

BAUXITE RESOURCES LIMITED

ACN 119 699 982

FIRST SUPPLEMENTARY TARGET'S STATEMENT

**BRL's Directors unanimously recommend you
REJECT the varied takeover Offer**

1. IMPORTANT INFORMATION

This document is a supplementary target's statement issued by Bauxite Resources Limited (ACN 119 699 982) (**BRL**) under section 644 of the *Corporations Act 2001* (Cth) (**Supplementary Target's Statement**) and is supplementary to BRL's target's statement dated and lodged with the Australian Securities and Investments Commission (**ASIC**) on 18 December 2017 (**Original Target's Statement**) in relation to the off-market takeover offer 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 BRL, which Mercantile OFM does not already own or control (**Offer**).

This Supplementary Target's Statement is dated 2 February 2018 and was lodged with the ASIC and given to the ASX on that date. The ASIC, the ASX nor any of their respective officers take any responsibility for the contents of this Supplementary Target's Statement.

This Supplementary Target's Statement supplements and must be read together with the Original Target's Statement. If there is a conflict between the Original Target's Statement and this Supplementary Target's Statement, this Supplementary Target's Statement will prevail. Unless the context otherwise requires, terms defined in the Original Target's Statement have the same meaning in this Supplementary Target's Statement.

Please consult your legal, financial or other professional adviser if you do not fully understand the contents of this Supplementary Target's Statement.

A copy of this Supplementary Target's Statement will be available on BRL's website (<http://www.bauxiteresources.com.au>).

2. REPLACEMENT OF THE INDEPENDENT EXPERT'S REPORT CONTAINED AT ANNEXURE B OF THE ORIGINAL TARGET'S STATEMENT

As announced on 19 January 2018 and further set out in a supplementary bidder's statement lodged by Mercantile OFM with ASIC on 25 January 2018 (**Second Supplementary Bidder's Statement**), Mercantile OFM varied the Offer to:

- (a) increase the Offer Price from \$0.09 to \$0.11 cash for one of every two BRL Shares; and
- (b) extend the Offer Period to 7:00pm (Sydney time) on 28 February 2018.

BDO Corporate Finance (WA) Pty Ltd (**BDO**), the Independent Expert who prepared the Independent Experts Report contained at Annexure B of the Original Target's Statement, has advised BRL that the Independent Experts Report has been amended to reflect a finding that the proposed Offer (as set out in the Second Supplementary Bidder's Statement) is fair and reasonable to the shareholders of BRL (**Updated Independent Expert's Report**).

A copy of the Updated Independent Expert's Report is provided as Attachment 1 of this Supplementary Target's Statement.

3. EFFECT OF CAPITAL RETURN

On 30 January 2018, BRL Shareholders approved the return of approximately \$10.721 million in capital to BRL Shareholders (**Capital Return**). The Capital Return will be effected through BRL paying each BRL Shareholder \$0.05 per BRL Share held on the record date (being 2 February 2018). BRL has now made three capital returns to shareholders totalling \$0.14 per BRL Share.

As set out in clause 6.7 of Appendix A to the Bidder's Statement, it is a term of the Takeover Offer that if a BRL Shareholder, or any previous BRL Shareholder of the applicable BRL Shares, has received the benefit of any "Rights" (which includes a return of capital) then Mercantile OFM may reduce the Offer Price by the value of such Rights.

Once the Capital Return is completed, the Offer Price will be reduced by the value of the Capital Return. As such, the Offer Price following completion of the Capital Return will be \$0.06 per BRL Share.

4. UPDATED BOARD RECOMMENDATION

The consideration being offered by Mercantile OFM under the Offer is \$0.11 for one of every two BRL Shares subject to the Offer (\$0.06 following completion of the Capital Return).

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.

Notwithstanding the increased Offer Price (as set out in the Second Supplementary Bidder's Statement), BRL's Board unanimously recommends that BRL Shareholders take no action and therefore **REJECT** the Offer.

BRL Directors and their associates who control approximately 27.8% of the BRL Shares on issue have advised the Company that they intend to REJECT the Offer.

