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BATHURST RESOURCES LIMITED

Financial statements for the year ended 30 June 2017

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The Directors of Bathurst Resources Limited authorised these financial statements for issue on behalf of the Board



Toko Kapea
Chairman, 31 August 2017



Russell Middleton
Director, 31 August 2017

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Bathurst Resources Limited**Income Statement**

For the year ended 30 June 2017

		2017	2016
	Notes	\$'000	\$'000
Revenue	3	41,591	50,879
Less: cost of sales	4	(32,379)	(40,356)
Gross Profit		9,212	10,523
Other income		618	460
Depreciation	15	(2,952)	(4,330)
Administrative and other expenses	5	(7,650)	(6,541)
Fair value gain on deferred consideration	22	1,749	2,175
Gain on disposal of fixed assets		110	122
Impairment losses	9	-	(100)
Share of joint venture loss	14	(569)	(28)
Finance cost	7	(3,212)	(1,334)
Finance income	7	796	84
(Loss)/profit before income tax		(1,898)	1,031
Income tax benefit	8	-	-
Total (loss)/profit after tax attributable to the owners of Bathurst Resources Limited		(1,898)	1,031
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:			
		Cents	Cents
Basic (loss)/earnings per share	26	(0.19)	0.11
Diluted (loss)/earnings per share	26	(0.19)	0.11

The above income statement should be read in conjunction with the accompanying notes.

Bathurst Resources Limited
Statement of Comprehensive Income
For the year ended 30 June 2017

	2017	2016
	\$'000	\$'000
Total (loss)/profit after tax	(1,898)	1,031
Other comprehensive loss, net of tax		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translation	-	(14)
Total comprehensive (loss)/income for the year, net of tax, Attributable to the Owners of Bathurst Resources Limited	(1,898)	1,017

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

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Bathurst Resources Limited

Balance Sheet

As at 30 June 2017

ASSETS	Notes	2017 \$'000	2016 \$'000
Current assets			
Cash and cash equivalents	10	28,892	3,325
Restricted short term deposits		3,808	2,628
Trade and other receivables	11	4,033	2,777
Inventories	12	2,083	1,901
Intangible assets – New Zealand emission units		233	313
Other financial assets		20	20
Assets held for sale	13	-	790
Total current assets		39,069	11,754
Non-current assets			
Loans to related parties	14	3,721	-
Property, plant and equipment	15	15,825	11,948
Mining licences, properties, exploration and evaluation assets	16	19,114	20,127
Other financial assets		114	154
Total non-current assets		38,774	32,229
TOTAL ASSETS		77,843	43,983
LIABILITIES			
Current liabilities			
Trade and other payables	20	7,677	5,167
Borrowings	21	23,591	2,563
Deferred consideration	22	953	873
Provisions	23	1,111	350
Total current liabilities		33,332	8,953
Non-current liabilities			
Trade and other payables	20	143	287
Borrowings	21	13,959	2,577
Deferred consideration	22	6,975	8,796
Provisions	23	2,874	3,419
Total non-current liabilities		23,951	15,079
TOTAL LIABILITIES		57,283	24,032
NET ASSETS		20,560	19,951
EQUITY			
Contributed equity	24	247,865	247,378
Debt Instruments – equity component	24	1,794	-
Reserves	25	(32,636)	(32,862)
Accumulated losses		(196,463)	(194,565)
TOTAL EQUITY		20,560	19,951

These financial statements were authorised for issue on behalf of the Board of Directors on 31 August 2017.



Toko Kapea
Chairman



Russell Middleton
Director

The above balance sheet should be read in conjunction with the accompanying notes.

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Bathurst Resources Limited

Statement of Changes in Equity

For the year ended 30 June 2017

	Contributed Equity	Debt Share Based Instrument Equity Component	Share Based Payment	Foreign Exchange	Retained Earnings	Re- organisation Reserve	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Balance at 1 July 2015	247,378	-	2,028	(140)	(197,587)	(32,760)	18,919
Profit for the year	-	-	-	-	1,031	-	1,031
Other comprehensive income	-	-	-	(14)	-	-	(14)
Transactions with owners in their capacity as owners:							
Share based payments expense	-	-	15	-	-	-	15
Conversion of performance rights and transfer of reserves	-	-	(1,991)	-	1,991	-	-
	-	-	(1,976)	-	1,991	-	15
Balance at 30 June 2016	247,378	-	52	(154)	(194,565)	(32,760)	19,951
Balance at 1 July 2016	247,378	-	52	(154)	(194,565)	(32,760)	19,951
Loss for the year	-	-	-	-	(1,898)	-	(1,898)
Other comprehensive income	-	-	-	-	-	-	-
Transactions with owners in their capacity as owners:							
Contributions of equity	487	1,794	-	-	-	-	2,281
Share based payments expense	-	-	226	-	-	-	226
Conversion of performance rights and transfer of reserves	-	-	-	-	-	-	-
	487	1,794	226	-	-	-	2,507
Balance at 30 June 2017	247,865	1,794	278	(154)	(196,463)	(32,760)	20,560

The above statement of changes in equity should be read in conjunction with the accompanying notes.

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Bathurst Resources Limited**Statement of Cash Flows**

For the year ended 30 June 2017

		2017	2016
	Notes	\$'000	\$'000
Cash flows from operating activities			
Receipts from customers		41,155	52,870
Payments to suppliers and employees		(31,992)	(42,473)
Interest received		81	99
Interest and other finance costs paid		(382)	(255)
Net cash inflow from operating activities	28	8,862	10,241
Cash flows from investing activities			
Exploration and consenting expenditure		(898)	(972)
Mining assets (including elevated stripping)		(5,759)	(4,050)
Property, plant and equipment purchases		(3,770)	(382)
Proceeds from disposal of property, plant and equipment		925	463
Restricted deposits		(1,225)	143
Deferred consideration		(809)	(1,603)
Advances paid to related parties		(4,290)	-
Net cash outflow from investing activities		(15,826)	(6,401)
Cash flows from financing activities			
Proceeds from borrowings		35,557	-
Repayment of borrowings		(3,026)	(2,980)
Net cash inflow/(outflow) from financing activities		32,531	(2,980)
Net increase in cash and cash equivalents		25,567	860
Cash and cash equivalents at the beginning of the year		3,325	2,465
Cash and cash equivalents at the end of the year	10	28,892	3,325

The above statement of cash flows should be read in conjunction with the accompanying notes.

1. Summary of significant accounting policies**A. General information**

Bathurst Resources Limited ("Company" or "Parent") is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is listed on the Australian Securities Exchange ("ASX"). Bathurst Resources Limited is a FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act 2013. These financial statements have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and ASX listing rules.

These financial statements have been approved for issue by the Board of Directors on 31 August 2017.

The financial statements presented as at and for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the "Group"). Joint ventures are accounted for using the equity method.

The Group is principally engaged in the exploration, development and production of coal.

B. Basis of preparation

These financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

These financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency. References in these financial statements to '\$' and 'NZ\$' are to New Zealand dollars.

All financial information has been rounded to the nearest thousand unless otherwise stated.

C. Measurement basis

These financial statements have been prepared under the historical cost convention, except certain financial assets and liabilities are measured at fair value through profit or loss.

D. Critical estimates, judgements and errors

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment

The future recoverability of the assets recorded by the Group is dependent upon a number of factors, including whether the Group decides to exploit its mine property itself or, if not, whether it successfully recovers the related asset through sale.

Factors that could impact future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes, and changes to commodity prices and foreign exchange rates. This impacts both an assessment of whether impairment should be recognised, as well as if there are indicators that previously recognised impairment should be reversed.

