

Fat Prophets

Australian Bauxite

12/8/2015

ABX

AUD \$0.195 Spec. **HIGH** **B**

First shipment coming on a long-term offtake

Australian Bauxite has overcome a serious bout of cold Tasmanian weather to build an ore stock pile at Bell Bay Port for its first bauxite shipment. The first ore shipment is expected to leave the port during the current quarter and through the company's selection is headed for a Chinese customer.

The word "operations" has appeared in the first quarterly for the company, with details provided of the first mining of ore at Bald Hill and stock piling of ore At Bell Bay Port. The following table is the company's maiden operational report for the June quarter:

Mined:	115,000 tonnes ore
Screened:	55,000 tonnes ore
Produced:	20,000 tonnes bauxite
	& 17,000 tonnes stored
Mine stockpile:	16,000 tonnes bauxite
Port stockpile:	4,000 tonnes bauxite

Source: Australian Bauxite

Bald Hill has a capital cost of A\$5.0 million and an operating cost of A\$31 to A\$33 per tonne of bauxite. The company remains confident that Bald Hill will produce cash flow within eight months from the projects' start up. Chief Executive Officer Ian Levy commented "It's time for us to deliver and growing deliveries of bauxite to port is good for all concerned." The first shipment of bauxite ore is to go to a Chinese customer under a long-term offtake agreement. For confidentiality reasons full details of the agreement has yet to be released to the market.

In support of mining in Tasmania, the mineral resource estimate currently stands at 9.2 million tonnes of ore and is detailed in the following table (Al₂O₃ – Aluminium oxide, SiO₂ - silicon dioxide, A/S – alumina/silica ratio, Fe₂O₃ - iron oxide, TiO₂ – titanium dioxide, LOI loss - on ignition, Al₂O₃ Avl – Aluminium oxide available at the temperature, Rx SiO₂ – reactive silica and Avl/Rx – available alumina to reactive silica):

Region	Resource Category	Million Tonnes	Thick-ness	Al ₂ O ₃	SiO ₂	A/S	Fe ₂ O ₃	TiO ₂	LOI	Al ₂ O ₃ <i>Avl</i>	Rx	Avl/	Lab	O'Bur	Int.
				%	%	ratio	%	%	%	@143°C	SiO ₂	ratio	Yield	den	Waste
		<i>mt</i>	<i>m</i>	%	%	ratio	%	%	%	%	%	ratio	%	<i>m</i>	<i>m</i>
CAMPBELL TOWN AREA TASMANIA ⁷	Inferred	1.8	3.0	42.6	3.5	12	25.4	3.5	24.6	36.7	3.0	12	50	2.1	0.1
	Indicated	1.7	3.2	42.5	3.2	14	26.4	3.0	24.5	36.2	2.8	14	55	1.8	0.1
	Total	3.5	3.1	42.5	3.3	13	25.9	3.3	24.5	36.5	2.9	13	52	2.0	0.1
DL-130 AREA TAS ¹	Inferred	5.7	3.8	44.1	4.3	10	22.8	3.1	25.0	37.6	3.2	12	55	1.5	0.1
	Total Tas	9.2	3.5	43.5	3.9	11	24.0	3.2	24.8	37.2	3.1	12	54	1.7	0.1