The BRL Directors' reasons for their recommendation that you REJECT the Offer are as follows:

- (a) the Offer is for only 50% of your shareholding and remains at the lower end of BDO's valuation range on a control basis;
- (b) if Mercantile are successful in their bid for control of BRL, BRL Shareholders will still be left with 50% of their shareholding but are likely to have little or no capacity to influence the future direction of the Company with the increased prospect that there will be little market interest in BRL Shares given that Mercantile have stated they are going to effectively liquidate the assets of BRL and exit all the mining projects;
- (c) in contrast, if BRL's current board and management are retained, they will be able to continue to follow the combined Bauxite and Silica strategy that BRL has been undertaking, which strategy offers BRL Shareholders the potential for substantial value accretion over time. In this regard the BRL Board is currently considering the potential for spinning off its wholly owned subsidiary, Australian Silica Quartz (ASQ), and undertaking an in specie distribution of shares in ASQ to all BRL's shareholders;
- (d) BRL's current board and management have a track record for:
 - (i) the orderly marketing and sale of surplus assets,
 - (ii) substantially reducing the operating costs of BRL through reducing staff numbers, lowering premises rent through occupation of modest low key offices, and by reduction of board fees;
 - (iii) careful capital management through the return of surplus cash to BRL Shareholders; and
 - (iv) being able to internally generate at low cost new projects such as the recently announced Silica projects, with the potential to create substantial value for shareholders over time;
- (e) the Offer does not provide an adequate premium for control of BRL given it is only a proportional takeover offer for 50% of the BRL Shares;
- (f) Mercantile's intentions are not sufficiently clear, but to the extent that BRL's board understands their intentions, their aim is to liquidate the assets of the Company and exit the mining projects, which may result in significant value destruction since it takes time and patience for the realisation of full value of mining projects;
- (g) funding for the Offer is uncertain and you may be exposed to credit risk if you accept the Offer;
- (h) the Offer deprives the Company of the potential for an alternative opportunity; and
- (i) 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 given that Mercantile intend to effectively liquidate the Company.

It is far easier to destroy a company by acting as a liquidator than it is to generate new projects and create long term value for shareholders. The vision of your current board is to do the latter.

BRL's Directors unanimously recommend you REJECT the Offer. If the Bidder is serious and wants to effectively liquidate the Company, they should offer to buy all of the shares.

5. CONSENT

BDO Corporate Finance (WA) Pty Ltd has given, and has not withdrawn before the lodgement of this Supplementary Target's Statement with ASIC, its written consent to be named in the Supplementary Target's Statement and for the Independent Expert's Report to accompany this Supplementary Target's Statement, and for the inclusion of any statement said in this Supplementary 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 Supplementary Target's Statement;
- (b) does not make or purport to make any statement in this Supplementary Target's Statement or any statement on which a statement in this Supplementary Target's Statement is based, other than as included in the Independent Expert's Report and statements in this Supplementary Target's Statement based on its Independent Expert's Report; and
- (c) takes no responsibility for any part of this Supplementary Target's Statement other than the Independent Expert's Report and statements in this Supplementary Target's Statement based on the Independent Expert's Report and any reference to its name.

6. DIRECTORS' AUTHORISATION

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



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



BAUXITE RESOURCES LIMITED
Supplementary Independent Expert's
Report

2 February 2018



Financial Services Guide

2 February 2018

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) was engaged by Bauxite Resources Limited ('**Bauxite Resources**' or '**the Company**') to provide an independent expert's report on the 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 were provided with a copy of our report as a retail client because you are a shareholder of Bauxite Resources. Mercantile OFM have revised its offer to \$0.11 per share ('**Revised Offer**'), therefore we are providing a Supplementary to that report. The Supplementary report is attached.

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 our Report dated 15 December 2017 is approximately \$25,000. We approximate our fees for the provision of the Supplementary Report to be in the range of \$5,000 to \$10,000.

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 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

Contact details

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

2 February 2018

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

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Summary

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 25 January 2018, Mercantile issued a second supplementary Bidder's Statement which increased its offer from \$0.09 to \$0.11 and also extended the offer period to 28 February 2018 (**'the Revised Offer'**). We note that the Revised Offer will be reduced by \$0.05 in the event that the Revised Offer is accepted after the return of capital. As with the Offer, the Revised Offer is a proportional off-market takeover bid for one of every two shares held in Bauxite Resources.

