

# **Bathurst Resources Limited**

## **Independent Adviser's Report**

### **In Respect of the Share Buyback and the Proposed Allotments of Shares to Republic Investment Management Pte Limited**

*November 2018*

#### **Statement of Independence**

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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## 1. Introduction

### 1.1 Background

Bathurst Resources Limited (**Bathurst** or the **Company**) engages in the exploration and development of coal mining assets and the production of coal in New Zealand. It is New Zealand's largest coal producer.

The Company was incorporated in New Zealand and its shares are listed on the Australian Securities Exchange (the **ASX**).

Bathurst's market capitalisation as at 6 November 2018 was A\$199 million (NZ\$217 million at the current exchange rate of NZ\$1 = A\$0.92) and its audited total equity was NZ\$70 million as at 30 June 2018.

A profile of the Company is set out in section 4.

### 1.2 Share Buyback

Bathurst announced on 28 August 2018 that it will undertake an on-market buyback of up to 75,000,000 shares (representing 4.70% of its ordinary shares on issue) over the 12 month period from that date (the **Share Buyback**).

Based on the Company's average share price at the date of the announcement, Bathurst estimated that the Share Buyback would return up to A\$11.25 million to shareholders.

The Share Buyback commenced on 25 October 2018.

### 1.3 Convertible Notes

Bathurst issued 2 tranches of convertible notes (**CNs**) on 22 July 2016 (the **2016 CNs**) and 1 February 2017 (the **2017 CNs**) to fund the acquisition of certain mines and associated assets from Solid Energy New Zealand Limited (in Liquidation) (**Solid Energy**).

Bathurst formed a joint venture with Talley's Energy Limited called BT Mining Limited (**BT Mining**) to acquire the Solid Energy mines and associated assets. Bathurst holds 65% of the equity in BT Mining. The acquisition was completed on 31 August 2017.

The current terms of the CNs are set out below.

CNs Tranches						
Tranche	Face Value Per CN	Issue Date	Maturity Date	Coupon Rate	Conversion Issue Price <sup>1</sup>	No. of Shares Per CN
2016 CNs	NZ\$1,150	22 Jul 2016	22 Jul 2019	8.0%	NZ\$0.0253	45,454.55
2017 CNs	NZ\$1,150	1 Feb 2017	1 Feb 2021	8.0%	NZ\$0.043125	26,666.67

<sup>1</sup> Issue price of one ordinary share upon conversion of the CN

Source: Bathurst

The CNs can be converted into ordinary shares at the election of the holder at any time until 10 days prior to maturity date.

A modification to the terms of the CNs, effective 31 December 2017, amended the denomination currency of the CNs from A\$ to NZ\$:

- the 2016 CNs face value was changed from A\$1,000 to NZ\$1,150 and the conversion issue price was changed from A\$0.022 to NZ\$0.0253 and
- the 2017 CNs face value was changed from A\$1,000 to NZ\$1,150 and the conversion issue price was changed from A\$0.0375 to NZ\$0.043125.

#### 1.4 RIM Allotments

Republic Investment Management Pte Limited (**RIM**) is Bathurst's largest shareholder, holding 317,414,951 ordinary shares. This represented 19.89% of the Company's ordinary shares on issue prior to the commencement of the Share Buyback on 25 October 2018.

RIM is a registered investment advisory firm located in Singapore. It has been registered with the Monetary Authority of Singapore as an exempt fund management company since 2004. RIM engages in global investing encompassing all asset classes, including equities, bonds, currencies, precious metals, commodities and alternative investments. It focuses primarily on private wealth management and manages Asian and commodities-related absolute return portfolios.

RIM currently holds 1,857 2016 CNs and 500 2017 CNs. These CNs can be converted into a total of 97,742,424 ordinary shares:

- the 1,857 2016 CNs convert into 84,409,091 ordinary shares (the **2016 CNs Conversion**)
- the 500 2017 CNs convert into 13,333,333 ordinary shares (the **2017 CNs Conversion**).

We refer to the 2016 CNs Conversion and the 2017 CNs Conversion collectively as the **RIM Allotments**.

#### 1.5 2016 Approval

At the special meeting of shareholders on 23 June 2016, the Company's shareholders approved the issue of up to 193,181,818 ordinary shares to RIM and up to 90,909,091 ordinary shares to other professional investors upon the conversion of the 2016 CNs (the **2016 Approval**).

On 22 July 2016, RIM was issued with 2,150 2016 CNs, of which 293 have subsequently converted to shares.

In the absence of the Share Buyback, under the 2016 Approval, RIM would be able to convert the remaining 1,857 2016 CNs that it holds into 84,409,091 ordinary shares without the need for any further shareholder approval. This would result in RIM holding 23.91% of the Company's shares.

However, RIM cannot convert its 500 2017 CNs into ordinary shares without shareholder approval in accordance with the provisions of the Takeovers Code (the **Code**).

Furthermore, given that the Share Buyback has already commenced, the provisions of the Code require that Bathurst must once again seek shareholder approval of RIM converting its 1,857 2016 CNs into 84,409,091 ordinary shares (ie Bathurst is required to "refresh" the 2016 Approval).

## 1.6 Impact on Shareholding Levels

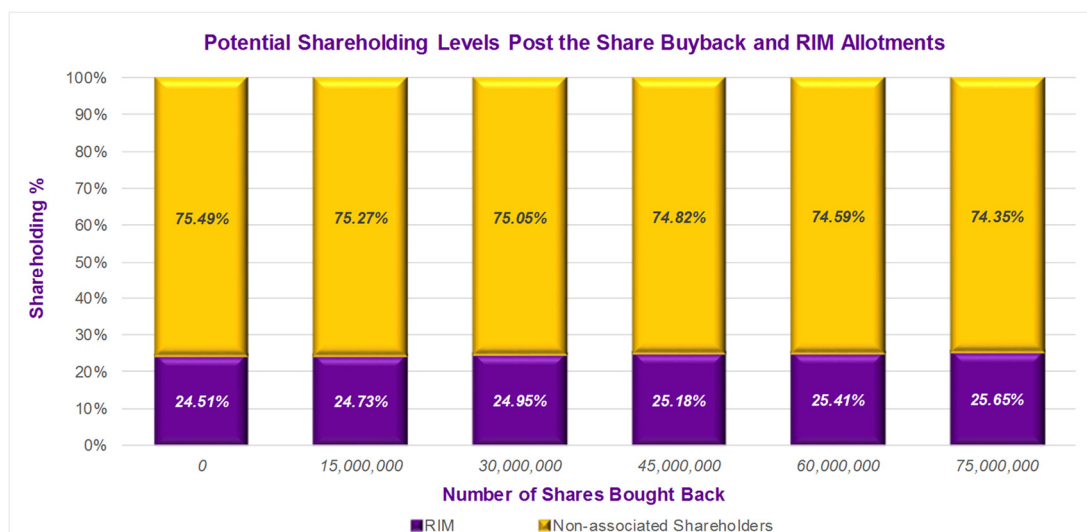
Following the Share Buyback and the RIM Allotments and assuming no other shares are issued:

- RIM will hold between 24.51% and 25.65% of the Company's ordinary shares on issue, depending on the number of shares bought back
- the Company's shareholders not associated with RIM (the **Non-associated Shareholders**) will collectively hold between 74.35% and 75.49%, depending on the number of shares bought back.

