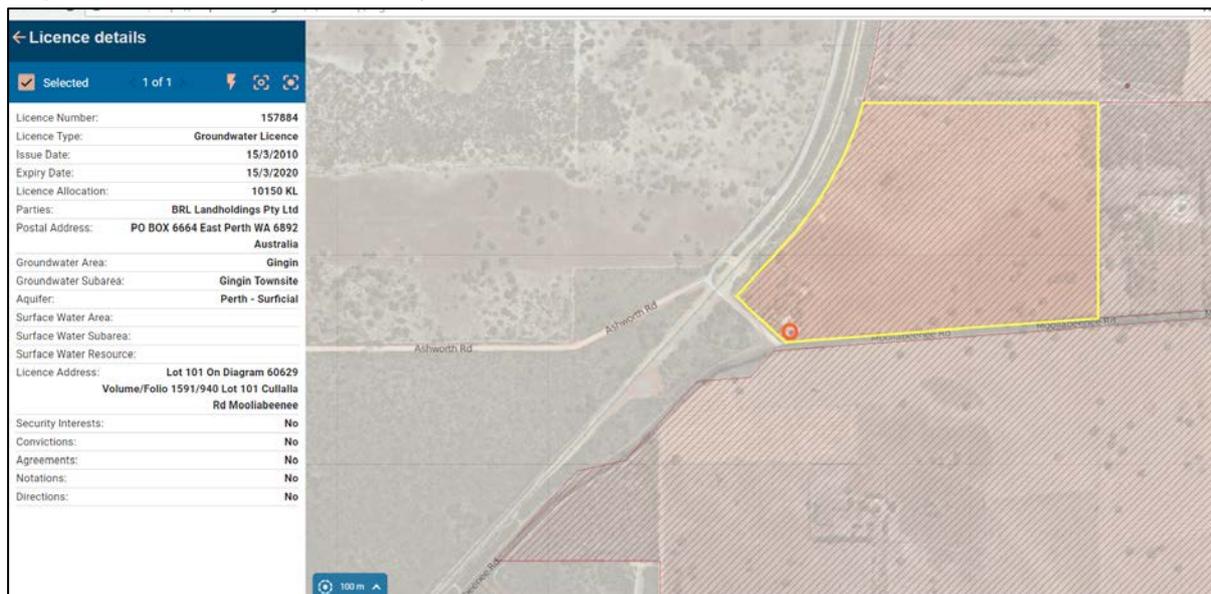
#### 4.10 Water Licence

The added value of the water licence is attributable to the licensee (registered owner of the licence) and is not attached to the land Title. I have included a value for the water licence in the adopted market value. Our valuation assumes the water licence would transfer to the registered proprietor upon sale of the property subject to the same conditions.

I recommend a reliant party register a charge over the licence to protect their interest as the water allocation is integral to the value of the property.

The valuation assumes the details pertaining to the water licence as provided are accurate and there are no outstanding unrectified breaches of trigger levels or allocations.

Licence number	157884
Licensee	BRL Landholdings Pty Ltd
Issue Date	15/03/2010
Expiry Date	15/03/2020
Allocation	10,150 Kilolitres
Ground Water Area	Gingin
Ground Water Availability	Under Allocated and available
Aquifer	Perth Superficial
Surface Water Area	Gingin townsite
Irrigation Scheme	N/A



#### 4.11 Environmental issues

Issues	
Current use and commencement	Lifestyle farming
Existing issues raising concern	The area is in a fire zone as shown in pink shading in diagram below.
Uses identified on API Guidance Note 1	Nil
Previous uses	Lifestyle farming
Environmental report provided	No, an environmental report has not been provided.



6 Cullalla Road, Mooliabeenee WA 6504

**WA contaminated sites act**

By the Commencement of the Contaminated Sites Act 2003, a Public Register is now kept in Western Australia of land that has been classified as being either contaminated – remediation required; contaminated – restricted use or remediated for restricted use. In arriving at any assessment of the value of the land, a basic search of that register has been undertaken which discloses that the land is **not contaminated**. I do not accept any responsibility or liability whatsoever for the accuracy of the information contained in the search of the Contaminated Sites Register.

