

**Australian Bauxite****HIGH**

- AUD \$0.315 Speculative

**Bald Hill mobilisation underway**

The Northern Midlands Council has given the final approval that clears the way for Australian Bauxite to commence the development of its Bald Hill bauxite project in Tasmania. The final approval followed swiftly on from the Environmental Protection Authority approval of the project. Site mobilisation is now underway. The following figure shows the regional location of the new Bald Hill Mining Lease:



Source: Australian Bauxite

**The company has swiftly moved to secure the project site to allow crews to mobilise to the location and commence development activities.** The receipt of the final approvals for Bald Hill has caused a slippage, albeit a minor one, in the date for the first shipment of bauxite. Expectations were for a first shipment date of December 2014; the date has been revised to early March 2015. We have no concerns over the timing shift.

What is very unusual about the Bald Hill project is its extremely short development stage. **The time from securing the site to the first bauxite shipment is only two and one half months.** While full operational capacity is expected to be reached by July 2015.

**A second unusual aspect of the Bald Hill project is its development cost of only A\$6 million.** The company also has a standby facility of A\$2 million to provide working capital if required. The Noble Group (Noble) has provided the company with a loan facility for the full development cost, as well as providing the standby facility.

The nature of the Bald Hill bauxite deposit has allowed the company to move on development of the site, with a low capital commitment and very short development time. In today's resource world, these two aspects of the Bald Hill project are quite rare and have been, we believe, crucial in driving the successful development of the deposit.

Estimated operating costs for Bald Hill are shown in the following table (FOB- freight on board):

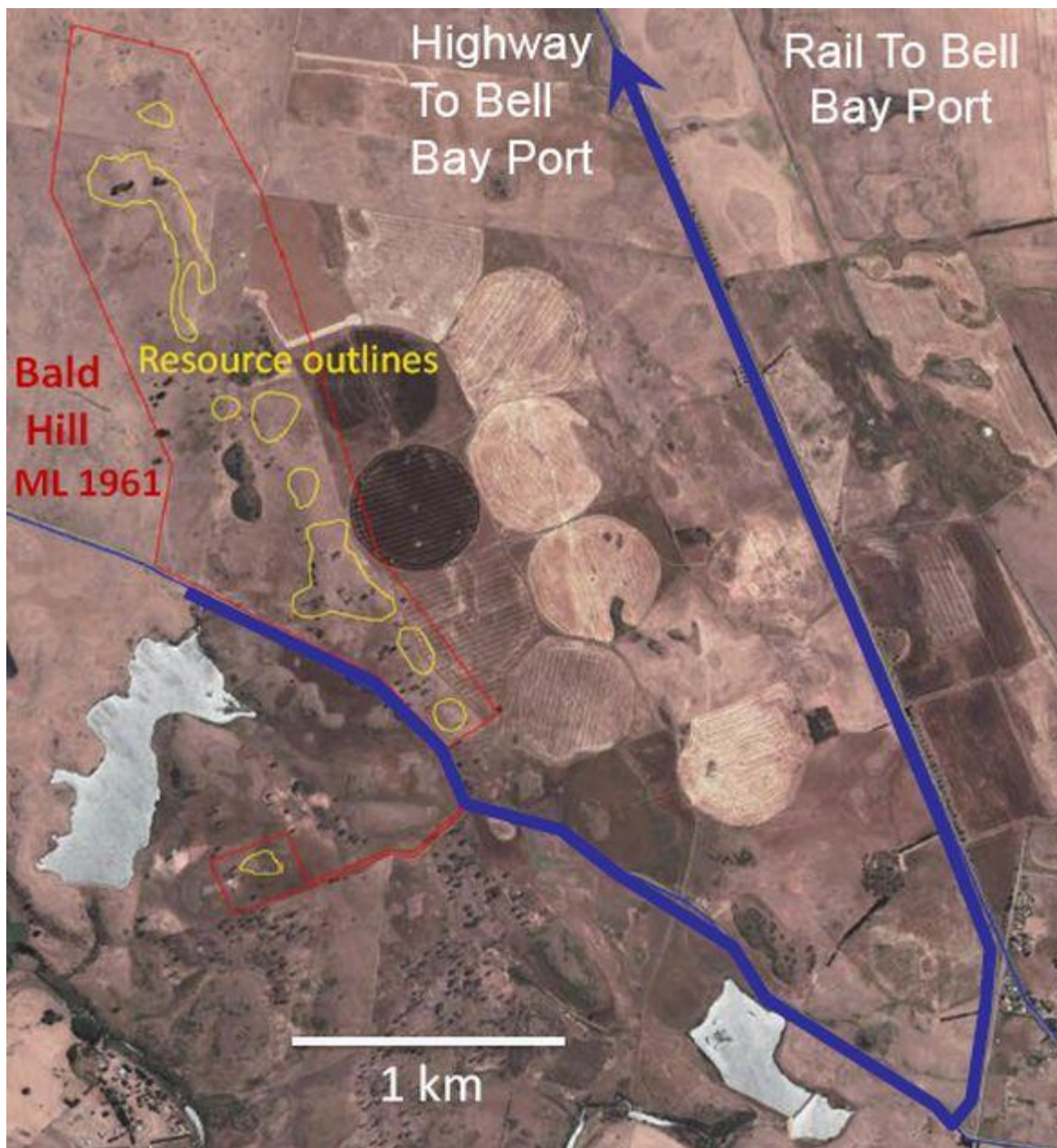
Operating Cost		Current Estimate
Mining	A\$/t	\$6.00 to \$8.00
Administration	A\$/t	\$1.60
State Royalty	A\$/t	\$0.50 + \$0.80
Road Haul	A\$/t	
Train Loading	A\$/t	
Rail Freight	A\$/t	\$12.80
Port Costs	A\$/t	\$7.00 - \$7.50
<b>TOTALS</b>	<b>A\$/t FOB</b>	<b>\$29.00 to \$31.00</b>