Impact on Shareholding Levels					
	RIM		Non-associated Shareholders		Total
	No. of Shares	%	No. of Shares	%	No. of Shares
Current	317,414,951	19.89%	1,278,537,504	80.11%	1,595,952,455
Share Buyback <sup>1</sup>	-	-	(75,000,000) <sup>1</sup>	100.00%	(75,000,000) <sup>1</sup>
Post the Share Buyback <sup>1</sup>	317,414,951	20.87%	1,203,537,504	79.13%	1,520,952,455
2016 CNs Conversion	84,409,091	100.00%	-	-	84,409,091
Post the Share Buyback <sup>1</sup> and 2016 CNs Conversion	401,824,042	25.03%	1,203,537,504	74.97%	1,605,361,546
2017 CNs Conversion	13,333,333	100.00%	-	-	13,333,333
Post the Share Buyback <sup>1</sup> and RIM Allotments	415,157,375	25.65%	1,203,537,504	74.35%	1,618,694,879
Current	317,414,951	19.89%	1,278,537,504	80.11%	1,595,952,455
Share Buyback <sup>2</sup>	-	-	- <sup>2</sup>	-	- <sup>2</sup>
2016 CNs Conversion	84,409,091	100.00%	-	-	84,409,091
Post the Share Buyback <sup>2</sup> and 2016 CNs Conversion	401,824,042	23.91%	1,278,537,504	76.09%	1,680,361,546
2017 CNs Conversion	13,333,333	100.00%	-	-	13,333,333
Post the Share Buyback <sup>2</sup> and RIM Allotments	415,157,375	24.51%	1,278,537,504	75.49%	1,693,694,879

<sup>1</sup> Assumes the maximum 75,000,000 shares are bought back  
<sup>2</sup> Assumes no shares are bought back

The graph below shows the range of shareholding levels for RIM and the Non-associated Shareholders, depending on the number of shares that the Company buys back under the Share Buyback.



## 1.7 Summary of Opinion

### *Share Buyback and 2016 CNs Conversion*

Our evaluation of the merits of the Share Buyback and the 2016 CNs Conversion as required under the Code is set out in section 2.

In our opinion, after having regard to all relevant factors, the positive aspects of the Share Buyback and the 2016 CNs Conversion outweigh the negative aspects from the perspective of the Non-associated Shareholders.

### *2017 CNs Conversion*

Our evaluation of the merits of the 2017 CNs Conversion as required under the Code is set out in section 3.

In our opinion, after having regard to all relevant factors, the positive aspects of the 2017 CNs Conversion outweigh the negative aspects from the perspective of the Non-associated Shareholders.

## 1.8 Annual General Meeting

Bathurst is holding its annual general meeting of shareholders on 28 November 2018, where the Company will seek shareholder approval of 2 resolutions which cover:

- the Share Buyback and the 2016 CNs Conversion (resolution 7 – the **Buyback Resolution**)
- the 2017 CNs Conversion (resolution 8 – the **Conversion Resolution**).

Both resolutions are ordinary resolutions (which are passed by a simple majority of the votes cast).

RIM and its associates are not permitted to vote on the Buyback Resolution or the Conversion Resolution.

Shareholders will also vote on resolutions in respect of:

- the re-election of Russell Middleton as a director (resolution 1)
- the re-appointment and remuneration of the Company's auditor (resolution 2)
- the issue of 1,055,000 performance rights to Richard Tacon (resolution 3)
- the issue of 1,000,000 performance rights to Russell Middleton (resolution 4)
- the issue of 250,000 performance rights to Toko Kapea (resolution 5)
- the issue of 250,000 performance rights to Peter Westerhuis (resolution 6)
- the replacement of the Company's constitution (resolution 9)
- the adoption of a new long term incentive plan (resolution 10)
- the issue of 2,954,545 performance rights to Richard Tacon (resolution 11)
- the issue of 1,636,364 performance rights to Russell Middleton (resolution 12).

## 1.9 Regulatory Requirements

As Bathurst is incorporated in New Zealand and has 50 or more shareholders, it is deemed to be a code company under the Code.

Rule 6 of the Code prohibits:

- a person and that person's associates who hold or control no voting rights or less than 20% of the voting rights in a code company from increasing their holding or control of voting rights beyond 20%
- a person and that person's associates holding or controlling 20% or more of the voting rights in a code company from increasing their holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

### *Share Buyback and 2016 CNs Conversion*

When a company buys back and cancels its shares, the percentage holding of any shareholder that does not participate in the buyback will increase. Consequently, if a company with a shareholder holding or controlling in excess of 20% of the voting rights (or a shareholder holding or controlling near to 20% of the voting rights) wishes to undertake a share buyback, the shareholder needs to rely upon an exemption to the Code.

The Takeovers Code (Class Exemptions) Notice (No 2) 2001 (the **Buyback Exemptions**) sets out a general exemption for share buybacks.

Clause 4 of the Buyback Exemptions provides an exemption for a shareholder holding or controlling (alone or with their associates):

- less than 20% of the voting rights in a code company to increase its holding or control of voting rights beyond 20%
- 20% or more of the voting rights in a code company to increase its holding or control of voting rights

via a share buyback, provided the buyback has been approved by an ordinary resolution of shareholders (excluding shareholders who will rely on clause 4 of the Buyback Exemptions (and their associates)).

Clause 5 of the Buyback Exemptions provides an exemption that does not require shareholder approval, provided the shareholder reduces its percentage holding to pre-buyback levels within 6 months.

As set out in section 1.6, the Share Buyback may result in RIM increasing its control of voting rights in the Company from 19.89% to 20.87% if it does not participate in the Share Buyback and the maximum 75,000,000 shares are bought back (before the RIM Allotments).

We understand that RIM has not provided any indication to Bathurst as to whether it plans to participate in the Share Buyback.

Accordingly, the Non-associated Shareholders will vote at the Company's annual general meeting on the Buyback Resolution.

In order to comply with the provisions of the Code, the Buyback Resolution also includes a "refresh" of the 2016 Approval.

In accordance with Clause 2(2) of Schedule 1 of the Buyback Exemptions, RIM and its associates are not permitted to vote on the Buyback Resolution.

Clause 3(g) of Schedule 1 of the Buyback Exemptions requires that the notice of meeting containing the resolution in respect of the Share Buyback must include or be accompanied by an Independent Adviser's Report that complies with Rule 18 of the Code as if:

- references in that rule to an acquisition under Rule 7(c) of the Code were references to the buyback by the code company made in accordance with the buyback exemption and
- the references to a notice of meeting were references to the notice of meeting referred to in this clause.

### **2017 CNs Conversion**

Another one of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The 2017 CNs Conversion will result in RIM holding or controlling between 24.51% and 25.65% of the voting rights in Bathurst (assuming the Buyback Resolution is approved and depending on the number of shares bought back by the Company under the Share Buyback).

Accordingly, in accordance with the Code, the Non-associated Shareholders will vote at the Company's annual general meeting on the Conversion Resolution.

RIM and its associates are not permitted to vote on the Conversion Resolution.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 16(h).

## **1.10 Purpose of the Report**

The Bathurst board of directors (the **Board**) has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of:

- the Share Buyback and of RIM retaining any increase in its voting rights in the Company
- the allotment of shares under the RIM Allotments.

Simmons Corporate Finance was approved by the Takeovers Panel on 26 September 2018 to prepare this Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Board for the benefit of the Non-associated Shareholders and to assist them in forming their own opinion on voting on the Buyback Resolution and the Conversion Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Share Buyback and of RIM retaining any increase in its voting rights and on the RIM Allotments in relation to each shareholder. Our advice and opinions are necessarily general in nature.



This Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

### **1.11 Currency References**

Current references in this report are to:

- A\$ - Australian dollars
- NZ\$ - New Zealand dollars.

## 2. Evaluation of the Merits of the Share Buyback and the 2016 CNs Conversion

### 2.1 Basis of Evaluation

Clause 3(g) of Schedule 1 of the Buyback Exemptions requires an evaluation of the merits of the Share Buyback and of RIM retaining any increase in its voting rights in the Company, having regard to the interests of the Non-associated Shareholders.

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares to RIM under the 2016 CNs Conversion having regard to the interests of the Non-associated Shareholders.

There is no legal definition of the term *merits* in either the Code or in any statute dealing with securities or commercial law in New Zealand.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated 1 March 2018
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the Share Buyback and of RIM retaining any increase in its voting rights in the Company and the merits of the 2016 CNs Conversion should focus on:

- the rationale for the Share Buyback
- the terms and conditions of the Share Buyback
- the financial impact of the Share Buyback
- the rationale for the 2016 CNs Conversion
- the impact of the Share Buyback and the 2016 CNs Conversion on the control of the Company
- the impact of the Share Buyback and the 2016 CNs Conversion on Bathurst's share price
- the benefits and disadvantages to the Non-associated Shareholders of the Share Buyback and the 2016 CNs Conversion
- the implications if the Buyback Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

## **2.2 Summary of the Evaluation of the Merits of the Share Buyback and the 2016 CNs Conversion**

**In our opinion, after having regard to all relevant factors, the positive aspects of the Share Buyback outweigh the negative aspects of RIM retaining any increase in their respective voting rights as a result of the Share Buyback from the perspective of the Non-associated Shareholders.**

**The 2016 CNs Conversion merely represents a “refresh” of the 2016 Approval so as to ensure compliance with the provisions of the Code due to the implementation of the Share Buyback.**

Our evaluation of the merits is set out in detail in sections 2.3 to 2.10.

In summary, the key factors leading to our opinion are:

- the rationale for the Share Buyback is sound
- the terms of the Share Buyback are reasonable. The Share Buyback is open to all shareholders and shares will be purchased on-market at the prevailing market price
- the financial impact of the Share Buyback is relatively minor. Based on a current share price of A\$0.113, total equity will reduce by approximately NZ\$9.2 million if the maximum 75,000,000 shares are bought back, with a corresponding decrease in cash. Earnings per share (**EPS**) would increase by 4% but net tangible assets (**NTA**) per share would decrease by 17%
- the rationale for the approval of the 2016 CNs Conversion is to “refresh” the 2016 Approval to ensure compliance with the provisions of the Code
- the Share Buyback will not increase RIM's ability to influence the outcome of shareholder voting to any significant degree. At most, its voting rights will increase by 0.98% prior to the RIM Allotments. At most, RIM's voting rights will increase by 5.76% after the RIM Allotments
- the Share Buyback should provide support for Bathurst's share price over the period of the Share Buyback
- the Share Buyback will improve the liquidity of the shares held by Non-associated Shareholders over the period of the Share Buyback
- the Share Buyback and the 2016 CNs Conversion is unlikely to reduce the attraction of Bathurst as a takeover target
- in the event of the Buyback Resolution not being approved, the Share Buyback will still proceed. The 2016 Approval would remain valid and RIM will still be entitled to convert its 2016 CNs into shares. However, if, as a result of the 2016 CNs Conversion and any buybacks under the Share Buyback, RIM's control of voting rights exceeds 20%, RIM will have to dispose of a certain number of its additional voting rights within 6 months of such increase in accordance with Clause 5 of the Buyback Exemptions.

## 2.3 Rationale for the Share Buyback

### *Board's Rationale*

The Board's key reasons for the Share Buyback are:

- the Company is in a strong financial position with minimal debt and significant cash, complemented by strong cash flows from its operations
- the Company has sufficient funds to meet its ongoing commitments and complete the Share Buyback
- the Share Buyback should be accretive in overall value.

### *Finance Theory*

The benefits of share buybacks have long been the focus of academic research and practitioners' debate. It is generally accepted that share buybacks can affect value as follows:

- by supporting the share price
- by being an efficient use of capital
- by creating a more efficient capital structure.

In reality however, the impacts can be difficult to quantify.

### *Supporting the Share Price*

There is some evidence to suggest that a share buyback has a signalling effect to the market. A share buyback could indicate to the market that a company's management is so confident of the company's prospects that it believes the best investment the company can make is in its own shares. On the other hand, the announcement of a share buyback has in instances been deemed an admission that the company cannot identify any other value creating opportunities in which to invest its capital.

A share buyback can also act to support a company's share price by creating buy-side demand.

### *Efficient use of Capital*

Companies often undertake share buybacks when they are of the view that the market is undervaluing their shares, therefore buying back those shares at the market price is an efficient use of the company's capital.

### *Capital Structure*

The share buyback is effectively an exchange of equity for debt, thereby increasing a company's leverage. In finance theory, increasing leverage can provide several benefits, such as:

- interest payments on debt are tax deductible, which means that the after-tax cost of debt is generally below shareholders' expected return on equity, hence reducing the company's average cost of capital
- debt supposedly serves as a discipline for a company's managers. Unlike equity, the need to pay cash to bondholders and banks prevents managers from investing in projects that earn returns below the company's cost of capital.

## Conclusion

Having considered all of the above, we are of the view that the rationale for the Share Buyback is sound.

## 2.4 Terms of the Share Buyback

The key terms of the Share Buyback are:

- the Company proposes to acquire up to 75,000,000 shares
- purchases may be made in the 12 month period from 28 August 2018
- the Company will pay the market price for the shares at the time of the purchase
- the Company intends to cancel any shares acquired under the Share Buyback (or the shares may be held as treasury stock).

The Share Buyback commenced on 25 October 2018.

We consider the terms of the Share Buyback to be reasonable:

- all shareholders may participate in the Share Buyback, but are not obliged to do so
- the buyback price is the current market price.

## 2.5 Financial Impact of the Share Buyback

A summary of Bathurst's recent financial performance and financial position is set out in sections 4.6 and 4.7.

The illustrative financial impact of the Share Buyback on the Company's financial results for the year ended 30 June 2018 is set out below, based on the following assumptions:

- Bathurst repurchases the maximum 75,000,000 shares at a price of A\$0.113 per share, being the one month volume weighted average share price (**VWAP**) to 6 November 2018 at a total cost of A\$8.5 million (NZ\$9.2 million)
- the Share Buyback is funded by cash
- the buy back effectively occurred on 1 July 2017, so that Bathurst had less cash for the full year ended 30 June 2018
- an interest rate of 1.0% on the cash, resulting in reduced annual interest received of A\$0.61 million (NZ\$0.66 million) (post-tax).

Illustrative Financial Impact of the Share Buyback			
	Year to 30 Jun 18 (Audited)	Share Buyback	Illustrative Post Share Buyback
Net profit after tax (NZ\$000)	5,548	(66)	5,482
EPS <sup>1</sup> (NZ cents)	0.35		0.36
Total equity (NZ\$000)	70,446	(9,212)	61,234
NTA per share <sup>1</sup> (NZ cents)	2.72		2.25
Total equity / total assets	59%		56%
<sup>1</sup> Based on the current number of shares on issue			

The illustrative analysis shows:

- EPS would increase by 4% to NZ\$0.0036
- NTA per share would reduce by 17% to NZ\$0.0225
- total equity / total assets would decrease from 59% to 56%.