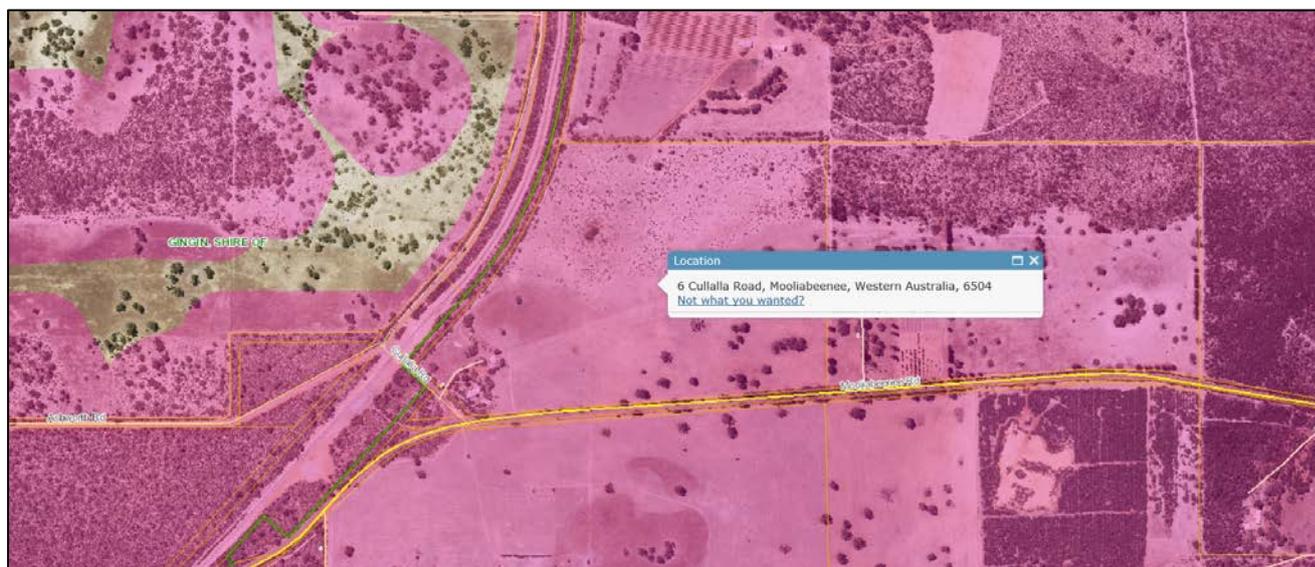
I note that some common farming practises may result in contamination to some areas of the farm. These potential events include however are not limited to the following; previous use of sheep and cattle dips, sources of concentrated effluent disposal such as with feed lots and dairies, chemicals used in fertilisers or sprays, fuel storage tanks, domestic/farm waste dump sites and crop and/or livestock diseases. Our inspection of the farm did not uncover any significant areas of contamination unless outlined in the report. I am however not qualified to accurately assess contamination and the client may require an environmental audit to fully explore any potential issues.

Should it be revealed that this property is subject to a greater level of contamination than is normally expected, then I reserve the right to review my valuation.

No soil tests or environmental studies have been made available for my perusal. Therefore, it should be noted that my valuation is subject to there being no surface or sub-surface soil problems including instability, toxic or hazardous wastes, toxic mould, asbestos or building material hazards in or on the property that would adversely affect its existing or potential use or reduce its marketability. Should any problems be known or arise, then the valuation should be referred to me for review of the valuation as I deem appropriate.

I am not an expert in this regard and if more detailed advice is required, an environmental consultant should be retained.

Property shaded pink to reflect fire risk.



Source: DFES Department of Fire and Emergency Services



6 Cullalla Road, Mooliabeenee WA 6504

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#### 4.12 Asbestos

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Our inspection revealed that asbestos is not likely to have been used in the construction of the buildings however difficult to accurately ascertain. We assume in the valuation that no significant issues exist.

#### 4.13 Native title

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The value and utility of land can be adversely affected by the presence of Aboriginal sacred sites. I have made no investigations in this regard, as Aboriginal requirements can only be determined by the appointment of an appropriate expert. Under these circumstances, I cannot warrant that there are no such sites on the land and if it is subsequently determined that the realty is so affected I reserve the right to review this valuation.

#### 4.14 Heritage issues

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From our inspection there were no signs to indicate the property was listed either by the Heritage Council of Western Australia, National Trust, or the Local Authority. The property is not considered to have historical significance.



## 5.1 Improvements

### 5.1.1 Residence

Year built	Circa 1980's
Main walls & roof	Fibro weatherboard/iron
Accommodation	3 bedrooms, 1 bathrooms, kitchen, laundry, lounge/meals
Main living areas	102m <sup>2</sup>
Outdoor	116m <sup>2</sup>
Car accommodation	75m <sup>2</sup> garage next to house
Internal condition	Fair
External condition	Fair
Internal features	Older renovated kitchen, basic and dated
Ancillary improvements	Shed 144m <sup>2</sup>

The main residence is a 1980's hardiplank steel timber frame cottage which has been extended and added on to over the years. Part of the external walls have been reclad in stone and it has an iron roof. It is quite small and basic yet the kitchen was upgraded approximately 10 years ago. It has vinyl floor coverings over concrete and was in serviceable condition. It has power connected and there is a 200,000 litre rainwater tank providing water and there is a bore with reticulation to the gardens. To the side of the main residence is a detached colorbond garage which provides parking for two cars. There is an additional shed 12m x 12m positioned to the east of the main residence. It was in basic condition but can be locked up.

The property has very basic fencing predominantly comprising of steel post and ring lock with a number of infill sections. Some parts are poorly strained. The perimeter fencing is generally considered better than the internal fencing. The property is divided into six main paddocks and there is a laneway concept running down the middle.

## 5.2 Photographs



Railway siding close by



Water trough for livestock



6 Cullalla Road, Mooliabeenee WA 6504



bathroom



Front view



Rear stone walls



Verandah



Coarse sands on south side



shed



paddocks



paddocks



View across to sand resource



paddocks



### 6.1 General Comments

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The subject property is at the intersection of Mooliabeenee Road and a short street that crosses the railway line. On site is an existing dwelling plus sheds in fair condition. It is a lifestyle property with basic property development. There is a sand ridge running through the northern side of the property which may have some sand resource potential if sufficient demand in the immediate locality was found. Native vegetation varies from established marri trees on the southern boundary through to lighter Christmas Tree/Banksia vegetation on the northern boundary. From an agricultural prospective the soil profile is poor especially in comparison to some of the stronger soils in the Bindoon/Gingin locality. The property does have a water licence which could possibly support a more intensive agricultural use but viability is questionable on a small scale.