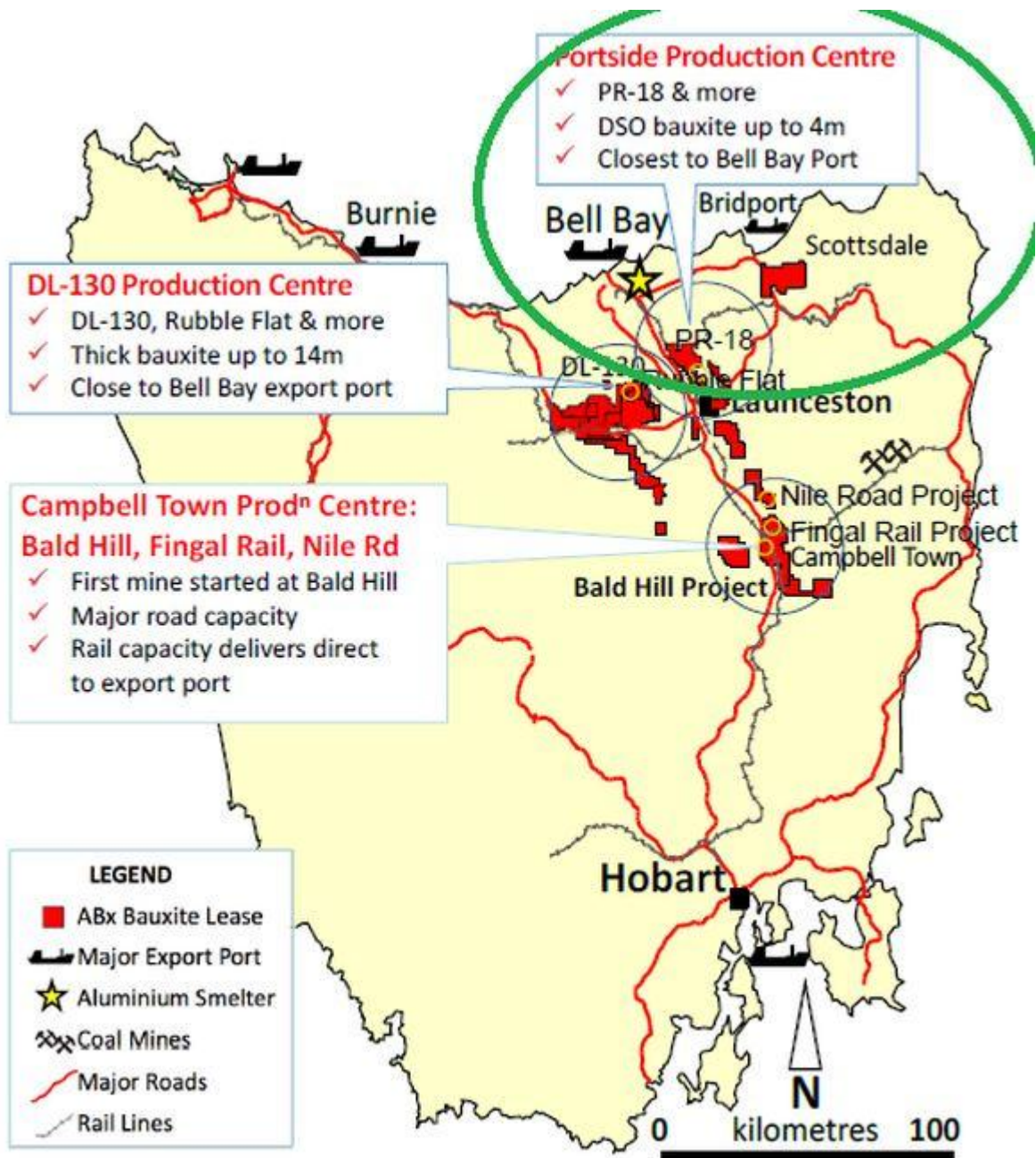
Source: Australian Bauxite

Tasmania forms only a small part of the company's total mineral resource of 119.1 million tonnes.

At 30 June 2015, the company had a cash resource of A\$3.0 million, and a cash outflow commitment of A\$1.8 million for the current quarter. Of this amount A\$1.5 million is earmarked for production activities during the quarter and A\$100,000 for exploration. We have no concerns over the small allocation to exploration as the company is in the near-term focused on ramping up production. A pleasing aspect of the June quarter cash flow is the allocation of \$200,000 to administrative functions. We consider the company has sufficient cash resources to complete all its current undertakings. **The company has indicated that the offtake agreement includes advance payment methods to fund working capital requirements as production at Bald Hill increases.**

The company is currently debt free.