## **2.6 Rationale for the 2016 CNs Conversion**

As stated in section 1.5, the 2016 Approval enables RIM to convert its 1,857 2016 CNs that it holds into 84,409,091 ordinary shares.

However, due to technicalities in the operation of the Buyback Exemptions, even if the Share Buyback was approved for the purposes of the Clause 4 of the Buyback Exemptions, RIM would nevertheless be prohibited from increasing its control of voting rights above the maximum percentage increase attributable to the Share Buyback (being 20.87%) for the duration of the buyback period (i.e. until 24 October 2019). This is due to the fact that the 2016 Approval did not anticipate any increase in RIM's percentage shareholding arising as a result of the Share Buyback (and nor could it have possibly done, as the Share Buyback was not contemplated at the time of the 2016 Approval).

As a result, without shareholder approval of the Buyback Resolution, RIM will not be able to convert all of the 2016 CNs that it holds prior to their maturity.

The Buyback Resolution therefore includes a "refresh" of the 2016 Approval which will have the effect of approving an increase in RIM's percentage shareholding above 20.87% as a result of the 2016 CNs Conversion.

## **2.7 Impact on Control**

### ***Capital Structure and Shareholders***

Bathurst currently has 1,595,952,455 fully paid ordinary shares on issue held by 3,437 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 28 September 2018 are set out in section 4.4.

### ***Shareholder Voting***

Any shareholder that does not participate in the Share Buyback will see an increase in their respective percentage of votes held or controlled, even though they will not increase the actual number of shares they hold.

We understand that RIM has not provided any indication to the Company as to whether it will participate in the Share Buyback. Assuming it does not participate, the Share Buyback will result in RIM controlling between 19.89% and 20.87% of the voting rights in the Company, depending on the number of shares bought back and prior to the completion of the RIM Allotments. This represents an increase of, at most, 0.98% in RIM's control of voting rights.

RIM's current level of voting rights of 19.89% does not enable it to singlehandedly pass or block special resolutions (which require the approval of 75% of the votes cast by shareholders) or to pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

RIM's 19.89% shareholding is technically not sufficient to singlehandedly block a special resolution. However, in reality, it most likely will be in a listed company with more than 3,400 shareholders (as Bathurst currently has). This is because a number of shareholders in listed companies tend not to vote on resolutions and hence the relative weight of the 19.89% interest increases.

As set out in section 1.6, the combination of the Share Buyback and the RIM Allotments will increase RIM's control of voting rights from 19.89% to up to 25.65%, depending on the number of shares bought back under the Share Buyback. The potential increase of up to 5.76% in voting rights for RIM will reinforce RIM's ability to singlehandedly block special resolutions but will not have any significant impact on its ability to control the outcome of an ordinary resolution.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the Code, the ASX Listing Rules and the Companies Act 1993.

Given the above, we are of the view that the Share Buyback and the RIM Allotments will not increase RIM's ability to exert shareholder control over Bathurst to any significant degree.

### **Board of Directors**

As set out in section 4.3, the Company currently has 4 directors, none of whom are associates of RIM.

We are advised by the Board that RIM has not sought any Board representation and that no appointment to the Board by a person nominated by RIM will result from the Share Buyback or the RIM Allotments.

### **Operations**

We are advised by the Board that RIM currently does not have any influence over the Company's operations and this is not expected to change following the Share Buyback or the RIM Allotments.

## **2.8 Impact on Share Price and Liquidity**

A summary of Bathurst's daily closing share price and monthly volume of shares traded from 4 January 2016 is set out in section 4.9.

The Share Buyback will be undertaken on-market at the current market price and therefore is likely to provide support for the Company's share price over the 12 month period of the Share Buyback.

The Share Buyback will have a positive impact on the liquidity of the shares held by the Non-associated Shareholders over the 12 month period of the Share Buyback as shareholders wishing to sell shares will be able to do so into the Share Buyback at the current market price.

## **2.9 Benefits and Disadvantages to Non-associated Shareholders**

### **Key Benefits**

The key benefit of the Share Buyback to the Non-associated Shareholders is that it will provide buy-side demand for the Company's shares, thereby improving liquidity over the term of the Share Buyback.



### **Main Disadvantage**

The main disadvantage is that the Share Buyback may increase RIM's voting rights from 19.89% to up to 20.87% (before the RIM Allotments) and up to 25.65% (following the RIM Allotments), thereby marginally increasing its ability to control the outcome of shareholder voting. However, we do not consider the increased level of control to be of any significance.

### **Unlikely to Change the Likelihood of a Takeover Offer from RIM**

We are not aware of any intention on RIM's part to make a takeover offer. However, if RIM did have such intent, an increase in its voting rights from 19.89% to up to 20.87% (before the RIM Allotments) and up to 25.65% (following the RIM Allotments) is unlikely to change the likelihood of a takeover offer from it as the increase in its level of voting rights is not significant from a control perspective.

### **Likelihood of Other Takeover Offers Does not Change**

We are of the view that the potential increase in RIM's voting rights arising from the Share Buyback and the RIM Allotments are unlikely to reduce the attraction of Bathurst as a takeover target to other parties.

### **RIM Will Not be Able to Creep**

Rule 7(e) of the Code permits a shareholder who holds or controls more than 50% but less than 90% of the voting rights in a code company to increase their voting rights by a maximum of 5% over a 12 month period without the need for shareholder approval (the **Creep Provisions**). The Creep Provisions do not apply to that shareholder's associates.

Neither the Share Buyback nor will the RIM Allotments result in RIM being able to utilise the Creep Provisions. If the Company buys back the maximum 75,000,000 shares under the Share Buyback and RIM does not participate in the Share Buyback, RIM's maximum shareholding will be 20.87% (before the RIM Allotments) and 25.65% (following the RIM Allotments), which is well below the threshold for the utilisation of the Creep Provisions.

## **2.10 Implications of the Buyback Resolution not Being Approved**

We are advised by the Board that if the Buyback Resolution is not approved, then the Share Buyback will still proceed as it commenced on 25 October 2018.

If the Buyback Resolution is not approved, the 2016 Approval remains valid and RIM will still be entitled to convert its 2016 CNs into shares. However, if, as a result of the 2016 CNs Conversion and any shares bought back under the Share Buyback, RIM's control of voting rights exceeds 20%, RIM will have to dispose of a certain number of its additional voting rights within 6 months of such increase in accordance with Clause 5 of the Buyback Exemptions.

This would be potentially disadvantageous to Non-associated Shareholders as the forced sale of shares by RIM may place downward pressure on the Company's share price.

## **2.11 Voting For or Against the Buyback Resolution**

Voting for or against the Buyback Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.



### 3. Evaluation of the Merits of the 2017 CNs Conversion

#### 3.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares to RIM under the 2017 CNs Conversion having regard to the interests of the Non-associated Shareholders.

We are of the view that an assessment of the merits of the allotment of shares to RIM under the 2017 CNs Conversion should focus on:

- the rationale for the 2017 CNs Conversion
- the impact of the RIM Allotments on Bathurst's financial position
- the impact of the RIM Allotments on the control of Bathurst
- the impact of the RIM Allotments on Bathurst's share price
- the benefits and disadvantages to the Non-associated Shareholders of the RIM Allotments
- the benefits and disadvantages to RIM of the RIM Allotments
- the implications if the Conversion Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

#### 3.2 Summary of the Evaluation of the Merits of the 2017 CNs Conversion

**In our opinion, after having regard to all relevant factors, the positive aspects of the 2017 CNs Conversion outweigh the negative aspects from the perspective of the Non-associated Shareholders.**

Our evaluation of the merits of the 2017 CNs Conversion is set out in detail in sections 3.3 to 3.11.