The property's main attraction is its positioning between Bindoon and Gingin. We understand the property was purchased in 2009 for \$1,000,000. At the time the market was more buoyant but more particularly there was a special interest purchaser who wanted proximity to the railway at this particular point. The railway junction has good space with a controlled intersection with lights. While there is appeal to business if you have the associated need for a railway line access, the demand for the lifestyle and rural market would disregard the added value for the railway line.

### 6.2 Lease Details

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The house is currently leased. The market rental for lifestyle properties has been steady. Market rentals are considered to be around \$350pw.

### 6.3 Market Comment

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The current market for rural lifestyle properties has been flat but steady. There was a significant reset in values after 2008 as Perth buyers left the market but in recent months there has been a slight pick up in confidence but this is yet to reflect in higher values.



## 7.1 Valuation Approach

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The most appropriate method of valuation is **Direct Comparison**. This involves the comparison of the subject property to comparable sales on a rate per cleared arable hectare excluding the added value of the building improvements. The analysed cleared arable land value plus the added value of the buildings and non-arable areas are then summated together to form market value.

By using a “cleared arable hectare excluding buildings” rate this provides a more accurate basis for Direct Comparison between properties reflecting the differences with cleared arable areas, buildings, other improvements and non-arable areas.

The added value attributed to the building improvements is derived from analysis of comparable sales evidence. The value of farm improvements is limited by the degree of economic and functional obsolescence.

As a second approach we have also looked at the summation approach as a check method.

## 7.2 Sales Evidence

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The following sales provide a sample of the information that has been investigated and analysed for the purpose of this assessment. Whilst I believe the information to be accurate, it was obtained from third party sources and not all details have been formally verified.

Properties that are under offer with an unsettled contract of sale are listed as unsettled. The sale date in these circumstances is the best known date of the contract being signed by both parties. These unsettled transactions are used with caution when making comparisons. Though often the most recent evidence they are not finalised transactions.

I have reviewed all available evidence carefully and have included the most recent and comparable sales in the report to the best of our knowledge.

When undertaking this comparison factors such as, but not limited to, the following are assessed and then related back to the subject property as a whole.

- Location
- Land Area
- Road frontages
- Topography
- Soil types
- Zoning
- General Presentation
- Services and Access
- Farm Improvements
- Water Resources
- Type of Buildings
- Design and Function
- Construction Materials
- Age and Quality
- Degree of Obsolescence



	Address	Sale Date	Sale Price	Analysis	
				Land Area	OHXB
<b>1.</b>	<b>3349 Bindoon-Dewars Pool Road, Bindoon</b>	<b>30/03/2016</b>	<b>\$980,000</b>	<b>175.4ha</b>	<b>\$4,447</b>
<b>Comments:</b>	This is a single level conventional style detached residential house with brick veneer walls and a corrugated galvanised iron roof that was built circa 1985. It is of fair condition/presentation and has four bedrooms, two bathrooms and a single garage. The house has ducted air conditioning. Site improvements include: 25 x 10m shed, workshop and 14 x 7m brick/iron studio. The site area is 175.4ha and the block has frontage to Great Northern Highway and Bindoon-Dewars Pool Road. Access to the property is easy and direct. Landscaping is of a basic standard. The farm has some 50/50 cropping land and bush. A large dam provides water for stock.				
<b>Analysis:</b>	Area (Ha)	175.4			
	Arable (Ha)	61.4	35%		
	Non-Arable (Ha)	114.0	65%		
	Sale Price		\$980,000		
	Buildings	\$200,000			
	Non-Arable Land Value	<u>\$342,000</u>		\$3,000 /Ha	\$1,214 /ac
	Total	\$542,000			
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$438,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$7,135 /Ha	\$2,887 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$4,447 /Ha	\$1,800 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$5,587 /Ha	\$2,261 /ac
<b>Comparison:</b>	This much larger property is situated approximately 15.7km East from the subject which is considered to be a better location. This property has better quality soils and has superior land development. Farm improvements are considered to be similar. Overall a higher OHXB rate is considered to apply to the subject. Overall superior.				
<b>2.</b>	<b>985 Wells Glover Road Mooliabeenee</b>	<b>10/08/2015</b>	<b>\$650,000</b>	<b>25.3ha</b>	<b>\$10,274</b>
<b>Comments:</b>	Comprises a 25.3ha lot featuring a 2007 built Ross Squire 6 bed 3 bath single level weatherboard house plus shed. The house was neat and had full length verandas. The block was mostly bush and this is a rural lifestyle block with main value inherent in the land value. It has a Granny Flat detached from main residence.				
<b>Analysis:</b>	Area (Ha)	25.3			
	Arable (Ha)	22.8	90%		
	Non-Arable (Ha)	2.5	10%		
	Sale Price		\$555,000		
	Buildings	\$370,000			
	Non-Arable Land Value	<u>\$8,000</u>		\$3,000 /Ha	\$1,214 /ac
	Total	\$378,000			
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$177,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$7,773 /Ha	\$3,146 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$7,312 /Ha	\$2,959 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$21,937 /Ha	\$8,877 /ac
<b>Comparison:</b>	This smaller size property is situated approximately 5km West from the subject which is considered to be a similar location. This property has slightly better quality soils and has inferior land development being a bush lot. Farm improvements are considered to be similar. Overall a similar OHXB rate is considered to apply to the subject. The rate/ha is high due to small land area and mainly a lifestyle property with high land value. Values have fallen since the date of sale. Overall superior.				