BDO Corporate Finance (WA) Pty Ltd (**'BDO'** or **'we'** as appropriate) prepared an independent expert report dated 15 December 2017 (our **'Report'**) which was included in the Target's Statement dated 18 December 2017 issued to Shareholders in respect of the Offer.

The opinion expressed in our Report was that the Offer was neither fair nor reasonable for the non associated shareholders of Bauxite Resources (**'Shareholders'**). However, as set out below in our Supplementary Independent Expert's Report (**'Supplementary Report'**), in the absence of an alternate offer, we consider the Revised Offer to be fair and reasonable to Shareholders.

This Supplementary Report should be read in conjunction with our Report dated 15 December 2017 and the Company's previous Target's Statement, Supplementary Target's Statement and Second Supplementary Target's Statement.

All terms and conclusions remain consistent with those defined and stated in our Report dated 15 December 2017, unless stated otherwise.

2. Opinion

2.1 Fairness

In our Report dated 15 December 2017, we concluded that the Offer was not fair to Shareholders with the value ranges set out in the table below.

Fairness assessment per our Report dated 15-Dec-17	Low value \$	Preferred value \$	High value \$
Value of a Bauxite Resources share prior to the Offer on a control basis	0.110	0.121	0.133
Value of the Offer consideration	0.090	0.090	0.090

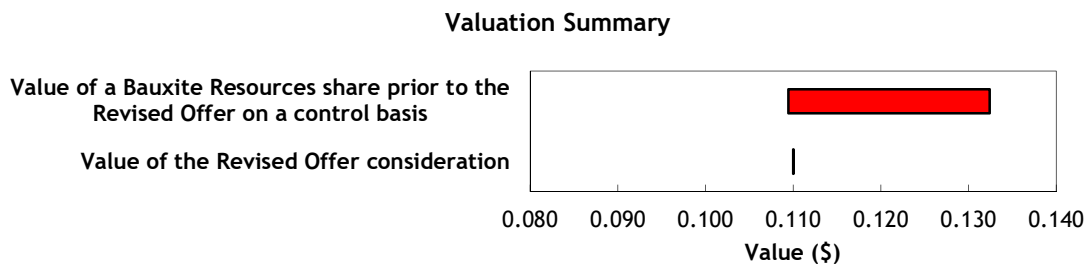
We have replaced the fairness section in our Report dated 15 December 2017 with the following. In Section 3 we determined that the Revised Offer consideration compares to the value of a Bauxite Resources share, as detailed below:

Fairness assessment	Low value \$	Preferred value \$	High value \$
Value of a Bauxite Resources share prior to the Revised Offer on a control basis	0.109	0.121	0.132
Value of the Revised Offer consideration	0.110	0.110	0.110

Source: BDO analysis

We note that the Revised Offer relates to one share for every two shares held.

The above valuation ranges are graphically presented below:



Source: BDO analysis

We note from the above analysis that the Revised Offer consideration is within the range of values of a Bauxite Resources share prior to the Revised Offer on a control basis. Pursuant to RG 111.11, an offer is fair if the value of the offer price is greater than or equal to the value of the securities the subject of the offer. Therefore, in the absence of any other relevant information, we consider that the Revised Offer is fair for Shareholders.

2.2 Reasonableness

For our assessment of the reasonableness of the Revised Offer, we refer to our reasonableness assessment relating to the Offer per our Report dated 15 December 2017. However, set out below are the



reasonableness factors that have changed as a result of the Revised Offer from Mercantile. Therefore, the below assessment of reasonableness should be read in conjunction with the reasonableness assessment from our Report dated 15 December 2017.

2.2.1 Additional advantages of accepting the Revised Offer

The Revised Offer is fair and is higher than our low and preferred values on a minority interest basis

The Offer of \$0.09 was not fair for Shareholders because it was less than our assessed value of a Bauxite Resources share. However, we consider the Revised Offer to be fair for Shareholders because the Revised Offer of \$0.11 falls within the range of values of a Bauxite Resources share on a controlling interest basis.