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1. Summary of significant accounting policies continued**D. Critical estimates, judgements and errors continued***(ii) Convertible Notes and Redeemable Convertible Preference Shares*

The conversion feature of the Convertible Notes and Redeemable Convertible Preference Shares ("RCPS") is included in Equity as Debt Instruments – equity component. The Group has made a judgement that the conversion feature of these debt instruments should be classified as equity. This judgement was made on the basis that the conversion feature satisfies the equity classification test of converting a fixed amount of debt principal to a fixed quantity of the Group's own shares (the 'fixed for fixed' test). As a result of this classification the value attributed to the conversion feature is not subsequently remeasured after initial recognition.

An alternative approach that the Group considered but did not adopt is that the fixed for fixed test is not met and as such does not satisfy the equity classification requirement. When the debt principal in AUD is translated to the Group's functional currency (NZD), this creates variability in the amount recorded. However because both the debt and share price conversion value are both in AUD, at the point of converting these instruments into the Group's shares, no further cash would change hands and the instrument holder would receive the same number of shares on conversion date as at issue date. Adoption of the alternative approach would mean that the conversion feature of the Convertible Notes and RCPS would be classified as a derivative liability and not equity. A derivative is re-measured at fair value through profit or loss at each reporting date.

(iii) Valuation of deferred consideration

In valuing the deferred consideration payable under business acquisitions management uses estimates and assumptions. This includes future coal prices, discount rates, coal production, and the timing of payments. The amounts of deferred consideration are reviewed at each balance date and updated based on best available estimates and assumptions at that time. The carrying amount of deferred consideration is set out in note 22.

(iv) Reserves & Resources

Reserves and resources are based on information compiled by a Competent Person as defined in accordance with the Australasian Code of Mineral Resources and Ore Reserves of 2012 (the JORC code). There are numerous uncertainties inherent in estimating reserves and assumptions that are valid at the time of estimation but that may change significantly when new information becomes available. Changes in forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status and may, ultimately, result in the reserves being restated. Such changes in reserves could impact on depreciation and amortisation rates, asset carrying values and provisions for rehabilitation.

(v) Provision for rehabilitation

In calculating the estimated future costs of rehabilitating and restoring areas disturbed in the mining process certain estimates and assumptions have been made. (Refer to Note 1(p)). The amount the Group is expected to incur to settle these future obligations includes estimates in relation to the appropriate discount rate to apply to the cash flow profile, expected mine life, application of the relevant requirements for rehabilitation, and the future expected costs of rehabilitation.

Changes in the estimates and assumptions used could have a material impact on the carrying value of the rehabilitation provision and related asset. The provision is reviewed at each reporting date and updated based on the best available estimates and assumptions at that time. The carrying amount of the rehabilitation provision is set out in Note 23.

(vi) Waste in advance

Waste moved in advance is calculated with reference to the stripping ratio (waste moved over coal extracted) of the area of interest and the excess of this ratio over the estimated stripping ratio for the area of interest expected to incur over its life. Management estimates this life of mine ratio based on geological and survey models as well as reserve information for the areas of interest.

1. Summary of significant accounting policies continued**E. Principles of consolidation****Subsidiaries**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the Company and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Contingent consideration (deferred consideration) to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be a financial asset or financial liability is recognised in accordance with NZ IAS 39 in profit or loss as "fair value (loss)/gain on deferred consideration".

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Joint arrangements

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the group's net investment in the joint venture), the group does not recognise further losses, except to the extent that the group has an obligation or has made payments on behalf of the investee.

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1. Summary of significant accounting policies continued**F. Foreign currency translation***(i) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(ii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at monthly average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

G. Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue from the sale of goods is recognised when there is an executed sales agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and when title has passed.

(ii) Freight income

Revenue from freight services is recognised in the accounting period in which the services are provided. Revenue is not recognised until the service has been completed.

(iii) Interest income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

H. Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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1. Summary of significant accounting policies continued**H. Income tax continued**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Company has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

I. Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

J. Financial instruments**(i) Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and short term deposits, other financial assets, loans to related parties, deferred consideration, borrowings and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or are cancelled.

Financial assets carried at amortised cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those that are not expected to be recovered within the next 12 months.

Management determines the classification of its investments at initial recognition.

Loans and receivables are subsequently carried at amortised cost using the effective interest rate method.

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1. Summary of significant accounting policies continued**J. Financial instruments continued****(i) Non-derivative financial instruments continued****Cash and cash equivalents**

Cash and cash equivalents in note 10 comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, and excluding restricted cash deposits.

Trade receivables

Trade receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

They are recognised initially at their fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

Deferred consideration

The fair value of deferred consideration payments is determined at acquisition date. Subsequent changes to the fair value of the deferred consideration are recognised through the income statement. The portion of the fair value adjustment due to the time value of money (unwinding of discount) is recognised as a finance cost. For further information on deferred consideration refer to note 22.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. Borrowings denominated in foreign currency are re-translated at each reporting period to account for un-realised foreign exchange movements.

The fair value of the liability portion of a convertible instrument is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Derivative financial instruments

Derivative instruments are initially recognised at fair value, and subsequently measured at fair value with movements in fair value recognised in profit or loss. Associated transaction costs are expensed as incurred.

From time to time the Group may use derivative financial instruments to hedge its exposure to commodity risks and foreign exchange risks arising from operational and financing activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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1. Summary of significant accounting policies continued**K. Impairment**

The Group assesses at the end of each reporting period whether there is objective evidence that an asset or group of assets is impaired.

Financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Non-financial assets

For non-financial assets, the recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Exploration and evaluation assets as well as property, plant and equipment are assessed for impairment collectively as part of their respective cash generating units.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

L. Property, plant and equipment

All property, plant and equipment are measured at cost less depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will flow to the Group. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is recognised in profit or loss over the estimated useful lives of each item of property, plant and equipment. Leasehold improvements and certain leased plant and equipment are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for significant items of property, plant and equipment are as follows:

- Buildings	25 years
- Mine infrastructure	3 – 8 years
- Plant and machinery	2 – 25 years
- Plant and machinery leased	Units of use
- Furniture, fittings and equipment	3 – 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(k)).

Any gain or loss on disposals of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

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1. Summary of significant accounting policies continued

M. Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is capitalised to the extent that the expenditure is expected to be recovered through the successful development and exploitation of the area of interest, or the exploration and evaluation activities in the area of interest have not yet reached a point where such an assessment can be made. All other exploration and evaluation expenditure is expensed as incurred.

Capitalised costs are accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that tenure is current and they are expected to be recouped through the successful development of the area (or, alternatively by its sale) or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and operations in relation to the area are continuing.

Accumulated costs in relation to an abandoned area are written off in full against profit in the period in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

N. Mining and development properties

Mining and development properties include the cost of acquiring and developing mining properties, licenses, mineral rights and exploration, evaluation and development expenditure carried forward relating to areas where production has commenced.

These assets are amortised using the unit of production basis over the proven and probable reserves.

Amortisation starts from the date when commercial production commences.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably.

O. Waste in advance

Waste removed in advance costs incurred in the development of a mine are capitalised as parts of the costs of constructing the mine and subsequently amortised over life of the relevant area of interest or life of mine if appropriate (herein referred to as "life of mine").

Waste removal normally continues through the life of the mine. The Group defers waste removal costs incurred during the production stage of its operations and discloses it within the cost of constructing the mine.

The amount of waste removal costs deferred is based on the ratio obtained by dividing the volume of waste removed by the tonnage of coal mined. Waste removal costs incurred in the period are deferred to the extent that the current period ratio exceeds the life of mine ratio. Costs above the life of ore component strip ratio are deferred to waste removed in advance. The stripping activity asset is amortised on a units of production basis. The life of mine ratio is based on proven and probable reserves of the operation.