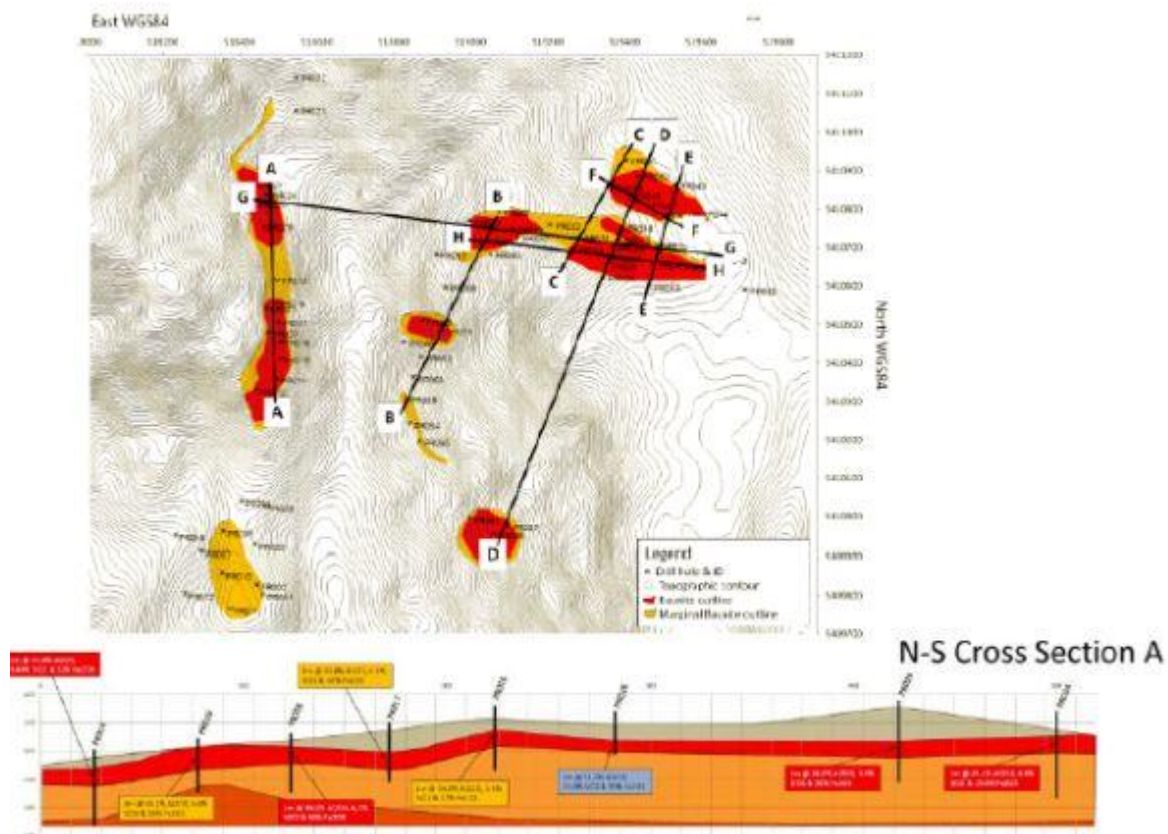
Exploration has not completely ceased, with the company on a restrained budget discovering the Portside bauxite deposit in Tasmania. The following figure shows the location of the company's now three Tasmania sites with the new Portside deposit (highlighted) joining the Bald Hill and DL-130 deposits:



Source: Australian Bauxite

The bauxite layer occurs beneath an overlying layer of unconsolidated sediments ranging up to 12 metres thick in places which has concealed the majority of the bauxite deposit. As the bauxite at the surface was of poor quality no exploration had been conducted to test the deep reaches of the deposit.

The company drilled 68 holes in the Portside tenement for a total 715 metres, with 63 of the holes intersecting bauxite. The following figure shows an aerial topographical view and cross section of the Portside deposit:



Source: Australian Bauxite

A total of 171 metres of drill core have been sent to the laboratory for assaying, with the results pending. An initial sample of nine cores have already been assayed and confirmed that good quality bauxite had been discovered. Four of the holes returned an alumina/silica (A/S) ratio of better than six, with one hole returning 10.3. An A/S ratio of greater than six is quality bauxite so we consider the results to be very good. **The company has determined that seven of the nine samples could be sold as direct shipping ore.** Going forward, the company will conduct further drilling of the Portside deposit, as the deeper assay results have proven to be of better quality.

Behind the already operating Bald Hill site and the developing DL-130 site, Portside is expected to become the company's third production centre in Tasmania.



With mining at Bald Hill now here and the company’s focus on getting its first ore shipment away; we are not concerned if, in the near-term, the company is a little closeted. We believe however that the assets in the company’s portfolio are such that when it moves into normal production at Bald Hill, a quick shift back to developing its other assets will ensue.

We are of the view that news regarding the commencement of operations at Bald Hill and shipping should act as a positive price catalyst. Additionally, the replication of the Bald Hill approach to mining across the DL-130 and now Portside projects will, we believe, add further upward impetus to the share price. While a return to potentially successful exploration activities adds blue sky appeal to the share price.

Consequently, our buy recommendation for Australian Bauxite for Members with no exposure to the stock remains unchanged.