In summary, the positive aspects of the 2017 CNs Conversion are:

- the rationale for the 2017 CNs Conversion is sound:
  - it will allow RIM to convert the 2017 CNs that it holds. RIM already has shareholder approval to convert its 2016 CNs through the 2016 Approval (although this needs to be "refreshed" under the Buyback Resolution)
  - the 2017 CNs are deeply in-the-money as the conversion price is significantly lower than Bathurst's current share price
  - it will eliminate the need for the Company to outlay NZ\$575,000 of cash when RIM's 2017 CNs mature on 1 February 2021
- the RIM Allotments will have a small positive impact on the Company's financial position.

In summary, the negative aspects of the RIM Allotments are:

- RIM's level of voting rights will range from 24.51% to 25.65% following the RIM Allotments, depending on the number of shares bought back under the Share Buyback
- the dilutionary impact of the RIM Allotments on the Non-associated Shareholders will result in their current collective interests in the Company reducing by 6% (of which the vast majority (5%) is attributable to the 2016 CNs Conversion).

In our view, the RIM Allotments are unlikely to have any material impact on:

- the Company's share price in the near term
- the liquidity of the Company's shares in the near term
- the attraction of Bathurst as a takeover target.

The implications of the Conversion Resolution not being approved by the Non-associated Shareholders are that either:

- RIM will sell down a sufficient number of shares that it currently holds so that it can convert its 2017 CNs into ordinary shares and not breach the provisions of the Code. Assuming the Buyback Resolution is approved, this will necessitate the sale of 13,333,333 shares, which may place downwards pressure on the Company's share price, or
- Bathurst will need to outlay NZ\$575,000 of cash to repay the 2017 CNs when they mature on 1 February 2021 or
- RIM will sell the 2017 CNs to one or more non-associated parties, who may then elect to convert the 2017 CNs into shares.

There are a number of positive and negative features associated with the 2017 CNs Conversion. In our view, when the Non-associated Shareholders are evaluating the merits of the transaction, they need to carefully consider whether the negative aspects of the 2017 CNs Conversion, including the increased level of control that RIM will hold over Bathurst and the dilutionary impact, could justify voting against the Conversion Resolution with the outcome that RIM may look to sell up to 13,333,333 shares so it can convert its 2017 CNs or alternatively sell the 2017 CNs or the Company will need to outlay NZ\$575,000 of cash to repay RIM's 2017 CNs when they mature.

### **3.3 The Rationale for the 2017 CNs Conversion**

The purpose of the 2017 CNs Conversion is to enable RIM to convert the 500 2017 CNs that it holds into 13,333,333 new ordinary shares.

The 2017 CNs can be converted into ordinary shares at the election of the holder at any time until 10 days prior to maturity date.

Both the 2016 CNs and the 2017 CNs are deeply in-the-money as the respective conversion prices are significantly lower than Bathurst's current share price of A\$0.113:

- the 2016 CNs convert in ordinary shares at a conversion price of NZ\$0.0253 (a discount of 79% to the current share price)
- the 2017 CNs convert in ordinary shares at a conversion price of NZ\$0.043125 (a discount of 65% to the current share price).

If the Conversion Resolution is not approved, then either:

- Bathurst will need to pay NZ\$575,000 to RIM on 1 February 2021 when the 2017 CNs mature, or
- given that the 2017 CNs are deeply in-the-money, RIM may decide to sell a sufficient number of the shares that it currently holds and then convert its 2017 CNs into ordinary shares, ensuring that it does not breach the provisions of the Code. Assuming the Buyback Resolution is approved, this will require RIM to sell 13,333,333 shares so it can convert its 500 2017 CNs, or
- RIM may sell the 2017 CNs to one or more non-associated parties, who may then elect to convert the 2017 CNs into shares.

### 3.4 Impact on Financial Position

A summary of Bathurst's recent financial position is set out in section 4.7.

Bathurst's total equity as at 30 June 2018 was NZ\$70.4 million. This included NZ\$43.8 million attributable to the equity component of the CNs.

For illustrative purposes, if the RIM Allotments were to have occurred on 30 June 2018, Bathurst's total equity would increase by 4% to NZ\$73.1 million and equity per share would decrease by 2% to NZ\$0.0432 per share.

Illustrative Effect of the RIM Allotments on Bathurst's Financial Position			
	Equity (NZ\$000)	No. of Shares (000)	Equity / Share (NZ cents)
Total equity as at 30 June 2018	70,446	1,595,952 <sup>1</sup>	4.41
RIM Allotments	2,656	97,742	2.72
Post the RIM Allotments	<u>73,102</u>	<u>1,693,694</u>	<u>4.32</u>

<sup>1</sup> Based on the current number of shares on issue and before the Share Buyback

### 3.5 Impact on Control

Following the Share Buyback and the RIM Allotments, RIM will hold between 24.51% and 25.65% of the Company's shares and the Non-associated Shareholders will collectively hold between 74.35% and 75.49%, depending on how many shares are bought back under the Share Buyback.

As discussed in section 2.7, we are of the view that the RIM Allotments:

- will marginally increase RIM's ability to exert shareholder control over Bathurst
- will have no impact on RIM's control over the Board
- will have no impact on RIM's control over the Company's operations.

### 3.6 Dilutionary Impact

The RIM Allotments will result in the Non-associated Shareholders' shareholdings in the Company being diluted by 6%. The vast majority of the dilution is attributable to the 2016 CNs Conversion (5% of the 6%).

### **3.7 Impact on Share Price and Liquidity**

#### ***Unlikely to Impact on Share Price***

While the conversion issue prices for the CNs are significantly below the Company's current share price, the conversion terms of the CNs have been well publicised and are most likely already factored into the Company's share price.

Accordingly, we are of the view that the RIM Allotments are unlikely to have any significant impact on the Company's share price.

#### ***Liquidity of Bathurst Shares Unlikely to Change***

We are of the view that the RIM Allotments are unlikely to have any significant impact on the liquidity of the Company's shares as the size of the pool of shares held by the Non-associated Shareholders will not change under the RIM Allotments.

### **3.8 Key Benefit to RIM**

Assuming the Buyback Resolution is approved, the 2017 CNs Conversion provides RIM with the opportunity to increase its shareholding in Bathurst from between 23.91% and 25.03% to between 24.51% and 25.65%, depending on the number of shares bought back under the Share Buyback.

### **3.9 Disadvantages to RIM**

#### ***Exposure to the Risks of Bathurst***

The key issues and risks that are likely to impact upon the business operations of Bathurst are summarised in section 4.5. As RIM's shareholding level in Bathurst increases, so does its exposure to these issues and risks.

### **3.10 Other Issues**

#### ***Benefits to Bathurst of RIM as a Cornerstone Shareholder***

The RIM Allotments will enhance RIM's position as an important cornerstone strategic investor in the Company and further signals its confidence in the future prospects of Bathurst.

#### ***Preservation of the Company's Cash Reserves***

The 2017 CNs Conversion alleviates the need for Bathurst to repay NZ\$575,000 upon the maturity of RIM's 2017 CNs, thus preserving the Company's cash reserves.

However, given the rationale for the Share Buyback, this is unlikely to be a major positive factor for the Company.

#### ***Non-associated Shareholders Approval is Required***

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the 2017 CNs Conversion.