6 Cullalla Road, Mooliabeenee WA 6504

	Address	Sale Date	Sale Price	Analysis	
				Land Area	OHXB
<b>3.</b>	<i>52 Calingiri Road, Wannamal</i>	<i>23/10/2016</i>	<i>\$1,200,000</i>	<i>193.4ha</i>	<i>\$5,170</i>
<b>Comments:</b>	This holding comprises 193.43ha of predominantly medium gravelly sandy loam country located on the corner of great Northern Highway. Property is mostly park cleared and pastured with some uncleared ironstone rocky hillocks. Buildings include an older style 3 bedroom 1 bathroom cottage and some old sheds. Water supply is a feature with several spring fed dams. The farm is well presented and has a fair and average level of improvements.				
<b>Analysis:</b>	Area (Ha)	193.4			
	Arable (Ha)	164.4	85%		
	Non-Arable (Ha)	29.0	15%		
	Sale Price		\$1,200,000		
	Buildings		\$200,000		
	Non-Arable Land Value		<u>\$81,000</u>	\$2,800 /Ha	\$1,133 /ac
	Total		\$281,000		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$919,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$5,589 /Ha	\$2,262 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$5,170 /Ha	\$2,092 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$6,204 /Ha	\$2,511 /ac
<b>Comparison:</b>	This larger property is situated approximately 32km North-East from the subject which is considered to be a slightly inferior location. This property has better quality soils and has superior land development. Farm improvements are considered to be superior. Overall a higher OHXB rate is considered to apply to the subject. Overall superior.				
<b>4.</b>	<i>136 Valley View Drive, Chittering</i>	<i>15/06/2016</i>	<i>\$835,000</i>	<i>82.2ha</i>	<i>\$10,158</i>
<b>Comments:</b>	This lifestyle property is located on a hill and is of irregular shape comprising mostly gravelly sandy loam soils with some clay loams soils broken by granite outcrops. The property has no buildings. There are good valley views and the holding has views to the Chittering Lakes to the north. Access is slightly below average at the end of a cul de sac. Farm improvements are fair and average.				
<b>Analysis:</b>	Area (Ha)	82.2			
	Arable (Ha)	69.9	85%		
	Non-Arable (Ha)	12.3	15%		
	Sale Price		\$835,000		
	Buildings		\$0		
	Non-Arable Land Value		<u>\$49,000</u>	\$4,000 /Ha	\$1,619 /ac
	Total		\$49,000		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$786,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$11,249 /Ha	\$4,552 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$10,158 /Ha	\$4,111 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$10,158 /Ha	\$4,111 /ac
<b>Comparison:</b>	This larger property is situated approximately 26km South-East from the subject which is considered to be a better location. This property has better quality soils and has superior land development yet very difficult to crop due to steep terrain. Farm improvements are considered to be inferior. Overall a lower OHXB rate is considered to apply to the subject. Overall superior				



6 Cullalla Road, Mooliabeenee WA 6504

	Address	Sale Date	Sale Price	Analysis	
				Land Area	OHXB
<b>5.</b>	<b>1527 Mooliabeenie Road, Gingin</b>	<b>26/05/2016</b>	<b>\$850,000</b>	<b>122.9ha</b>	<b>\$5,940</b>
<b>Comments:</b>	An attractive undulating mostly cleared and pastured holding with main road frontage and overlooking the Gingin townsite. The relatively high land has good views and buildings included 1970's large brick/tile house with two adjoining large sheds. The house was run down and needed significant upgrading although liveable. The farm was vacant and the property was somewhat run down and in need of significant maintenance. There was no water connected at the buildings because the main water source on the southern end of the farm (Lot 5) had the pump removed or stolen. The overall farm was not well presented because the farm improvements had been neglected for some years and declared weeds had proliferated and needed control. The holding needed significant capital to improve the pastures, waters and fencing. The property was sold under Mortgagee In Possession terms and considered a slightly low sale because of presentation.				
<b>Analysis:</b>	Area (Ha)	122.9			
	Arable (Ha)	67.6	55%		
	Non-Arable (Ha)	55.3	45%		
	Sale Price		\$850,000		
	Buildings		\$120,000		
	Non-Arable Land Value		<u>\$194,000</u>	\$3,500 /Ha	\$1,416 /ac
	Total		<u>\$314,000</u>		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$536,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$7,930 /Ha	\$3,209 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$5,940 /Ha	\$2,404 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$6,916 /Ha	\$2,799 /ac
<b>Comparison:</b>	This larger property is situated approximately 10.6km West from the subject which is considered to be a better location. This property has better quality soils in part but other lighter country is similar. It has similar land development. Farm improvements are considered to be inferior. Overall a slightly higher OHXB rate is considered to apply to the subject. Overall superior				
<b>6.</b>	<b>682 Bindoon-Mooro Road, Mooliabeenee</b>	<b>15/05/2017</b>	<b>\$495,000</b>	<b>20.7ha</b>	<b>\$11,836</b>
<b>Comments:</b>	This lifestyle property with a long main road frontage and is of irregular shape comprising mostly clay loams soils and some alluvial soils adjoining the Brockman River in the north east corner. The property has a renovated 1980 3 bedroom 1 bathroom brick/tile house with a study having ducted air conditioning, a below ground pool and extensive timber decking. There is a large shed, shearing shed, 3 water tanks, horse arena and round yard. A bore provides a good supply and there is a dam. A small vineyard and orchard provide some potential income. There are good valley views. Farm improvements are fair and average.				
<b>Analysis:</b>	Area (Ha)	20.7			
	Arable (Ha)	18.6	90%		
	Non-Arable (Ha)	2.1	10%		
	Sale Price		\$495,000		
	Buildings		\$250,000		
	Non-Arable Land Value		<u>\$10,000</u>	\$5,000 /Ha	\$2,023 /ac
	Total		<u>\$260,000</u>		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$235,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$12,614 /Ha	\$5,105 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$11,836 /Ha	\$4,790 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$23,913 /Ha	\$9,677 /ac
<b>Comparison:</b>	This smaller property is situated approximately 6.6km East from the subject which is considered to be a similar location. This property has better quality soils and has similar land development. Farm improvements are considered to be slightly superior. Overall a lower OHXB rate is considered to apply to the subject. This sale reflects a high rate due to smaller land area. Overall slightly superior.				