Source: Australian Bauxite

**Based on the current bauxite price of around A\$65 to A\$70 per tonne, operating margins will be robust.** Going forward, we will be monitoring the company's announcements on production very closely. To this end, the company's first meaningful financials as a producer will be the first half results 2015, to 30 June 2015. The company will announced these results prior to the end of August 2015. **Financial success at Bald Hill would certainly de risk the company's Fingal Rail and DL-130 bauxite deposits, which have similar development and operational characteristics as Bald Hill.**

The first trial shipment of bauxite from Bald Hill is expected to occur in early March 2015, with the company targeting some 28,000 tonnes. **Full shipping capacity of between 50,000 to 66,000 tonnes of bauxite per ship will be reached by July 2015.**

Bald Hill as an operating mine will have the capacity to produce 440,000 tonnes of direct shipping ore (DSO) bauxite per annum. The following figure shows a regional location and schematic of the Bald Hill site:



Source: Australian Bauxite

Based on Bald Hill's annual capacity of 440,000 tonnes of bauxite, annual shipments will total approximately seven to eight ships. Given the mines' location, both mining and ship will occur all year round.

In support of mining, the Tasmanian operations have a joint ore reserve code resource of 5.7 million tonnes of bauxite graded at 37.6% available aluminium oxide ( $Av1 Al_2O_3$ ) and 3.2% reactive silica ( $Rx SiO_2$ ).

**The company's target is to be shipping, out of Tasmania, two million tonnes of DSO bauxite within two years.** To this end the company is advancing both the Fingal Rail and DL-130 bauxite deposits.

The company has not forgotten its mainland assets, as it recently raised A\$3.75 million through the placement of 12.5 million shares at a price of A30 cents per share. The funds will be used to, in the words

of the company - **“to fund its aggressive exploration and development programs in Queensland and New South Wales.”** We certainly welcome the company’s return to mainstream exploration, but remain cognisant of the significances of ensuring Tasmania gets into production.

Noble, apart from providing the project funding for Bald Hill, has entered into a strategic alliance with the company. The alliance will see Noble off-take 50% of bauxite production out of Tasmania, as principal, for the first four years of production on an open book basis and at a fixed price. In return, Noble will provide all the marketing and supply chain management services. We have no concerns over the marketing alliance and off-take agreement that the company has entered into with Noble. We would note however, that the fixed price amount is curial as it provides the company with revenue certainty for half its Tasmanian bauxite production.

With the road to first production now here, the company will continue to focus on developing its other bauxite assets. We are of the view the positive news released to date by Australian Bauxite is likely to continue throughout 2015. The catalyst for the positive news flow will be the commencement of production at Bald Hill in early 2015, which should be very supportive of a higher share price. The replication of the Bald Hill approach across the company’s Fingal Rail and DL-130 projects will, we believe, add further upward impetus to the share price in 2015.

**Consequently, we reiterate our buy recommendation for Australian Bauxite for Members with no exposure to the stock.**

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