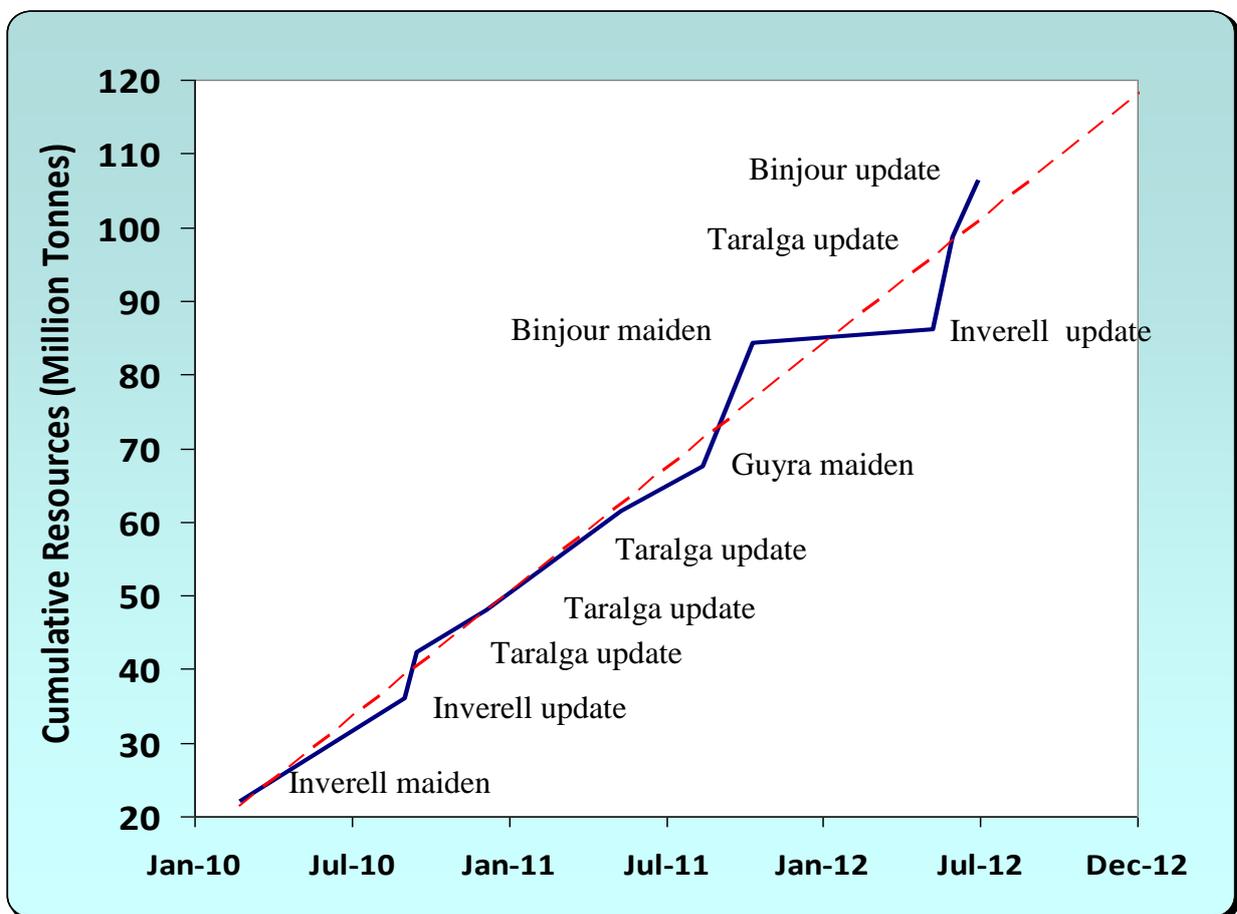


**Australian Bauxite 12 Sep 12**

**100m resource target milestone reached**

Australian Bauxite has ticked off a major milestone in 2012 when it announced the last resource upgrade to reach the three figure number. The ultimate resource target that appeared to be so distant is now half as close.

Over the past three years, the company has been driving its self to deliver a 100 million tonne resource by 2012. The following chart shows the company’s progress to that target.