The 2017 CNs Conversion will not proceed unless the Non-associated Shareholders approve the Conversion Resolution.

#### ***Attraction of Bathurst as a Takeover Target is Unlikely to Change***

As stated in section 2.9, we do not consider that the RIM Allotments will impact on the attraction of Bathurst as a takeover target.

### **3.11 Implications of the Conversion Resolution not Being Approved**

If the Conversion Resolution is not approved, RIM would have 3 options in respect of its 2017 CNs:

- it could redeem its 2017 CNs for NZ\$575,000 of cash when they mature on 1 February 2021, or
- assuming the Buyback Resolution is approved, sell down 13,333,333 shares that it currently holds so that it can convert the 2017 CNs into ordinary shares and not breach the provisions of the Code, or
- sell the 2017 CNs to one or more non-associated parties, who may then elect to convert the 2017 CNs into shares.

Given that the 2017 CNs are deeply in-the-money, we consider it possible that RIM would elect to sell down a portion of its current shareholding and convert its 2017 CNs into ordinary shares.

This could be potentially disadvantageous to Non-associated Shareholders as the sale of a significant bloc of shares by RIM may place downward pressure on the Company's share price.

### **3.12 Voting For or Against the Conversion Resolution**

Voting for or against the Conversion Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

## 4. Profile of Bathurst Resources Limited

### 4.1 Background

The original Bathurst company was incorporated in Australia on 13 May 2007 as Bathurst Resources Pty Limited. It was converted to a public company on 11 October 2007 and renamed Bathurst Resources Limited (**BTU**). BTU listed its shares on the ASX on 14 December 2007 and on the main equities security market operated by NZX Limited (the **NZX Main Board**) on 26 November 2010.

The Company was incorporated in New Zealand on 27 March 2013 as Bathurst Resources (New Zealand) Limited. It changed its name to Bathurst Resources Limited on 18 December 2013.

On 23 June 2013, BTU implemented a scheme of arrangement (the **Scheme**) to re-domicile the head company of the Bathurst group to New Zealand. Under the Scheme, shareholders in BTU were issued one fully paid ordinary share in the Company for every one BTU share held and BTU became a wholly owned subsidiary of Bathurst.

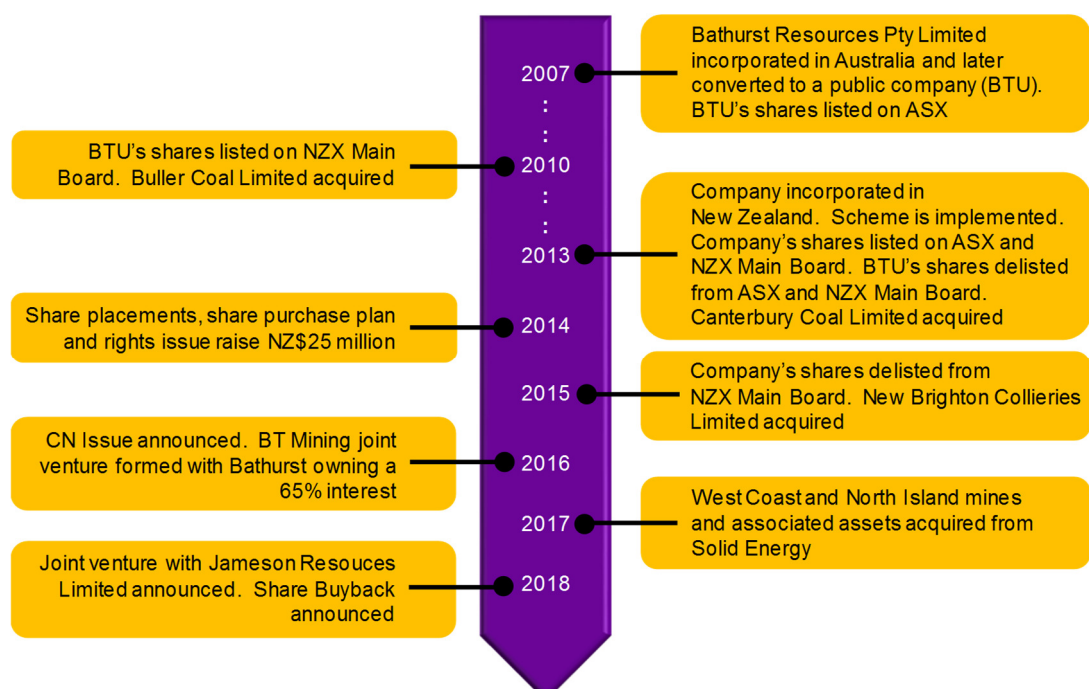
In conjunction with the Scheme, the Company listed its shares on the ASX and the NZX Main Board on 21 June 2013 and BTU delisted its shares from the ASX and NZX Main Board on 1 July 2013.

Bathurst delisted its shares from the NZX Main Board on 3 July 2015.

Bathurst holds a 65% shareholding in BT Mining, which on 31 August 2017 attained ownership of certain mining permits and licences of Solid Energy as well as the mining assets at the following mine sites:

- Buller Plateau operating assets of the Stockton Mine in the South Island
- Rotowaro Mine, Maramarua Mine and certain assets at Huntly West Mine located in the North Island.

The Company's key events are set out below.

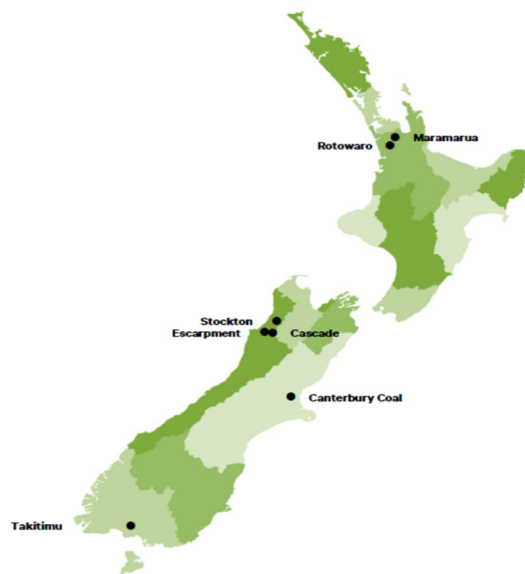


## 4.2 Nature of Operations

### Overview

Bathurst engages in the exploration and development of coal mining assets and the production of coal in New Zealand. It is New Zealand's largest coal producer, with 2.1 million tons (Mt) under management split across both export and domestic markets.

While Bathurst is listed on the ASX, the Company is based solely in New Zealand where it employs over 400 staff. Its registered head office is located in Wellington.



Source: Bathurst

### Export – Stockton (65% Equity Share)

Stockton is an open cut mine on the West Coast of the South Island, producing a low ash metallurgical coal for export primarily to Japan, Korea and India.

### North Island Domestic (65% Equity Share)

Rotowaro and Maramarua open cut mines are located in the Waikato region of the North Island.

Both mines have long term contracts to primarily supply the domestic steel and electricity industries, with the remainder supplied to local food production and other industries.

### South Island Domestic (100% Equity Share)

The Canterbury and Takitimu mines represent the existing Bathurst business prior to the acquisition of the Solid Energy mines.

Both mines produce energy coal which is low in sulphur and ash and high in demand by the local food processing industries that they supply.

The Canterbury mine is an open cast mine near Coalgate, 70 kilometres west of Christchurch.