Waste moved in advance costs form part of the total investment in the relevant cash generating unit, which is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Changes to the life of mine stripping ratio are accounted for prospectively.

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1. Summary of significant accounting policies continued**P. Provisions***Provision for rehabilitation*

Provisions are made for site rehabilitation costs relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. The provision is based on management's best estimate of future costs of rehabilitation. When the provision is recognised, the corresponding rehabilitation costs are recognised as part of mining property and development assets. At each reporting date, the rehabilitation liability is re-measured in line with changes in the timing or amount of the costs to be incurred. Changes in the liability relating to rehabilitation of mine infrastructure and dismantling obligations are added to or deducted from the related asset.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written down to nil and the excess is recognised immediately in the income statement. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying value is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the write down recognised in the income statement in the period in which it occurs.

The net present value of the provision is calculated using an appropriate discount rate, the unwinding of the discount applied in calculating the net present value of the provision is charged to the income statement in each reporting period and is classified as a finance cost.

Q. Share-based payments

Share-based compensation benefits are provided to employees via the Bathurst Resources Limited Long Term Incentive Plan.

The fair value of performance rights granted under the Bathurst Resources Limited Long Term Incentive Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Company revises its estimates of the number of rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

R. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, those under which a significant portion of the risks and rewards of ownership are transferred to the company, are capitalised at the lease's inception at the fair value of the leased property, or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

1. Summary of significant accounting policies continued**S. Intangible assets – emissions trading units**

Emissions trading units are acquired by the Group to satisfy its obligations under the New Zealand Emissions Trading Scheme. These units have a finite useful life but are not amortised because they are expected to be utilised to offset the Group's obligation under the Emissions Trading Scheme within 12 months of balance date. The units are recognised at cost.

T. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authorities, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense item as applicable. Receivables and payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

U. Contributed equity

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

V. Earnings per share*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

W. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

1. Summary of significant accounting policies continued

X. New accounting standards and interpretations not yet effective

At the date of authorisation of the financial statements, three accounting standards were on issue but not yet effective. The Group does not intend to apply these pronouncements until their effective date.

- (i) **NZ IFRS 9 *Financial Instruments***
Effective for periods beginning on or after 1 January 2018, expected to be applied in the financial year ending 30 June 2019. The standard adds requirements related to the classification, measurement of financial instruments. No material impact is expected from the adoption of this standard.
- (ii) **NZ IFRS 15 *Revenue from contracts with customers***
Effective for periods beginning on or after 1 January 2018, expected to be applied in the financial year ending 30 June 2019. The standard details a comprehensive principles based approach on how to recognise revenue from contracts with customers. It is expected that this standard may affect the Group's recognition of certain revenue items but is not expected to have a material impact.
- (iii) **NZ IFRS 16 *Leases***
Effective for periods beginning on or after 1 January 2019, expected to be applied in the financial year ending 30 June 2020. The standard eliminates the distinction between operating and finance leases. A formal impact assessment is yet to be undertaken.

Y. Standards and Interpretations adopted during the year

The financial information presented for the year ended 30 June 2017 has been prepared on the basis of accounting policies consistent with those applied in the 30 June 2016 financial statements contained within the 2016 Annual Report of Bathurst Resources Limited.

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2. Segment information

Management has determined operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board reviews the business from both a mine and geographic perspective and has identified two reportable segments. The Buller Coal segment relates to the mining, development and ultimate exploitation of permits under the Buller Coal management team in the Buller region of New Zealand. The Eastern Coal segment refers to the Takitimu and Canterbury mines and Timaru coal handling and distribution centre under the Eastern management team. The financial performance of these segments is monitored and operated separately from each other.

All other operations of the Group are classified within "Corporate" section of the segment note which encompasses the administration and treasury management of the Group.

Revenue is not presented to the chief operating decision maker on a segmented basis, instead it is presented as a sales function across the Group.

Total assets and total liabilities are reported on a group basis and are not provided internally on a segmented basis.

Two Bathurst customers met the reporting threshold of 10 percent of Bathurst's operating revenue in the year to 30 June 2017, contributing \$11.4m and \$5.7m (2016: two customers contributing \$10.4m and \$9.4m).

The segment information provided to the Board for the reportable segments is as follows:

	Buller Coal \$'000	Eastern Coal \$'000	Corporate \$'000	Total \$'000
30 June 2017				
EBITDA ¹	(1,184)	15,497	(3,163)	11,150
Profit before tax	(1,294)	4,604	(5,208)	(1,898)
<i>Profit before tax includes:</i>				
Depreciation and amortisation	(44)	(10,529)	(59)	(10,632)
30 June 2016				
EBITDA	3,949	11,502	(1,951)	13,500
Profit before tax	3,419	244	(2,632)	1,031
<i>Profit before tax includes:</i>				
Net impairment losses	(3)	(97)	-	(100)
Depreciation and amortisation	(257)	(10,866)	(97)	(11,220)
3. Sales revenue				
			2017	2016
			\$'000	\$'000
Coal sales			29,063	36,981
Freight			12,528	13,898
Sales Revenue			41,591	50,879

¹ Earnings before interest, tax, depreciation and amortisation

4. Cost of sales

	2017	2016
	\$'000	\$'000
Raw materials, mining costs and consumables used	7,124	12,632
Freight costs	11,508	13,060
Mine labour costs	6,253	8,705
Amortisation expenses	7,680	6,890
Changes in inventories of finished goods and work in progress	(186)	(931)
Total cost of sales	32,379	40,356

5. Administrative and other expenses

Administrative and other expenses includes the following items:

Audit and review fees	176	172
Directors fees	282	248
Legal fees	1,112	542
Consultants	1,144	1,133
Employee benefit expense	2,557	2,210
Rent	271	307
Share based payments expense	226	15

Included in the above for the current year is \$0.80m of legal fees and \$0.47m of consulting fees relating to due diligence work on purchasing certain mine site assets from Solid Energy, via the Company's joint venture BT Mining Limited ("BT"). For further information refer to note 18.

6. Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the Group:

Audit and review of financial statements	176	170
Share registry audit	-	2
Total remuneration for auditors	176	172

7. Net finance costs

Interest income	142	81
Foreign exchange gain	654	3
Total finance income	796	84
Interest expense	(2,216)	(335)
Foreign exchange loss	-	(5)
Provisions: unwinding of discount	23	(173)
Deferred consideration: unwinding of discount	22	(821)
Total finance costs	(3,212)	(1,334)
Total net finance costs	(2,416)	(1,250)

Included in the above interest expense is \$1.9m relating to the debt instruments issued during the year. The debt instruments were issued primarily to enable funding in the Company's joint venture BT (refer note 18 and 21 for further information).

8. Income tax benefit

	Notes	2017 \$'000	2016 \$'000
(a) Income tax benefit			
Current tax		(480)	1,111
Deferred tax		480	(1,111)
Income tax benefit		-	-
Reconciliation of income tax benefit to prima facie tax payable			
(Loss)/profit before income tax		(1,898)	1,031
Tax at the standard New Zealand rate of 28%		(531)	289
<i>Tax effects of amounts not assessable in calculating taxable income:</i>			
Share based payment expense		63	4
Fair value gain on deferred consideration		(511)	(609)
Deferred consideration: unwinding of discount		220	230
Tax losses not recognised		511	17
Other deferred tax movements		(257)	(100)
Permanent adjustments		505	169
Income tax benefit		-	-
Further information relating to deferred tax is set out in note 19.			
(b) Imputation credits			
New Zealand imputation credit account		-	815
Available for use in future periods		-	815
9. Impairment losses			
Impairment of exploration and evaluation assets	16	-	374
Impairment of plant, property and equipment	15	-	97
Reversal of impairment		-	(608)
Impairment of other assets		-	237
Total impairment losses		-	100

Management has assessed the cash generating units ("CGU") for the Group as follows:

- Bathurst Domestic Coal, as the coal yard cannot generate its own cash flows independent of the mine. Bathurst Domestic Coal includes Canterbury Coal, Takitimu mine and the Timaru coal yard.
- Buller Coal Project, as there is a large amount of shared infrastructure between the proposed mines, necessary blending of the pit products at the same site, and the similar geographical location of the pits.
- Cascade mine, as the mine has had established domestic markets which allow a profitable operation without relying on the infrastructure to be built for the Buller Coal Project.