Resource upgrades to the company’s Taralga and Binjour deposits pushed the resource beyond the plus 100 million tonne level. The Taralga deposit upgrade saw the resource increase by close to 50% to 37.9 million tonnes of ore. While at the Binjour deposit, the resource was upgraded by 46% to 24.5 million tonnes. The following tables show the resource for each deposit and the current classification (Al<sub>2</sub>O<sub>3</sub> is the symbol for Aluminium oxide, SiO<sub>2</sub> silicon dioxide, Fe<sub>2</sub>O<sub>3</sub> iron oxide and TiO<sub>2</sub> titanium dioxide, Al<sub>2</sub>O<sub>3</sub> Avl available aluminium, Rx SiO<sub>2</sub> reactive silica, LOI loss on ignition).

## Taralga

Total Bauxite Resources					Sieved at 0.26mm										
Resource category	Tonnes millions	Bauxite Thickness	DSO Thickness	PDM-DSO Thickness	Rx SiO <sub>2</sub> %	Avl/Rx Ratio	Al <sub>2</sub> O <sub>3</sub> %	SiO <sub>2</sub> %	A/S Ratio	Fe <sub>2</sub> O <sub>3</sub> %	TiO <sub>2</sub> %	LOI %	Yield	Overburden	Internal Waste
Inferred	17.5	4.6 m	3.1 m	2.5 m	1.7	17.6	38.9	5.8	6.7	30.6	3.9	18.3	62%	0.2 m	0.2 m
Indicated	20.4	6.3 m	3.7 m	3.1 m	1.5	19.3	39.4	4.6	8.5	33.2	3.8	18.2	63%	0.7 m	0.4 m
<b>TOTAL</b>	<b>37.9</b>	<b>5.6 m</b>	<b>3.4 m</b>	<b>2.8 m</b>	<b>1.6</b>	<b>18.5</b>	<b>39.2</b>	<b>5.2</b>	<b>7.6</b>	<b>32.0</b>	<b>3.8</b>	<b>18.3</b>	<b>63%</b>	<b>0.4 m</b>	<b>0.3 m</b>

## Binjour

DSO Bauxite Resources			Sieved at 0.26mm											
Resource category	Tonnes millions	Bauxite Thickness	Al <sub>2</sub> O <sub>3</sub> Avl %	Rx SiO <sub>2</sub> %	Avl/Rx Ratio	Al <sub>2</sub> O <sub>3</sub> %	SiO <sub>2</sub> %	A/S Ratio	Fe <sub>2</sub> O <sub>3</sub> %	TiO <sub>2</sub> %	LOI %	Yield %	Overburden m	Internal Waste m
Inferred	9.0	3.9 m	38.0	3.8	10.0	43.7	4.5	9.7	22.4	3.6	24.2	59%	8.2 m	0.3 m
Indicated	15.5	5.3 m	39.5	2.6	15.1	44.2	3.1	14.5	23.4	3.7	24.9	62%	9.4 m	0.3 m
<b>TOTAL</b>	<b>24.5</b>	<b>4.8 m</b>	<b>39.0</b>	<b>3.0</b>	<b>12.8</b>	<b>44.1</b>	<b>3.6</b>	<b>12.3</b>	<b>23.1</b>	<b>3.7</b>	<b>24.6</b>	<b>61%</b>	<b>8.9 m</b>	<b>0.3 m</b>