We also note that the Revised Offer is greater than our assessed low and preferred values on a minority interest basis and equal to our assessed high value on a minority interest basis as 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 Revised Offer	0.109	0.121	0.132
Minority interest discount	23%	20%	17%
Value of a Bauxite Resources share on a minority interest basis prior to the Revised Offer	0.084	0.097	0.110

2.2.2 Changes to the disadvantages of accepting the Revised Offer

In assessing the disadvantages of accepting the Revised Offer, we refer to our Report dated 15 December 2017, noting the following changes:

The Revised Offer is fair

RG 111.12 states that an offer is reasonable if it is fair. In our opinion the Revised Offer is fair and as such it is also reasonable. Per our Report dated 15 December 2017, the Offer was not fair, which provided a disadvantage to Shareholders. As detailed above, the Revised Offer is fair, therefore this no longer represents a disadvantage to Shareholders.

2.2.3 Changes to advantages of rejecting the Offer

In assessing the advantages of rejecting the Revised Offer, we refer to our Report dated 15 December 2017, noting the following changes:

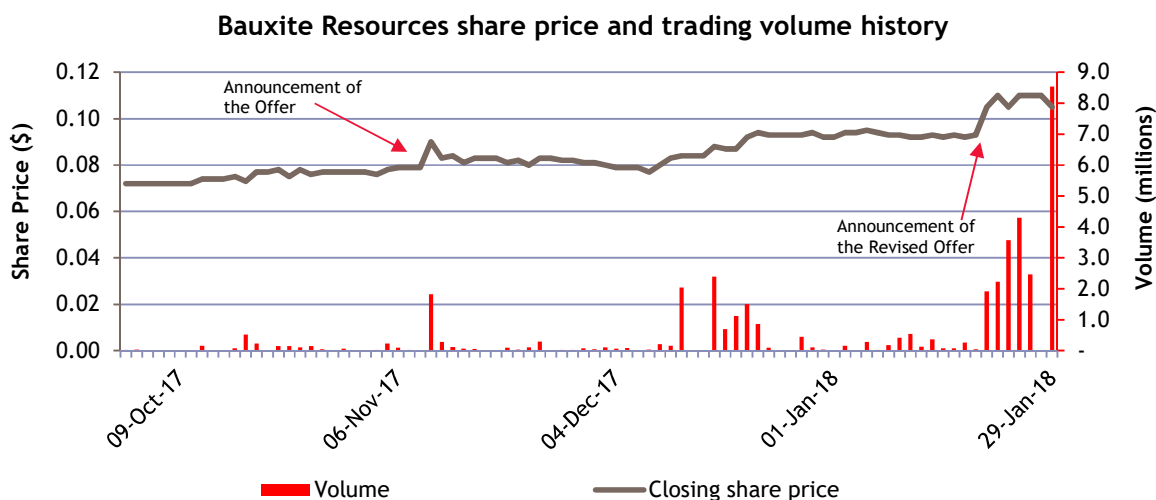
Shareholders who accept the Revised Offer may still be eligible for the proposed capital return of \$0.05 per share, but they will receive a reduced Revised Offer of \$0.06

As part of the Revised Offer, the offer period has been extended to 28 February 2018. On 30 January 2018, shareholders approved the return of capital of \$0.05 per share. Therefore, pursuant to the terms of the Revised Offer, if Shareholders have not accepted the Revised Offer prior to 2 February 2018 ('Record Date'), the Revised Offer will be reduced to \$0.06. Therefore, Shareholders can receive the proposed return of capital and the reduced Revised Offer. We note that the position of Shareholders who accept the Revised Offer, will not change, as they will still receive a total of \$0.11 for one of every two shares held.

2.2.4 Changes to other considerations

Post-announcement pricing

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



Source: Bloomberg

The Revised Offer was announced on 19 January 2018, with the share price increasing from \$0.093 on 18 January 2018 to close at \$0.105 on the day of the announcement of the Revised Offer. The share price continued to increase in the subsequent days to close at \$0.110 on 25 January 2018, with approximately 23.02 million shares traded in the five trading days following the announcement of the Revised Offer, representing approximately 10.7% of the Company's issued capital. The Company's share price closed at \$0.105 on 29 January 2018. The VWAP of the Company's shares over the five trading days following the announcement of the Revised Offer was \$0.1098.

The table below details the VWAP of Bauxite Resources' shares for the 10, 30 and 53 day periods subsequent to the announcement of the Offer on 8 November 2017 but prior to the announcement of the Revised Offer.