Management assessed each CGU for indicators of impairment, or indicators that previously recognised impairment losses may no longer be relevant, where appropriate. Further details for each CGU are noted below.

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9. Impairment losses continued**Bathurst Domestic Coal**

No indicators of impairment were present at 30 June 2017, and no impairment was recorded as at 30 June 2017.

Buller Coal Project

The Buller Coal Project was previously fully impaired in the year ended 30 June 2015, in the context of reducing coking coal prices. The Buller Coal Project has remained on care and maintenance and Management has no immediate plans to reinstate the project. As such the CGU remains fully impaired at 30 June 2017.

Cascade Mine

The Cascade mine was placed on care and maintenance during the year ended 30 June 2016 and remains on care and maintenance at 30 June 2017. The only remaining assets attributable to this CGU are low levels of inventory, which are held at the lower of cost and net realisable value.

10. Cash and cash equivalents

	2017	2016
	\$'000	\$'000
Cash at bank and on hand	3,950	3,325
Cash held in escrow	24,942	-
	<u>28,892</u>	<u>3,325</u>

Cash and cash equivalents includes cash called in accordance with debt instruments issued during the period (refer to note 21). The cash is held in escrow, is unrestricted, and will be used to settle the acquisition of certain Solid Energy assets via the Company's joint venture BT (for further information see note 18).

11. Trade and other receivables

Trade receivables	3,264	3,049
Less: provision for impairment	(500)	(500)
	<u>2,764</u>	<u>2,549</u>
Receivable from BT	823	-
Other receivables	410	212
Prepayments	36	16
	<u>4,033</u>	<u>2,777</u>

The provision for impairment relates to the Company's joint venture Bathurst Industrial Coal Limited.

12. Inventories

Raw materials and stores	241	857
Finished goods	1,563	1,010
Other	279	34
	<u>2,083</u>	<u>1,901</u>

13. Assets held for sale

Previous assets held for sale (\$790k at 30 June 2016) included a residential property subject to a conditional sale and purchase agreement and some heavy machinery listed for sale. These were sold in the year ended 30 June 2017.

14. Loans to Related Parties

	2017	2016
	\$'000	\$'000
Loan to BT	4,290	-
Share of BT's Loss	(569)	-
	<u>3,721</u>	<u>-</u>

The loan enabled BT to pay the deposit required under the conditional sale and purchase agreement ("SPA") to acquire selected Solid Energy assets, and provided working capital. The Company's contribution to fund the deposit was in proportion to the Company's shareholding. The loan is not secured, does not attract interest, and can be settled either by cash or converted to an investment in BT. It is expected that on completion of the SPA, the loan will be transferred to represent an equity investment in BT.

The share of BT's loss represents the Company's proportionate share of the loss recorded in BT for the year ended 30 June 2017. BT is not yet operating and the loss reflects transaction costs of the intended asset acquisitions.

15. Property, plant and equipment

	Freehold Land	Buildings	Mine Infrastructure	Plant & Machinery	Furniture fittings and equipment	Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000		\$'000
Year ended 30 June 2017							
Opening net book value	1,970	796	347	8,598	219	18	11,948
Additions	2,347	68	14	3,579	73	774	6,855
Transfers	82	150	(20)	(200)	-	(12)	-
Depreciation	(889)	(112)	(196)	(1,648)	(107)	-	(2,952)
Assets held for sale and other disposals	-	-	-	(26)	-	-	(26)
Closing net book value	<u>3,510</u>	<u>902</u>	<u>145</u>	<u>10,303</u>	<u>185</u>	<u>780</u>	<u>15,825</u>
As at 30 June 2017							
Cost	16,967	6,085	2,669	22,879	2,236	12,904	63,740
Accumulated depreciation and impairment	(13,457)	(5,183)	(2,524)	(12,576)	(2,051)	(12,124)	(47,915)
Closing net book value	<u>3,510</u>	<u>902</u>	<u>145</u>	<u>10,303</u>	<u>185</u>	<u>780</u>	<u>15,825</u>
Year ended 30 June 2016							
Opening net book value	9,854	892	803	4,891	312	400	17,152
Additions	-	15	15	4,615	49	18	4,712
Transfers	-	-	82	300	16	(398)	-
Depreciation	(2,509)	(111)	(471)	(1,090)	(149)	-	(4,330)
Impairment recognised	-	-	(82)	(15)	-	-	(97)
Impairment reversed	720	-	-	61	-	-	781
Assets held for sale and other disposals	(6,095)	-	-	(164)	(9)	(2)	(6,270)
Closing net book value	<u>1,970</u>	<u>796</u>	<u>347</u>	<u>8,598</u>	<u>219</u>	<u>18</u>	<u>11,948</u>
As at 30 June 2016							
Cost	14,538	5,867	2,675	19,526	2,163	12,142	56,911
Accumulated depreciation and impairment	(12,568)	(5,071)	(2,328)	(10,928)	(1,944)	(12,124)	(44,963)
Net book value	<u>1,970</u>	<u>796</u>	<u>347</u>	<u>8,598</u>	<u>219</u>	<u>18</u>	<u>11,948</u>

15. Property, plant and equipment continued

Included in property, plant and equipment above are the following amounts where the Group is a lessee under a finance lease:

	2017 \$'000	2016 \$'000
Cost	6,473	5,037
Accumulated depreciation	(1,232)	(766)
Net book value	5,241	4,271

16. Mining licences, properties, exploration, and evaluation assets

Exploration and evaluation assets

Opening balance	1,245	650
Expenditure capitalised	777	969
Impairment recognised	-	(374)
Total exploration and evaluation assets	2,022	1,245

Mining licenses and property assets

Opening balance	18,882	21,848
Expenditure capitalised	30	-
Amortisation	(7,680)	(6,890)
Abandonment provision movement	132	93
Waste moved in advance capitalised	5,728	3,831
Total mining licenses and property assets	17,092	18,882

Total mining licenses, property, exploration and evaluation assets

19,114 **20,127**

17. Investment in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2017 %	2016 %
BR Coal Pty Limited	Australia	Ordinary	100	100
Bathurst New Zealand Limited	New Zealand	Ordinary	100	100
Bathurst Coal Holdings Limited	New Zealand	Ordinary	100	100
Buller Coal Limited	New Zealand	Ordinary	100	100
Bathurst Coal Limited	New Zealand	Ordinary	100	100
New Brighton Collieries Limited	New Zealand	Ordinary	100	100

All subsidiary companies have a balance date of 30 June, are predominantly involved in the coal industry and have a functional currency of New Zealand dollars with the exception of BR Coal Pty Ltd which has a functional currency of Australian dollars.