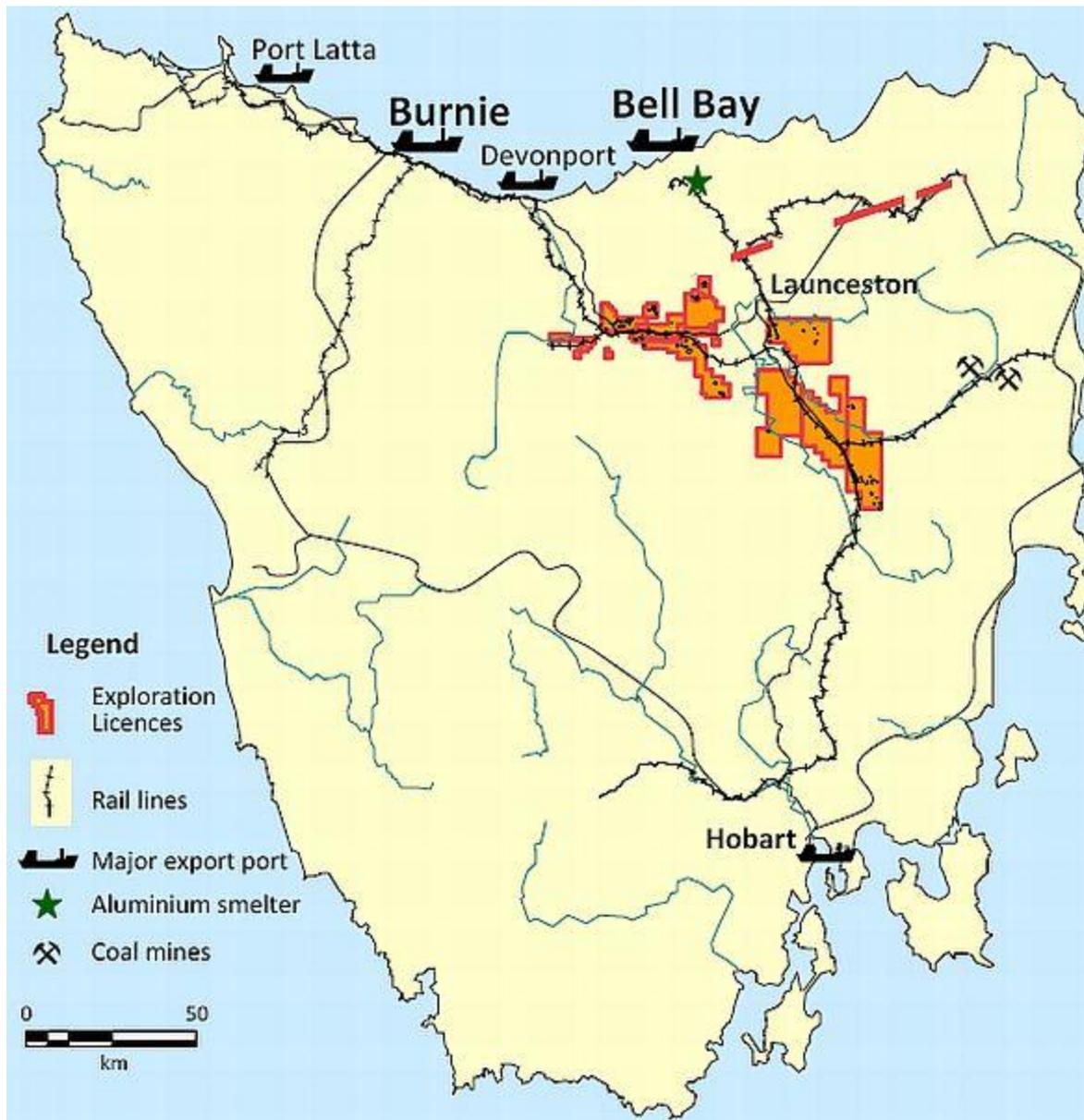
What we find pleasing about both deposits is the quality of the bauxite. Both deposits host direct shipping ore (DSO) quality bauxite. The company has estimated that 53% of the Taralga bauxite resource is DSO quality. At this stage the Binjour resource is all DSO quality.

As the name suggests, the bauxite can be extracted from the ground and shipped without further processing required. DSO quality ore can generate cash flow quickly as the ore only has to be extracted and sold. An extraction only operation requires no major processing circuit facility and therefore has a lower capital development cost. We would expect that Australian Bauxite will certainly focus on developing its extensive DSO quality deposit base.

The way ahead for Australian Bauxite will be focussed on the Taralga and Binjour deposits. For Taralga, the company is awaiting the results of a pre-feasibility study. The findings of the study will lead to a decision to proceed to a bankable feasibility study for the project. A decision is likely by year end.

Following the latest resource upgrade for Binjour, the company is considering its options in regard to commencing a pre feasibility study on the deposit. This decision is likely to be made during 2013.