6 Cullalla Road, Mooliabeenee WA 6504

	Address	Sale Date	Sale Price	Analysis	
				Land Area	OHXB
<b>7.</b>	<i>Lot 27 Cook Road, Mooliabeenee</i>	<i>22/06/2017</i>	<i>\$210,000</i>	<i>40.9Ha</i>	<i>\$4,890</i>
<b>Comments:</b>	A gently undulating, attractive mostly park land cleared and pastured L-shaped block with a main frontage to Cook Road and another small frontage to the same road further west. Soils vary from medium heavy loams north of a creek line to sandy soils south of the creek and adjoining the road. The relatively high land has a good valley outlook and buildings included 1970's old shed and a small accommodation hut. Water is from the creek and bores. The overall property is reasonably well presented and has some mature pine trees. The holding adjoins a private sport car club and rock music venue with established facilities on two boundaries and there would be noise and dust from time to time when operating on weekends.				
<b>Analysis:</b>	Area (Ha)	40.9			
	Arable (Ha)	28.6	70%		
	Non-Arable (Ha)	12.3	30%		
	Sale Price		\$210,000		
	Buildings		\$10,000		
	Non-Arable Land Value		<u>\$31,000</u>	\$2,500 /Ha	\$1,012 /ac
	Total		\$41,000		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$169,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$5,903 /Ha	\$2,389 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$4,890 /Ha	\$1,979 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$5,134 /Ha	\$2,078 /ac
<b>Comparison:</b>	This similar size property is situated approximately 16km North-East from the subject which is considered to be an inferior location. This property has inferior quality soils and has inferior land development. Farm improvements are considered to be inferior. Overall a higher OHXB rate is considered to apply to the subject.				
<b>8.</b>	<i>161 Cook Road, Mooliabeenee</i>	<i>03/08/2015</i>	<i>\$800,000</i>	<i>161.4Ha</i>	<i>\$4,647</i>
<b>Comments:</b>	Comprises a large 161ha lot featuring sandy loam soils with good natural water supplies with a central creek line and dam. Some sections of soil are very light. It has approval for a 500 head cattle lot feed, which was not operational but has steel fencing in place. It has good cattle yards. There is a two bed weekender plus basic sheds. Overall run down				
<b>Analysis:</b>	Area (Ha)	161.4			
	Arable (Ha)	113.0	70%		
	Non-Arable (Ha)	48.4	30%		
	Sale Price		\$800,000		
	Buildings		\$50,000		
	Non-Arable Land Value		<u>\$126,000</u>	\$2,600 /Ha	\$1,052 /ac
	Total		\$176,000		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$624,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$5,523 /Ha	\$2,235 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$4,647 /Ha	\$1,880 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$4,957 /Ha	\$2,006 /ac
<b>Comparison:</b>	This smaller size property is situated approximately 16.5km North-East from the subject which is considered to be an inferior location. This property has inferior quality soils and has inferior land development. Farm improvements are considered to be inferior. Overall a higher OHXB rate is considered to apply to the subject. Overall superior				



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	Address	Sale Date	Sale Price	Analysis	
				Land Area	OHXB
<b>9.</b>	<b>1540 Teatree Road, Mooliabeenee</b>	<b>07/04/2016</b>	<b>\$555,000</b>	<b>21.9Ha</b>	<b>\$10,274</b>
<b>Comments:</b>	Comprises a 21.9ha lot featuring a 2000 built 4 bed 2 bath single level weatherboard house plus shed. The house was neat. The shed was set aside from the house. The property is at the end of an old airstrip but has no access. It has a water license				
<b>Analysis:</b>	Area (Ha)	21.9			
	Arable (Ha)	20.8	95%		
	Non-Arable (Ha)	1.1	5%		
	Sale Price		\$555,000		
	Buildings		\$330,000		
	Non-Arable Land Value		\$3,000	\$3,000 /Ha	\$1,214 /ac
	Total		\$333,000		
	Value Excluding Buildings and Non-Arable Land Value	(XB)	\$222,000		
	Land Value	Arable (Cleared Hectare)	(CHXB)	\$10,671 /Ha	\$4,318 /ac
	Land Value	Overall Land Value Excl. Buildings	(OHXB)	\$10,274 /Ha	\$4,158 /ac
	Land Value All In	Overall Farm Value/Ha	(OHIB)	\$25,342 /Ha	\$10,256 /ac
<b>Comparison:</b>	This smaller size property is situated approximately 3km South-West from the subject which is considered to be a similar location. This property has slightly better quality soils and has similar land development. Farm improvements are considered to be slightly superior. Overall a lower OHXB rate is considered to apply to the subject. The rate/ha is high due to small land area. Overall superior.				