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18. Joint Ventures*BT Mining Limited*

The Company holds a 65% shareholding in BT, which was incorporated on the 21 September 2016. On the 2 November 2016 BT successfully entered into a conditional sale and purchase agreement ("SPA") with Solid Energy. Under the agreement BT will acquire certain coal mining assets located in New Zealand, including:

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

The Company invested \$20.4m on 28 August 2017 to allow BT to complete its sale and purchase obligations, and provide working capital. This was based on the Company's proportional share of BT's final purchase price for the coal mining assets, and working capital requirements. The economic interest held in these assets will be finalised post settlement, and is effective from 1 July 2017 up to the date of settlement.

BT is accounted for using the equity method, and is treated as a joint venture as the Company jointly shares control of BT with BT's other shareholder, Talley's Energy Limited ("TEL"). This is evidenced through unanimous approval being required on activities that significantly affect BT's operations. The material balances sitting in BT's Balance Sheet at 30 June 2017 were loans due to related parties (\$6.6m) and deposit paid to Solid Energy (\$4.6m). BT secured bank funding of \$15.0m which was drawn on the 30 August 2017 to provide working capital in advance of the intended SPA.

The legal ownership of the associated mining permits and licenses transferred to BT on settlement of the SPA which was the 31 August 2017, which is considered to be the acquisition date. Other key conditions met include approval from the New Zealand Overseas Investment Office (received 27 July 2017), approval from New Zealand Petroleum and Minerals ("NZP&M") to transfer the key mining licences (received 14 June 2017), and acceptable owner status granted by NZ Treasury on 25 August 2017.

Bathurst Industrial Coal Limited

The Company holds 50% shareholding in Bathurst Industrial Coal Limited. This venture has ceased to operate and it is intended that this entity will be wound up.

19. Net Deferred tax asset

	2017 \$'000	2016 \$'000
The balance comprises temporary differences attributable to:		
Tax losses	14,621	14,010
Employee benefits	196	184
Provisions	1,322	1,246
Mining licenses	16,661	16,422
Exploration and evaluation expenditure	421	1,446
Property, plant and equipment	8,175	8,003
Total deferred tax assets	41,396	41,311
Waste moved in advance	(787)	(1,057)
Total deferred tax liabilities	(787)	(1,057)
Net deferred tax asset not recognised	(40,609)	(40,254)
Net deferred tax asset	-	-

The Group has not recognised a net deferred tax asset of \$40.6m (2016: \$40.2m) on the basis that it is not probable these losses will be utilised in the foreseeable future.

20. Trade and other payables**Current**

Trade payables	2,604	2,484
Accruals	1,849	1,448
Employee benefit payable	948	854
Other payables	626	381
Interest payable	1,650	-
	<u>7,677</u>	<u>5,167</u>

Non-current

Other payables	143	287
	<u>143</u>	<u>287</u>

Total trade and other payables

	<u>7,820</u>	<u>5,454</u>
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21. Borrowings

	2017	2016
	\$'000	\$'000

Current*Secured*

Bank loans	-	1,439
Lease liabilities	1,582	1,124
Subordinated bonds	10,733	-

Unsecured

Redeemable convertible preference shares ("RCPS")	11,276	-
	<u>11,276</u>	<u>-</u>

Total current borrowings

	<u>23,591</u>	<u>2,563</u>
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Non-current*Secured*

Lease liabilities	3,531	2,577
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Unsecured

Convertible notes	10,428	-
	<u>10,428</u>	<u>-</u>

Total non-current borrowings

	<u>13,959</u>	<u>2,577</u>
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Total borrowings

	<u>37,550</u>	<u>5,140</u>
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The Company issued a number of debt instruments during the year primarily to enable funding in its joint venture BT (refer note 18). A summary of key details of these instruments at 30 June 2017 are as follows:

Instrument	Denomination currency	Face Value \$m	Coupon rate %	Issue Date	Maturity date	Conversion price \$AUD
Convertible Notes	AUD	\$3.8m	8%	22/07/2016	22/07/2019	\$2.20c
Convertible Notes	AUD	\$7.6m	8%	1/02/2017	1/02/2021	\$3.75c
RCPS	AUD	\$11.1m	8%	1/02/2017	1/02/2018	\$2.20c
Subordinated Bonds	USD	\$7.9m	10%	1/02/2017	1/02/2020	n/a

The carrying value of the debt is different to the face value due to effects of foreign exchange translation on the debt portion, and the recognition of the equity component of the RCPS and convertible notes (refer to note 24). 474,000 of the convertible notes from the issue due to mature in July 2019 were converted to equity during the year.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

21. Borrowings continued

RCPS

Conversion

The RCPS can be converted into ordinary shares at the Company's election at any time after the SPA becomes unconditional.

Redemption

The Company is entitled to early redeem all or any of the RCPS, if within two business days following the exercise of the Company's discretion to convert all of the RCPS, all of the RCPS have not converted. The RCPS must be redeemed on the earlier of maturity date or partial conversion of some of the RCPS. If the SPA becomes unconditional and the Company elects to only convert some of the RCPS, a coupon rate of 12% comes into effect.

Ranking

The RCPS rank in priority to any payment to ordinary shareholders.

Convertible Notes ("Notes")

Conversion

- July 2016 issue - the Notes can be converted into ordinary shares at the election of the holder any time until 10 days prior to maturity date.
- February 2017 issue - the Notes can be converted into ordinary shares at the election of the holder any time after the SPA becomes unconditional during the period starting 90 days after the completion of SPA and 180 days after the issue date, and finishing 10 days before maturity date. The Company has a one-off right to redeem some or all of the Notes within 10 business days after the SPA becomes unconditional. The Company must redeem all of the Notes if the SPA is terminated.

Ranking

The Notes rank equally with all other present and future unsecured obligations except for obligations accorded preference by mandatory provisions of applicable law. Any shares issued on conversion will rank equally with all other ordinary shares.

Subordinated Bonds

Redemption

The Company is entitled to elect early redemption, at any time prior to the SPA going unconditional, or after the SPA becoming unconditional and after the 1 February 2019. If the Subordinated Bonds are redeemed early the Company must pay 104% of the issue price. The Subordinated Bonds are classified as current liabilities due to a technical breach of covenants. Refer Note 29 (d).

Ranking

The Subordinated Bonds rank equally with existing and future bonds and without priority or preference amongst themselves. The Subordinated bonds will be formally secured by the Company's share ownership in BT once the SPA is settled.

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22. Deferred consideration

	2017	2016
	\$'000	\$'000
Current		
Acquisition of subsidiary deferred consideration	953	873
Non-current		
Acquisition of subsidiary deferred consideration	6,975	8,796
Total deferred consideration	<u>7,928</u>	<u>9,669</u>
<i>Movement</i>		
Opening balance	9,670	12,613
Unwinding of discount	786	821
Fair value adjustment	(1,749)	(2,175)
Consideration paid during the year	(779)	(1,590)
Closing balance	<u>7,928</u>	<u>9,669</u>

Deferred consideration liabilities have been categorised as level 3 under the fair value hierarchy.

(a) Buller Coal Project

The Company acquired Buller Coal Limited (formally L&M Coal Limited) in November 2010 and the sale and purchase agreement contained an element of deferred consideration. The deferred consideration comprised cash consideration and/or royalties on coal sold and the issue of performance shares.

The deferred cash consideration is made up of two payments of USD\$40,000,000 (performance payments). The first being payable upon 25,000 tonnes of coal being shipped from the Buller Coal Project, the second payable upon 1 million tonnes of coal being shipped from the Buller Coal Project.

The Company has the option to defer cash payment of the performance payments and elect to submit a higher royalty on coal sold from the respective permit areas until such time the performance payments are made. The option to pay a higher royalty rate has been assumed in the valuation and recognition of deferred consideration. This also reflects the current status of the mine on care and maintenance.