The Takitimu mine is located at Nightcaps, north of Invercargill in Southland. It contains one of the few remaining pockets of sub-bituminous coal in the region.



### Buller (100% Equity Share)

The Buller project represents several mine permits on the Denniston Plateau on the West Coast of the South Island that are in close proximity to the Stockton mine operations. These include the Escarpment and Cascade mines for which mining permits are held, but which are currently on care and maintenance.

The Buller coalfield is regarded as one of New Zealand's most significant fields and is well known for its high quality, low ash and high fluidity coking coals, which are highly sought after by international steelmakers. Bathurst holds mine permits for more than 15,000 hectares.

A summary of the Company's and BT Mining's resources and reserves is set out below.

Bathurst and BT Mining Resources and Reserves					
Area	Coal Type	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
Buller Coal Projects <sup>1</sup>	Metallurgical	24.6	65.0	87.5	177.1
Southland / Canterbury	Thermal	2.5	5.2	4.8	12.5
North Island <sup>1</sup>	Thermal	4.1	6.5	1.5	12.1
Total		<u>31.2</u>	<u>76.7</u>	<u>93.8</u>	<u>201.7</u>

<sup>1</sup> Bathurst has a 65% interest in the BT Mining coal sites  
Source: Bathurst 2018 annual report

A summary of the Company's and BT Mining's recent production is set out below.

Bathurst and BT Mining Production			
	Year to 30 Jun 16	Year to 30 Jun 17	Year to 30 Jun 18
Coal mined (tonnes)	430,880	331,079	2,094,000 <sup>1</sup>
Overburden (bank cubic metres)	3,505,249	2,587,611	15,633,000 <sup>1</sup>

<sup>1</sup> Bathurst has a 65% interest in the BT Mining coal sites  
Source: Bathurst annual reports

## 4.3 Directors and Senior Management

The directors of Bathurst are:

- Toko Kapea – non-executive chair
- Russell Middleton – executive director and chief financial officer
- Richard Tacon – executive director and chief executive officer
- Peter Westerhuis – non-executive director.

The Bathurst senior management team is:

- Richard Tacon – executive director and chief executive officer
- Russell Middleton – executive director and chief financial officer
- Bill Lyne – company secretary
- Fiona Bartier – general manager, health, safety, environment and community
- Alison Brown – general counsel



- Carmen Dunick – general manager, human resources
- Ian Harvey – general manager, export operations
- Sam Johnstone – general manager, marketing and logistics
- Damian Spring – general manager, domestic operations.

#### 4.4 Capital Structure and Shareholders

##### Ordinary Shares

Bathurst currently has 1,595,952,455 fully paid ordinary shares on issue held by 3,437 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 28 September 2018 are set out below.

Bathurst's 10 Largest Shareholders		
Beneficial Shareholder	No. of Shares	%
HSBC Custody Nominees (Australia) Limited	624,427,161	39.13%
Citicorp Nominees Pty Limited	105,472,291	6.61%
Chng Seng Chye	91,878,788	5.76%
JP Morgan Nominees Australia Limited	51,937,471	3.25%
TH Investment Pte Limited	45,454,545	2.85%
Teo Peng Kwang	38,932,124	2.44%
Berne No 132 Nominees Pty Limited	27,888,773	1.75%
Armada Trading Pty Limited	24,114,272	1.51%
Ang Poon Liat	22,002,727	1.38%
John McCallum	20,392,966	1.28%
Top 10 shareholders	1,052,501,118	65.95%
Others (3,427 shareholders)	543,451,337	34.05%
Total	1,595,952,455	100.00%

*Source: Bathurst*

Bathurst has 3 beneficial shareholders holding more than 5% of the Company's shares:

- RIM – 317,414,951 shares (19.89%)
- Asian Dragon Acquisitions Limited – 151,611,069 shares (9.50%)
- Chng Seng Chye – 106,561,841 (6.68%).

##### Performance Rights

The Bathurst Long Term Incentive Plan (**LTIP**) was approved by the Company's shareholders in 2015. Performance rights granted under the LTIP carry no dividend or voting rights and are convertible into fully paid ordinary shares on a one-for-one basis at nil exercise price.

Bathurst has issued 3 forms of performance rights to its senior executives – transaction performance rights, completion performance rights and retention performance rights.

There are 16,130,559 performance rights on issue as at 28 September 2018 as set out in the table that follows.

Performance Rights as at 28 September 2018				
	Grant Date	Vesting Date	Last Exercise Date	No. on Issue
Transaction performance rights	6 Feb 2017	31 Dec 2018	31 Mar 2019	11,500,000
Completion performance rights	21 Dec 2017	31 Dec 2018	31 Mar 2019	1,980,559
Retention performance rights	3 Apr 2018	31 Dec 2018	31 Mar 2019	2,650,000
				<u>16,130,559</u>
Source: Bathurst				

## 4.5 Key Issues Affecting Bathurst

The main industry and specific business factors and risks that Bathurst faces include:

- the exploration for, and development of, mineral deposits involves significant risks. Exploration of Bathurst's exploration tenements may be unsuccessful, resulting in a reduction of the value of those tenements, diminution in cash reserves and possible relinquishment of the exploration tenements
- Bathurst's mineral exploration and planned development activities are subject to various laws, rules and regulations which are subject to potential significant change
- Bathurst faces production and other operational risks including weather conditions and natural disasters, disruption of power supply, unexpected technical problems, unanticipated geological conditions, equipment failures and disruptions of rail infrastructure and ship loading facilities
- commodity price volatility, driven by factors such as world demand for coal, forward selling by producers and production cost levels in major coal producing regions
- the renewal or grant of the term of each tenement or licence
- changes in New Zealand law and regulations in respect of the resources sector which may impact negatively on the Company's operations
- compliance with New Zealand law and regulations regarding environmental matters
- fluctuations in foreign exchange rates.

## 4.6 Financial Performance

A summary of Bathurst's recent financial performance is set out below.

Summary of Bathurst Financial Performance			
	Year to 30 Jun 16 (Audited) NZ\$000	Year to 30 Jun 17 (Audited) <sup>1</sup> NZ\$000	Year to 30 June 18 (Audited) NZ\$000
Revenue	50,879	41,591	47,817
Gross profit	10,523	9,212	14,963
EBITDAF	13,500	9,970	8,459
NPBT	1,031	(15,667)	5,548
NPAT	1,031	(15,667)	5,548
EPS (NZ cents)	0.11	(1.60)	0.40
<i>EBITDAF: Earnings before interest, tax, depreciation, amortisation and fair value adjustments</i> <i>NPBT: Net profit / (loss) before tax</i> <i>NPAT: Net profit / (loss) after tax</i> <i>1 Restated</i> <i>Source: Bathurst annual reports</i>			

Bathurst's revenue is derived from coal sales and freight.

The NZ\$15.7 million loss in the 2017 financial year was primarily due to a negative NZ\$12.5 million fair value movement on derivatives.

The 2018 financial year results included \$43.0 million in respect of Bathurst's 65% share of BT Mining's profits for the 10 months ended 30 June 2018 and negative NZ\$32.1 million of fair value movements on derivatives and borrowings.

## 4.7 Financial Position

A summary of Bathurst's recent financial position is set out below.