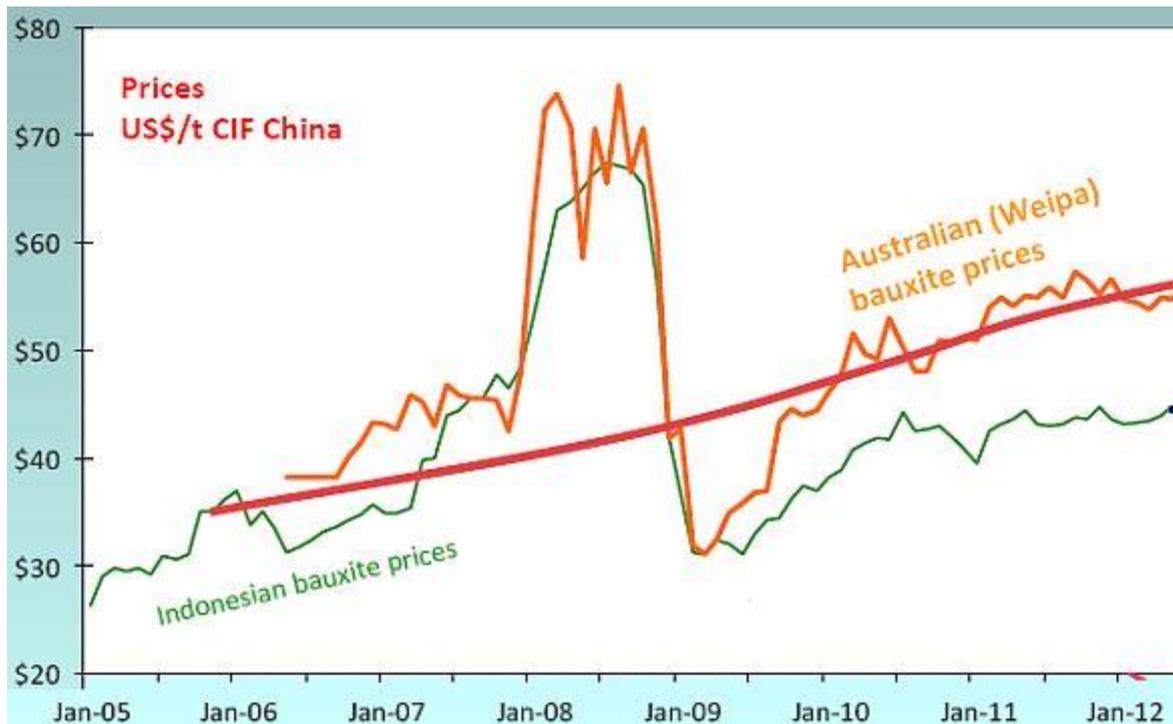
In Tasmania, the company continues to secure additional leases on surrounding ground to ensure the bauxite deposit hosted within existing leases is secured. The following figure shows the location of the company's Tasmanian tenements.



Limited drilling has confirmed the presences of bauxite on the tenements. The deposits layers are typically some 350 metres apart and host both bauxite and DSO bauxite. As Members can see from the previous figure the tenements are adjacent to transport logistics (road and rail) and nearby to appropriately fitted out deepwater port facilities.

While securing the necessary leases, the company has been liaising with the local communities in the region to engender support. Details of future exploration activities in Tasmania have yet to be released to the market. We are of the view that the early results certainly warrant the company continuing to have a significant interest in the region. Full result from exploration in Tasmania will be eagerly anticipated.

The bauxite price continues to remain at a robust level despite the current economic turmoil that is embroiling Europe, the slowing in China and the lack of any recover in the US. The following graph shows the price of bauxite.



We have seen since early 2011 the price of aluminium fall from US\$2,670 per tonne to its current level of US\$2,015 per tonne. Bauxite has shown no price weakness over the same period. The outlook for aluminium is not clear, but we do expect some positive flow on effects from the recently announced US\$157 billion infrastructure spend announced by the Chinese. **The bauxite price will benefit should demand for aluminium pickup in the future.**

At 30 June 2012, the company had cash and its equivalent of A\$2.8 million. The budgeted cash outflow for the current quarter is A\$380,000, of which A\$250,000 is earmarked for exploration and evaluation. We consider the company to be adequately resourced to meet its current obligations.



The decisive break below the 36 cents region is bearish and would suggest further downside ahead in the near term.



With reference to the weekly chart, major support is located at the 26 cents level. We would expect the road south to be underpinned at this key juncture.

With a growing resource pool of bauxite, the company continues to advance toward its target of a 200 million to 300 million tonne bauxite resource. Now that the path to 200 million tonnes appears readily achievable we will now be looking for the company to also advance a project to market.

**Pending developments on the move toward production, for the time being, we will place a hold recommendation on the stock.**

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## **Snapshot ABZ**

### **Australian Bauxite Limited**

Australian Bauxite is different from other bauxite wannabes inasmuch that its projects are below the Tropic of Capricorn. As other explorers were focused on the metals of the day like gold and copper, Australian Bauxite's chief geologist was carefully picking the eyes out of the East Australian Bauxite Province. This was not a fast process but one that took several years of detailed exploration. The company's tenements cover over more than 6,500 square kilometres. This is a large area and the target is combined resources of over 200 million tonnes. The business plan is to begin marketing bauxite in Asia, and then expand the business to supply alumina refineries in Gladstone, Queensland, and possibly create state-significant projects in the bauxite-alumina industry.

### **Market Capitalisation \$35m**

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