Whilst in excess of 25,000 tonnes has been mined from Escarpment during construction the Company does not believe, in the legal context, that 25,000 tonnes has been shipped from the project. This would therefore not legally trigger the payment of the first performance payment.

Bathurst has and will continue to remit royalty payments to L&M Coal Holdings (the vendor) on all Escarpment coal sold as required by the Royalty Deed and this includes ongoing sales from stockpiles. Further information is included in note 31 (d).

(b) Canterbury Coal Limited

The acquisition of Canterbury Coal Limited in November 2013 contained a royalty agreement. The amounts that are payable in the future under this royalty agreement are required to be recognised as part of the consideration paid for Canterbury Coal Limited. The fair value of the future royalty payments is estimated using a discount rate based upon the latest New Zealand 10 year government bond rate and production profile at a set rate per tonne of coal produced. A reasonable change in discount rate does not have a material impact on the deferred consideration.

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22. Deferred consideration continued**(c) New Brighton Collieries Limited**

The Company completed the acquisition of New Brighton Collieries Limited on 10 March 2015. The balance due on settlement is to be satisfied by an ongoing royalty based on mine gate sales revenue. The fair value of the future royalty payments is estimated using a discount rate based upon a risk adjusted New Zealand 10 year government bond rate of 8.98% (2016: 8.37%), projected production profile, and forecast domestic coal prices. These are based on the Group's forecasts which are approved by the Board of Directors.

A 1% increase or decrease in the discount rate used would impact the deferred consideration balance by -\$0.4m and +\$0.3m respectively (2016: -\$0.4m and +\$0.5m respectively).

Security

Pursuant to a deed of guarantee and security the deferred consideration is secured by way of a first-ranking security interest in all of New Brighton Collieries Limited's present and future assets (and present and future rights, title and interest in any assets).

23. Provisions

	2017	2016
	\$'000	\$'000
Current		
Rehabilitation	1,111	295
Restructuring provision	-	55
	<u>1,111</u>	<u>350</u>
Non-current		
Rehabilitation	2,874	3,419
	<u>3,985</u>	<u>3,769</u>
Total provisions		
	<u>3,985</u>	<u>3,769</u>
<i>Rehabilitation provision movement:</i>		
Opening balance	3,714	3,521
Change recognised in the mining and property asset	(132)	92
Unwinding of discount	210	173
Other changes recognised in the income statement	193	(72)
	<u>3,985</u>	<u>3,714</u>
Closing balance total rehabilitation provision		
	<u>3,985</u>	<u>3,714</u>

Rehabilitation provision

Provision is made for the future rehabilitation of areas disturbed in the mining process. Management estimates the provision based on expected levels of rehabilitation, areas disturbed and an appropriate discount rate. A reasonable change in assumptions would not have a material impact on the provision.

24. Equity

	2017	2016
	Number of shares 000s	Number of shares 000s
Contributed Equity		
Ordinary fully paid shares	986,028	964,483
	<u>986,028</u>	<u>964,483</u>
<i>Movement:</i>		
Opening balance	964,483	947,828
Issue of shares	21,545	16,500
Exercise of options and conversion of performance rights	-	154
	<u>986,028</u>	<u>964,483</u>
Closing balance	986,028	964,483

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Every ordinary share is entitled to one vote. During the year 21,545,454 shares were issued on conversion of 474,000 convertible notes.

Equity component of debt instruments

	2017	2016
	\$'000	\$'000
Debt Instrument		
RCPS	414	-
Convertible Notes	1,380	-
	<u>1,794</u>	<u>-</u>
Closing balance	1,794	-

During the year the Company issued a number of debt instruments that contain an option to convert the debt into equity. The value attributed to these options is the difference between the present value of interest and principal repayments of the instruments, discounted at a discount rate for a similar type of debt without the conversion option, and the fair value of cash received.

25. Reserves

Share based payment reserve	278	52
Foreign exchange translation reserve	(154)	(154)
Re-organisation reserve	(32,760)	(32,760)
	<u>(32,636)</u>	<u>(32,862)</u>
Total reserves	(32,636)	(32,862)

Nature and purpose of reserves*Share based payment reserve*

The share based payment reserve is used to recognise the fair value of performance rights issued.

Foreign exchange translation reserve

Exchange differences arising on translation of companies within the Group with a different functional currency to New Zealand dollars are taken to the foreign currency translation reserve. The reserve is recognised in the income statement when the investment is disposed of.

Reorganisation reserve

Bathurst Resources Limited was incorporated on 27 March 2013. A scheme of arrangement between Bathurst Resources Limited and its shareholders resulted in Bathurst Resources (New Zealand) Limited becoming the new ultimate parent company of the Group on 28th June 2013. A reorganisation reserve was created, which reflects the previous retained losses of subsidiaries.

26. Earnings per share

	2017 Cents	2016 Cents
Basic earnings per share		
Total basic earnings per share attributable to the ordinary equity holders of the Company	(0.19)	0.11
Diluted earnings per share		
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(0.19)	0.11
Reconciliation of earnings used in calculation	\$'000	\$'000
Earnings from continued operations	(1,898)	1,031
Earnings used in calculation of basic and diluted earnings per share	(1,898)	1,031
	Number of shares	Number of shares
	000s	000s
Weighted average number of shares used as denominator		
Used in the calculation of basic earnings per share	977,645	958,360
<i>Adjustments for diluted earnings per share:</i>		
Performance rights	-	9,500
Used in the calculation of diluted earnings per share	977,645	967,860

Potential ordinary shares from the convertible notes and RCPS and performance rights issued during the year are excluded from the calculation of diluted earnings per share as they are anti-dilutive.

27. Share-based payments**(a) Employee long term incentive plan**

The purpose of the plan is to reinforce a performance focused culture by providing a long term performance based element to the total remuneration packages of certain employees. This aligns the interests of Bathurst's leadership team and Shareholders, and helps to retain key executives.

Share based payments are recognised based on the fair value of performance rights offered at the grant date. The fair value of LTIP performance rights is AUD\$0.00832 per performance right. This was determined using the price path of Bathurst shares modelled using the Monte Carlo simulation. The total number of performance rights that will vest to participants and the payoff to participants is then calculated and discounted back to present value today. No LTIP performance rights were granted in the year ended 30 June 2017.

Performance rights granted under the plan carry no dividend or voting rights. When exercised each performance right converts into one fully paid ordinary share. The exercise price of all performance rights is nil.

(b) Transaction performance rights

Transaction performance rights were issued to certain key executives during the year, conditional on the successful signing of a sale and purchase agreement for the acquisition of certain Solid Energy mine site assets via the Company's joint venture vehicle, BT. These form part of the Group's overall retention strategy, and recognises their instrumental roles in relation to the negotiation and signing of the contract. These were approved by Shareholders at the 2016 AGM. The fair value of these rights was assessed as equal to the market value of the Company's share price at grant date.

Performance rights granted carry no dividend or voting rights. When exercised each performance right converts into one fully paid ordinary share. The exercise price of all performance rights is nil.