Summary of Bathurst Financial Position			
	As at 30 Jun 16 (Audited) NZ\$000	As at 30 Jun 17 (Audited) <sup>1</sup> NZ\$000	As at 30 Jun 18 (Audited) NZ\$000
Current assets	11,754	39,235	29,766
Non current assets	32,229	38,568	89,729
Total assets	43,983	77,803	119,495
Current liabilities	(8,953)	(33,438)	(10,048)
Non current liabilities	(15,079)	(38,141)	(39,001)
Total liabilities	(24,032)	(71,579)	(49,049)
Total equity	19,951	6,224	70,446
<i>1 Restated</i> <i>Source: Bathurst annual reports</i>			

Bathurst's current assets as at 30 June 2018 comprised mainly:

- cash and short term deposits of NZ\$24.2 million
- trade and other receivables of NZ\$3.9 million
- inventories of NZ\$1.2 million.

Non current assets as at 30 June 2018 comprised mainly:

- the 65% shareholding in BT Mining – NZ\$45.4 million
- mining licences, properties, exploration and evaluation assets – NZ\$26.3 million
- property, plant and equipment – NZ\$17.5 million (mainly plant and machinery and freehold land).

Liabilities as at 30 June 2018 comprised:

- borrowings (subordinated bonds, CNs, bank loans and lease liabilities) – NZ\$29.8 million
- deferred consideration – NZ\$7.6 million
- rehabilitation provisions – NZ\$5.9 million
- trade and other payables – NZ\$5.7 million.

The Company had total equity of NZ\$70.4 million as at 30 June 2018, comprising:

- contributed equity – NZ\$263.1 million
- debt instruments – equity components – NZ\$43.8 million
- reserves – negative NZ\$31.8 million
- accumulated losses – negative NZ\$204.7 million.

## 4.8 Cash Flows

A summary of Bathurst's recent cash flows is set out below.

Summary of Bathurst Cash Flows			
	Year to 30 Jun 16 (Audited) NZ\$000	Year to 30 Jun 17 (Audited) <sup>1</sup> NZ\$000	Year to 30 Jun 18 (Audited) NZ\$000
Net cash inflow from operating activities	10,241	9,163	21,208
Net cash (outflow) from investing activities	(6,401)	(15,836)	(25,289)
Net cash inflow / (outflow) from financing activities	<u>(2,980)</u>	<u>32,240</u>	<u>(4,632)</u>
Net increase / (decrease) in cash held	860	25,567	(8,713)
Opening cash balance	<u>2,465</u>	<u>3,325</u>	<u>28,892</u>
Closing cash balance	<u>3,325</u>	<u>28,892</u>	<u>20,179</u>

<sup>1</sup> Restated  
Source: Bathurst annual reports

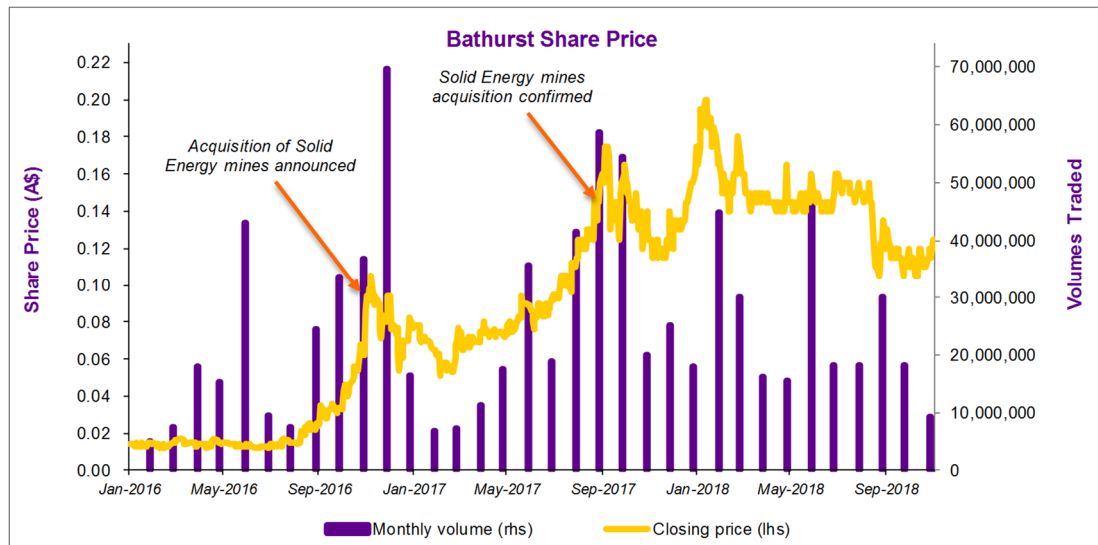
Net cash inflow from operating activities in the 2018 financial year included a NZ\$13.0 million dividend from BT Mining.

Cash outflows from investing activities each year include payments for exploration and consenting expenditure, mining assets and property, plant and equipment. NZ\$12.0 million (net) of advances were made to BT Mining in the 2018 financial year.

Bathurst raised NZ\$32.5 million (net) in the 2017 financial year from borrowings.

## 4.9 Share Price History

Set out below is a summary of Bathurst's daily closing share price and monthly volumes of shares traded from 4 January 2016 to 6 November 2018.



Source: S&P Capital IQ

During the period, Bathurst's shares have traded between A\$0.012 and A\$0.200 at a VWAP of A\$0.100.

An analysis of Bathurst's recent VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to 6 November 2018 is set out below.

Share Trading up to 6 November 2018					
Period	Low (A\$)	High (A\$)	VWAP (A\$)	Volume Traded (000)	Liquidity
1 month	0.105	0.125	0.113	7,907	0.5%
3 months	0.105	0.155	0.120	52,039	3.3%
6 months	0.105	0.160	0.136	140,737	8.8%
12 months	0.105	0.200	0.146	286,490	18.0%

Source: S&P Capital IQ

## **5. Sources of Information, Reliance on Information, Disclaimer and Indemnity**

### **5.1 Sources of Information**

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft notice of annual general meeting
- the Bathurst annual reports for the years ended 30 June, 2016 to 2018
- data in respect of Bathurst from the Company and S&P Capital IQ
- data in respect of RIM from S&P Capital IQ, company websites and industry publications.

During the course of preparing this report, we have had discussions with and / or received information from the Board and Bathurst's legal advisers.

The Board has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Share Buyback and the RIM Allotments that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by Bathurst to the Company's shareholders is sufficient to enable the Board and the Company's shareholders to understand all the relevant factors and to make an informed decision in respect of the Share Buyback and the RIM Allotments.

### **5.2 Reliance on Information**

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Bathurst and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Bathurst. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

### 5.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Bathurst will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Bathurst and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit, provided that this shall not absolve Simmons Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update this report.

We have had no involvement in the preparation of the notice of annual general meeting issued by Bathurst and have not verified or approved the contents of the notice of annual general meeting. We do not accept any responsibility for the contents of the notice of annual general meeting except for this report.

### 5.4 Indemnity

Bathurst has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Bathurst has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

## **6. Qualifications and Expertise, Independence, Declarations and Consents**

### **6.1 Qualifications and Expertise**

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFINZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

### **6.2 Independence**

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Bathurst or RIM or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Share Buyback and the RIM Allotments.

Simmons Corporate Finance has not had any part in the formulation of the Share Buyback and the RIM Allotments or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Buyback Resolution or the Conversion Resolution. We will receive no other benefit from the preparation of this report.

### **6.3 Declarations**

An advance draft of this report was provided to the Board for its comments as to the factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

### **6.4 Consents**

We consent to the issuing of this report in the form and context in which it is to be included in the notice of annual general meeting to be sent to the Company's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.



Peter Simmons  
Director

**Simmons Corporate Finance Limited**  
7 November 2018