### 7.3 Analysis of Sales Evidence

The sales evidence suggests an appropriate rate per hectare (OHXB) for the subject property is between \$7000/ha and \$8000/ha.

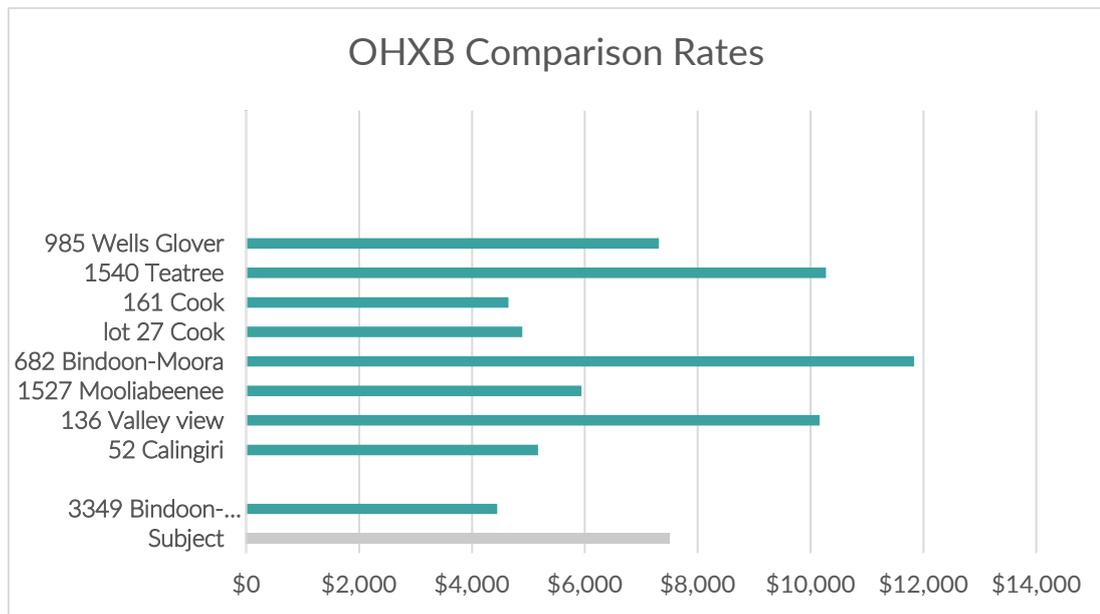
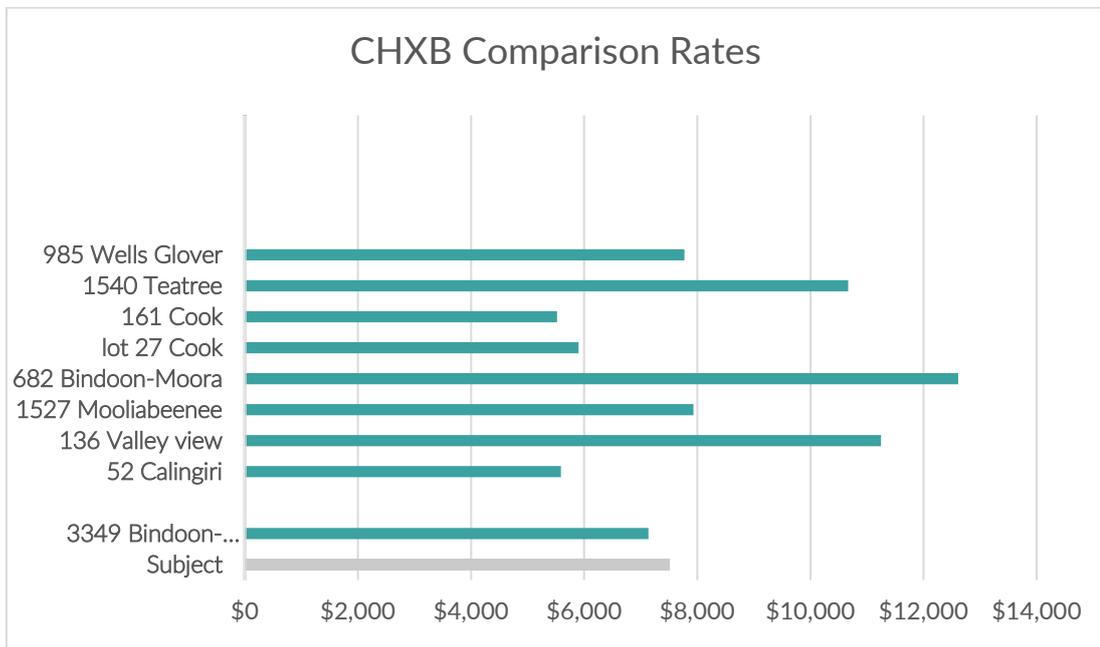
The subject is more a rural lifestyle property so the analysis on agricultural rates/ha are slightly less relevant but still a way to compare for differing soils, land size and utility. Rural lifestyle assets are often unique and direct comparison and adjustments make it more subjective than usual.