27. Share based payments continued

Grant date	Vesting date	Opening balance 000s	Issued 000s	Expired/ forfeited 000s	Closing balance 000s	Exercisable 000s
<i>LTIP Performance Rights</i>						
22 January 16	30 June 18	9,500	-	(9,500)	-	-
<i>Transaction Performance Rights</i>						
6 February 17	31 December 18	-	13,000	(1,500)	11,500	-
		<u>9,500</u>	<u>13,000</u>	<u>(11,000)</u>	<u>11,500</u>	<u>-</u>

28. Reconciliation of (loss)/profit before income tax to net cash flow from operating activities

	2017 \$'000	2016 \$'000
(Loss)/profit before income tax	(1,898)	1,031
<i>Non-cash items:</i>		
Depreciation and amortisation expense	10,632	11,220
Fair value adjustment to deferred consideration	(1,749)	(2,175)
Impairment losses	-	100
Share of loss of BT	569	-
Unwinding of discount rate on deferred consideration	786	821
Unwinding of discount rate on rehabilitation provision	184	173
Share based payment expense	226	15
Unrealised foreign exchange movements	(358)	-
Other	17	254
<i>Non-operating items:</i>		
Gain on sale of property, plant and equipment	(110)	(122)
Realised foreign exchange gain on borrowing activities	(356)	-
Other	24	-
Movement in working capital	895	(1,076)
Cash flow from operating activities	8,862	10,241

29. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Risk management is carried out by the management team under policies approved by the Board of Directors. Management identifies and evaluates financial risks on a regular basis.

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29. Financial risk management continued

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not New Zealand dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group had minimal operating exposure to foreign currency risk at the end of the reporting period. The Group assesses potential foreign currency exposures on foreign currency denominated debt instruments as follows:

Debt Instrument	Denomination currency	Foreign Exchange Rate movement	
		+3% \$'000	-3% \$'000
Subordinated Bonds	USD	314	(334)
RCPS and convertible notes	AUD	684	(726)

The above assessment is estimated based on future foreign exchange movements similar to what was experienced during the year end 30 June 2017, on the face value of the underlying debt instruments.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate as a means of minimising the risk of financial defaults.

Financial instruments which potentially subject the Group to credit risk consist primarily of cash and cash equivalents, short term deposits, as well as credit exposures to our customers including outstanding receivables.

The credit risk on liquid funds is limited because the counterparties are banks with credit ratings of AA-, with funds required to be invested with a range of separate counterparties.

The Group's maximum exposure to credit risk for trade and other receivables and loans to related parties is its carrying value.

(c) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

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29. Financial risk management continued**(c) Liquidity risk continued**

Contractual maturities of the Group's non-derivative financial liabilities were as follows:

	Less than 6 months	6 - 12 months	Between 1 – 2 years	Between 2 – 5 years	Over 5 years	Total contractual flows
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2017						
Trade and other payables	7,677	-	143	-	-	7,820
Borrowings ²	1,886	13,390	2,027	25,142	-	42,445
Finance leases ³	904	929	1,224	2,623	-	5,680
Deferred consideration	460	497	1,172	3,620	7,268	13,017
Total	10,927	14,816	4,566	31,385	7,268	68,962
30 June 2016						
Trade and other payables	5,167	-	287	-	-	5,454
Borrowings	696	679	110	-	-	1,485
Finance leases	723	533	1,054	1,679	-	3,989
Deferred Consideration	416	457	1,480	4,657	8,241	15,251
Total	7,002	1,669	2,931	6,336	8,241	26,179

(d) Capital management

The Group's capital includes contributed equity, reserves, and retained earnings. The Board's policy is to maintain a strong capital base to maintain investor, creditor, and market confidence and to sustain the future development of the business. Given the stage of the Company's development there are no formal targets set for return on capital. There were no changes to the Company's approach to capital management during the year.

The covenants within the USD Subordinated Bond agreements issued during the year, specify that the Company will maintain shareholders' funds of no less than 30% of the adjusted tangible assets (including mining licences and permits) and the Company's consolidated earnings for any 12 month period will be no less than two times interest costs whilst the Subordinated Bonds are outstanding. Whilst it was the intent of both the bond holders and Company for the covenants to only be applied after the settlement of BT's intended acquisition of the Solid Energy coal mining assets, the wording in the agreement does not clarify this. This means that there was a technical breach of these covenants during the period from the date of issue and at 30 June 2017, and if more than 50% of bond holders give notice to the Company the bonds are repayable. Therefore the bonds are classified as current liabilities. The bond holders and the Company intend to change the terms of the bond agreement to reflect the original intent.

The Company is not subject to any other externally imposed capital requirements.

² Borrowings in this context represent the underlying contractual commitments on the USD denominated Subordinated Bonds, and AUD denominated RCPS and convertible notes. The RCPS and convertible notes have the option to convert to equity, so future interest and principal repayments may not occur.

³ Total contractual cash flows equal minimum lease payments plus interest.

29. Financial risk management continued

(e) Financial instruments by category

	2017	2016
	\$'000	\$'000
Financial Assets		
<i>Loans and receivables</i>		
Cash and cash equivalents	28,892	3,325
Restricted short term deposits	3,808	2,628
Trade and other receivables	4,032	2,761
Loans to related parties	3,721	-
Other financial assets	134	174
Total	40,587	8,888
Financial Liabilities		
<i>Amortised Cost</i>		
Trade and other payables	7,820	5,454
Borrowings	37,549	5,140
<i>Fair Value</i>		
Deferred consideration	7,928	9,669
Total	53,297	20,263

(f) Fair value measurements

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in a transaction between active market participants or in its absence, the most advantageous market to which the Group has access to at the reporting date. The fair value of a financial liability reflects its non-performance risk.

When available, fair value is measured using the quoted price in an active market. A market is active if transactions take place with sufficient frequency and volume to provide pricing information on an on-going basis. If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The following fair value hierarchy, as set out in NZ IFRS 13: *Fair Value Measurement*, has been used to categorise the inputs to valuation techniques used to measure the financial assets and financial liabilities which are carried at fair value:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Group's only financial asset or liability measured at a fair value hierarchy of level 3 is deferred consideration. This is discussed further in note 22.

Debt instruments in Note 21 are carried at amortised cost. Their fair values have been measured at a fair value hierarchy of level 2 as noted below:

Instrument	Fair Value \$'000	Carrying Value \$'000
Subordinated Bonds	10,812	10,733
Convertible Notes	10,413	10,428
RCPS	11,699	11,276

All other assets and liabilities have a carrying value that is equivalent to fair value.

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30. Key management personnel

Key management personnel are all the management and directors (executive and non-executive) of the Group.

Key management personnel compensation

	Short term benefits \$'000	Share based payments \$'000	Termination benefits \$'000	Total \$'000
30 June 2017				
Management	1,149	82	-	1,231
Directors	247	144	-	391
Total	1,396	226	-	1,622
30 June 2016				
Management	1,163	284	289	1,736
Directors	248	25	-	273
Total	1,411	309	289	2,009

Other transactions or loans with key management personnel

During the year, Mr Middleton in his capacity as independent director provided consulting services to the Company in relation to commercial due diligence activities. The amount paid during the year was \$265k (30 June 2016: \$271k). Mr Middleton was an executive director from 2 May 2017 with fees paid from that date to 30 June 2017 disclosed as part of Management fees in the table above.

31. Commitments and contingent liabilities**(a) Capital commitments**

There was no capital expenditure contracted for at the reporting date but not recognised as a liability (2016: \$2.3m).

(b) Lease commitments*(i) Non-cancellable operating leases*

The Group leases various offices, accommodations, and equipment under non-cancellable operating leases expiring within one to six years. The leases have varying terms, escalation clauses and renewal rights.

Commitments for non-cancellable minimum lease payments are payable as follows:

	2017 \$'000	2016 \$'000
Lease commitments		
Within one year	123	112
Later than one year but not later than five years	40	71
Total lease commitments	163	183

During the year ended 30 June 2017 \$0.3m (2016: \$0.3m) was recognised as an expense in the income statement in respect of operating leases.

(ii) Finance leases

The Group leases various plant and equipment expiring within one to five years. Refer to note 21 for further information.