Share price per unit	04-Dec-17	10 Days	30 Days	53 Days
Closing price	\$0.079			
Volume weighted average price		\$0.081	\$0.085	\$0.097

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 \$0.085 over the 30 days following the announcement of the Offer. We note that Mercantile has provided change in substantial holdings notices following the Revised Offer which show that they have purchased shares on market, which has driven the increase in share price following the announcement of the Revised Offer.



As at 30 January 2018, Mercantile held approximately 13.7% of the Company's issued capital. In the event that Mercantile's holding increases over 19.99% by the close of the Revised Offer then any further acquisitions will be subject to the takeover provisions of the Corporations Act 2001 Cth ('the Act'). Therefore, Mercantile will be prohibited from acquiring additional shares in Bauxite Resources unless that acquisition falls within the exceptions provided by Section 611 of the Act, including the creep exception of 3% every six months. As such, Mercantile's ability to continue to purchase shares on market will be limited, therefore it is likely that following the close of the Revised Offer, the Company's share price may decline.

3. Changes to the value of Bauxite Resources prior to the Revised Offer

We have adjusted our valuation of Bauxite Resources to reflect movements in the Company's net asset position over the period subsequent to the release of our Report dated 15 December 2017. Based on the unaudited management accounts of Bauxite Resources as at 31 December 2017 and our discussions with management, we do not consider there to be any material changes to the net asset position other than the adjustment to cash as set out below.

Value of a Bauxite Resources share prior to the Revised Offer	Low value \$	Preferred value \$	High value \$
Net asset value of Bauxite Resources per Our Report dated 15 December 2017	23,641,302	26,046,302	28,561,302
Less: Cash expenditure incurred by the Company subsequent to Our Report	(175,528)	(175,528)	(175,528)
Adjusted net asset value of Bauxite Resources	23,465,774	25,870,774	28,385,774
Number of shares on issue	214,422,336	214,422,336	214,422,336
Value per share (\$)	0.109	0.121	0.132

Source: BDO analysis

We do not consider the cash expenditure incurred by the Company would materially affect the value of any other assets and liabilities included in our valuation of Bauxite Resources shares in our Report dated 15 December 2017. Therefore, we have not made any other adjustments to the Company's net asset position.

As detailed in our Report, we commissioned independent valuations from DRM and LMW. Both DRM and LMW have considered whether any new information has become available that would have a material impact on their valuations and have concluded that their valuations remain unchanged from those that were relied upon in our Report dated 15 December 2017.

Prior to deciding whether to accept the Revised Offer Shareholders should read our Report of 15 December 2017 in full to ensure they understand the assumptions that result in our range of values and our preferred value.

4. Valuation of the Revised Offer Consideration

The initial Offer was \$0.09 cash for one of every two shares held in Bauxite Resources. Pursuant to the terms of the Revised Offer, the Revised Offer Consideration is \$0.11 for one of every two shares held in Bauxite Resources.

We note that a return of capital of \$0.05 was approved by shareholders on 30 January 2018, therefore if Shareholders do not accept the Revised Offer prior to the Record Date then the Revised Offer will reduce by the return of capital amount. The position of Shareholders will not be affected by the timing of acceptance and return of capital as they will receive a total of \$0.11 for one of every two shares held.



5. Conclusion

We have considered the terms of the Revised Offer as outlined in the body of this Supplementary Report and our Report dated 15 December 2017 and have concluded that the Revised Offer for one of every two shares held is fair and reasonable for Shareholders.

This constitutes a change of opinion from the Offer being neither fair nor reasonable to Shareholders to the Revised Offer being fair and reasonable to Shareholders.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD

A handwritten signature in black ink, appearing to read 'Sherif Andrawes'.

Sherif Andrawes

Director

A handwritten signature in blue ink, appearing to read 'Adam Myers'.

Adam Myers

Director

Appendix 1 - Glossary of Terms

Reference	Definition
Record Date	The return of capital has a record date of 2 February 2018, being the date that determines entitlements to participate in the return of capital
Revised Offer	Mercantile increased its offer from \$0.09 to \$0.11 and also extended the offer period to 28 February 2018. The Revised Offer relates to one share for every two shares held.
Supplementary Report	Supplementary Independent Expert's Report prepared in relation to the Revised Offer
The Act	Corporations Act 2001 Cth