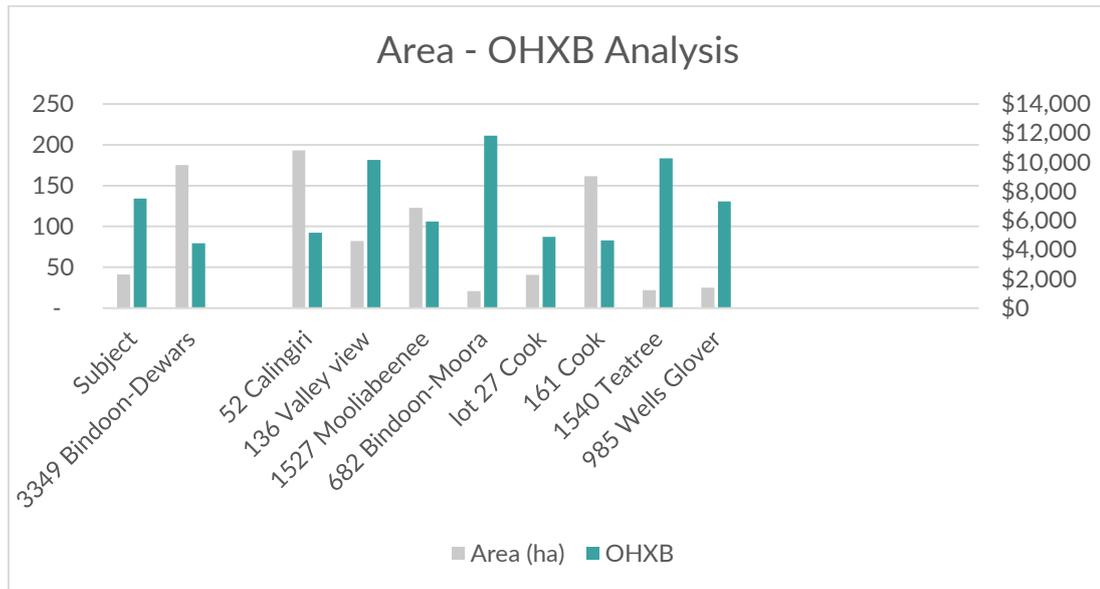
Sales Summary						
No.	Address	Date of Sale	Area (ha)	Cleared Arable (ha)	CHXB	Comparison
	<b>Subject</b>	<b>excel</b>	<b>41.3</b>	<b>41</b>	<b>\$7,500</b>	
1	3349 Bindoon-Dewars	Mar 2016	175.4	61.4	\$7,135	Broadly comparable
2	52 Calingiri	Sep 2016	193.4	164.4	\$5,589	inferior
3	136 Valley view	Oct 2016	82.2	69.9	\$11,249	Superior
4	1527 Mooliabeenee	Nov 2016	122.9	67.6	\$7,930	Broadly comparable
5	682 Bindoon-Moora	Dec 2016	20.7	18.6	\$12,614	Superior
6	lot 27 Cook	Jan 2017	40.9	28.6	\$5,903	inferior
7	161 Cook	Feb 2017	161.4	113	\$5,523	inferior
8	1540 Teatree	Apr 2016	21.9	21.8	\$10,671	Superior
9	985 Wells Glover	Aug 2015	25.3	22.8	\$7,773	Broadly comparable



6 Cullalla Road, Mooliabeenee WA 6504

Sales Summary					
No.	Address	Date of Sale	Area (ha)	OHXB	Comparison
	<b>Subject</b>	<b>excel</b>	<b>41.3</b>	<b>\$7,506</b>	
1	3349 Bindoon-Dewars	Mar 2016	175.4	\$4,447	excel
2	52 Calingiri	Sep 2016	193.4	\$5,170	inferior
3	136 Valley view	Oct 2016	82.2	\$10,158	Superior
4	1527 Mooliabeenee	Nov 2016	122.9	\$5,940	inferior
5	682 Bindoon-Moora	Dec 2016	20.7	\$11,836	Superior
6	lot 27 Cook	Jan 2017	40.9	\$4,890	inferior
7	161 Cook	Feb 2017	161.4	\$4,647	inferior
8	1540 Teatree	Apr 2016	21.9	\$10,274	Superior
9	985 Wells Glover	Aug 2015	25.3	\$7,312	Broadly comparable





#### 7.4 Valuation Calculation

Based on analysis of comparable sales in the locality I have established an underlying land value. To this I have added the depreciated value of the building improvements and other value components. The value attributed to the building improvements is reflective of the added value of these improvements after allowance for physical and functional depreciation. The land value and applied depreciation rate are assessed by comparison to the available sales evidence. The water license has an added value but the sand resource value is not significant enough and has been included in the value of the land component.