(c) Exploration expenditure commitments

To maintain the various permits in which the Group is involved the Group has ongoing operational expenditure as part of its normal operations. The actual costs will be dependent on a number of factors including final scope and timing of operations.

31. Commitments and contingent liabilities continued

(d) Contingent assets and liabilities

On 23 December 2016, the Company announced that LMCH had filed legal proceedings in the High Court of New Zealand in relation to an alleged breach of the first USD\$40m performance payment described in note 22. The Company, with its position supported by its legal advisors, denies any default in payment and will vigorously defend the claim. Proceedings have been set down for hearing in February 2018.

32. Events after the reporting period

Other than as disclosed in these financial statements, there are no material events that occurred subsequent to reporting date, that require recognition of, or additional disclosure in these financial statements.

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Independent auditor's report

To the shareholders of Bathurst Resources Limited

The financial statements comprise:

- the balance sheet as at 30 June 2017;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our qualified opinion

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the financial statements of Bathurst Resources Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for qualified opinion

The Company issued Australian Dollar denominated convertible notes in July 2016 and February 2017 and Australian Dollar denominated redeemable convertible preference shares in February 2017 (collectively, the "convertible instruments"). Management assessed the convertible instruments to be hybrid instruments, containing both debt contracts and embedded conversion options and have accounted for the debt contracts as financial liabilities, valued at \$21,704,000, as disclosed in note 21 of the financial statements, and the embedded conversion options as equity, valued at \$1,794,000, as at 30 June 2017.

The convertible instruments are denominated in Australian Dollars which differs from the New Zealand Dollar functional currency of the Company. Therefore, in accordance with IFRIC Update April 2005, the embedded conversion options meet the definition of financial liabilities, rather than equity, under NZ IFRS and IFRS, and should be recognised as derivative liabilities, measured at fair value through profit or loss. As a result, the treatment adopted by management constitutes a departure from NZ IFRS and IFRS.

While recognising the possible effect of judgements and assumptions on the value of the embedded derivative, if management had recognised the embedded conversion options as liabilities measured at fair value through profit or loss, management's estimate of the fair value of those options indicates a derivative liability of \$16,508,000 would be recognised at 30 June 2017, and there would be an overall increase in liabilities and decrease in equity of \$15,807,000. This arises because the loss before tax, the loss after tax and accumulated losses would have increased by \$15,116,000, current borrowings would have increased by \$414,000, non-current borrowings would have decreased by \$1,115,000, debt instruments – equity component would have decreased by \$1,794,000 and due to the conversion of some options during the year, contributed equity would have increased by \$1,103,000. Had management adopted the treatment as defined by the IFRIC Update April 2005, the notes to the financial statements would have included details of management's valuation method, model inputs and sensitivities. These would have been disclosed as critical estimates and judgements due to the range of assumptions that could be used in the valuation of the derivative liabilities.



We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Overall group materiality was \$415,000, which represents 1% of total revenue for the year.

We chose revenue as the benchmark because, in our view, the Group is currently in a break even position as the business transforms and revenue is a stable metric which more accurately reflects the performance of the Group.

Our key audit matters are:

- Conditional acquisition of Solid Energy assets; and
- Deferred consideration.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Conditional acquisition of Solid Energy assets</i> As disclosed in Note 18 of the financial statements, there was a conditional acquisition transaction entered into during the year. This was an area of audit focus due to the significance of the transaction to the Company.</p> <p>During the year the Company incorporated BT Mining Limited (“BT”) as the vehicle through which it would undertake the acquisition of certain assets from Solid Energy New Zealand Limited (“Solid Energy”). The sale and purchase agreement was signed on 29 October 2016 and management assessed the transaction against the requirements of NZ IFRS 3 <i>Business Combinations</i> and concluded that it was a business combination. Management also determined that the acquisition had not occurred as at 30 June 2017 as substantive conditions included in the agreement had not been satisfied at that date.</p> <p><i>Assessment of joint control of BT</i> BT is 65% owned by the Company, with the remaining shareholding held by Talley’s Energy Limited (“TEL”). This ownership is subject to a “Joint Venture Agreement” between the Company and TEL which sets out a number of matters that require unanimous approval of both parties including matters relating to the operational decisions and activities of BT.</p> <p>Management assessed that the Company has joint control with TEL over BT and determined that it is a joint venture for financial reporting purposes. Consequently the Group equity accounts its investment in BT, recognising its share of profit or loss from the joint venture in the income statement.</p>	<p>For the purposes of our audit, we considered the two components of the transaction which impact both the timing of the recognition of the transaction and basis of accounting for the transaction.</p> <p><i>Assessment of the nature and timing of the transaction</i> We obtained an understanding of the acquisition by reading the relevant contractual agreements, including but not limited to, the sale and purchase agreement between BT and Solid Energy.</p> <p>We considered whether the acquisition is a business combination or asset acquisition and the date at which the acquisition is considered to have occurred. Specifically, we validated that substantive conditions exist within the sale and purchase agreement (in particular, approval by the Overseas Investment Office, the Minister of Energy and the Minister of Conservation) and assessed whether these conditions had been satisfied by 30 June 2017.</p> <p><i>Assessment of joint control of BT</i> We assessed the judgements made by management in determining the accounting treatment of BT by reading the joint venture agreement.</p> <p>We challenged management’s judgement by considering the Company’s majority ownership of BT, its proposed role as operator of the mining permits acquired and the nature of the operational decisions and relevant activities of BT that require unanimous approval and compared these to the requirements of the relevant accounting standards.</p> <p>We obtained an accounting consultation from our internal accounting technical team to support our evaluation of both the timing of the recognition and accounting treatment of the transaction. We also considered the adequacy of the Company’s disclosures in respect to the acquisition.</p>

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<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Deferred consideration</i></p> <p>As disclosed in Note 22 of the financial statements, the fair value of the Group's deferred consideration in respect of previous mine acquisitions was \$7,928,000 at 30 June 2017.</p> <p>Management uses a discounted cash flow model to estimate the fair value of deferred consideration. This model requires significant judgement in relation to estimating future coal prices, coal production, the timing of cash flows and the appropriate discount rate.</p> <p>The discount rate is based on the risk free rate plus a mine-specific risk premium to reflect the risk that is not incorporated into the estimated future cash flows.</p> <p>This was an area of audit focus because of the estimation uncertainties and significant judgements applied by management in estimating future coal prices, production levels and timing of cash flows.</p>	<p>Our own evaluation is consistent with that of management.</p> <p>Our audit procedures included the following: We updated our understanding of the deferred consideration obligations related to each mine where a deferred consideration arrangement exists.</p> <p>We assessed the reasonableness of the assumptions used by comparing the key assumptions used in management's models to external and internal data. Specifically, we have:</p> <ul style="list-style-type: none">• Tested the mathematical accuracy of the models;• Compared coal production with Board approved mine plans;• Compared future coal prices with current prices charged to the Company's largest customers and a growth rate based on historic achieved growth rates;• Assessed management's forecasting accuracy by comparing historical forecasts to actual results;• Considered the reasonableness of the discount rate by comparison to an independently calculated discount rate developed via the use of an internal valuation expert; and• Performed a sensitivity analysis on the key estimates and assumptions applied. <p>We also assessed whether the Group's disclosures in relation to deferred consideration and the sensitivities of key assumptions were appropriate in the financial statements.</p> <p>Whilst recognising that cash flow forecasting and estimation of the fair value of deferred consideration is inherently judgmental, our audit procedures did not identify evidence of management bias in determining the value of the deferred consideration.</p>

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our qualified opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.



Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Chris Ussher.

For and on behalf of:

PriceWaterhouseCoopers

Chartered Accountants
31 August 2017

Wellington

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