The calculation in respect to the land value plus the added value of the building improvements and other value components is as follows:



6 Cullalla Road, Mooliabeenee WA 6504

Calculations						
<b>Land Value</b>						
Description	Area (ha)	\$/ha	\$/acre		Value	
0	41.3	7500	3035.		309750	
<b>Overall Land Value</b>	41.3	\$7,506	\$3,038	100%	\$309,750	<b>\$310,000</b>
<b>Improvements Added Value</b>						
Description	Area m <sup>2</sup>	\$/m <sup>2</sup>	Replacement Cost	Added Value (Rounded)		
<b>Integral Buildings</b>						
House	102	\$2,300	\$234,600	\$94,000		
Workshop shed	75	\$350	\$26,250	\$18,000		
	144	\$300	\$43,200	\$26,000		
<b>TOTAL</b>			<b>\$304,050</b>	<b>\$138,000</b>		
<b>Other Farm Improvements</b>	Unit	\$/Unit	Replacement Cost	Added Value (Rounded)		
Water Tanks	1	\$35,000	\$35,000	\$26,000		
<b>TOTAL</b>			<b>\$35,000</b>	<b>\$26,000</b>		
<b>Other</b>	Unit	\$/Unit		Added Value		
Water Licence(KL)	10150	\$1		\$5,075		
<b>TOTAL</b>				<b>\$5,075</b>		
<b>Total Value of Buildings &amp; Improvements</b>				\$164,000	say	<b>\$165,000</b>
<b>Value of Other</b>				\$5,075	say	<b>\$5,000</b>
<b>Overall Value</b>						<b>\$480,000</b>
<b>Cleared Arable Hectare Excluding Buildings (CHXB)</b>						<b>\$7,500</b>
<b>Overall Hectare Excluding Buildings (OHXB)</b>						<b>\$7,506</b>
<b>Overall Hectare Including Buildings (OHIB)</b>						<b>\$11,622</b>
<b>Insurance Value Calculations</b>						
Replacement Value (Integral, Non-Integral & Other Farm Improvements)				\$339,050		
Allowance for Professional Fees, Removal Costs & Contingency				15%		
<b>Adopted Total Replacement Value</b>				\$389,908	say	<b>\$390,000</b>



## 8.1 Adopted Value

Apportionment of adopted value	
Land	\$310,000
Buildings & Improvements	\$165,000
Other	\$5,000
<b>Total</b>	<b>\$480,000</b>

Market Value Range adopted, \$455,000 to \$505,000

Analysis of adopted value	
Rate per cleared arable hectare excluding buildings (CHXB)	\$7,500
Overall rate per hectare excluding buildings (OHXB)	\$7,506
Overall rate per hectare including buildings (OHIB)	\$11,622

## 8.2 Rental Value

The most probable rental value of the subject property is considered to be approximately \$350pw.

## 8.3 GST Implications

- Unless otherwise stated all valuation figures and calculations within this report are exclusive of GST.
- Section 38-480 of A New Tax System (Goods and Services Tax) Act 1999 (GST Act) provides exemption for the supply of a freehold interest in land based on the use of that land.
- Generally, a freehold interest in land includes the land as described on the title deed, as well as buildings, trees, crops and minerals attached to the land. Section 38-480 of the GST Act also applies to leases by an Australian government agency and long term leases.
- Supplies of farmland will be GST free under Section 38-480 of the GST Act if two requirements are met. The requirements are:
  - the land is land on which a farming business has been carried on for at least five (5) years preceding the supply; and
  - the recipient of the supply intends that, that a farming business be carried on, on the land.

## 8.4 Replacement value for insurance purposes

*An assessment of the replacement value of improvements is provided as indicative advice only and should an accurate assessment be required the services of a qualified Architect and / or Quantity Surveyor should be engaged.*

The replacement value of the building improvements for insurance purposes including removal of debris, council and professional fees and likely escalation in building costs during the redevelopment period and period of indemnity, is considered to be \$390,000 excluding GST.



9.1 Adopted Value

Subject to the qualifications and assumptions contained within the body of this report, I assess the Market Value exclusive of GST, as at 30 November 2017, to be:

MARKET VALUE  
\$480,000  
(FOUR HUNDRED AND EIGHTY THOUSAND DOLLARS)

This valuation is for the private and confidential use only of BRL Holdings Pty Ltd and to be used for prospectus use for an intending buyer and for the specific purpose for which it has been requested. No third party is entitled to use or rely upon this report in any way and neither the valuer nor LMW shall have any liability to any third party who does not have authority to rely on the document.

Only an electronically signed valuation submitted through a digital valuation instruction broker system, a signed hardcopy original of this valuation, a scanned version of a signed hardcopy original of this valuation or an electronic version of this valuation signed with an electronic signature should be relied upon and no responsibility or liability will be accepted for unauthorised copies of the valuation.

No part of this valuation or any reference to it may be included in any other document or reproduced or published in any way without written approval of the form and context in which it is to appear.

Neither the valuer nor LMW has any pecuniary interest giving rise to a conflict of interest in valuing the property.

This valuation is current at the date of valuation only. It is subject to no significant event occurring between the date of inspection and the date of valuation that would impact upon the value of the subject property. The value assessed herein may change significantly and unexpectedly over a relatively short period including as a result of general market movements or factors specific to the particular property. I do not accept liability for losses or damage arising from such subsequent changes in value including consequential or economic loss. Without limiting the generality of the above comment, I do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of three months from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.

The opinion of value expressed in this report is that of the valuer who is the prime signatory to the report. I the counter signatory, whilst not having inspected the property, have reviewed the valuation and based on that review, I have obtained reasonable satisfaction that the value opinion obtained in the valuation has been reached based on reasonable grounds.

**Valuer**  
Ross Sharp  
AAPI CPV 64955  
WA Licence No. 655

**Entity Office**  
Latrobe Holdings Pty Ltd trading as LMW Perth  
Subiaco

**Reviewing party**  
Will Gamlin  
AAPI CPV 65316  
WA Licence No. 44338  
**Position**  
Director

Liability limited by a scheme approved under Professional Standards Legislation.