

ANALYST: PETER KOPETZ

15th March 2012

Recommendation
Spec Buy

Fair Value
\$1.26c

Consensus Valuation
\$n/a

Key Ratios

| Investment Data | |
|--------------------|-----------|
| Share Price (\$) | 0.47 |
| Ord Shares (m) | 100.6 |
| Market Cap (\$m) | 48.8 |
| EV (\$m) | 45.0 |
| EV (\$m) (diluted) | 48.1 |
| Options (m) | 9.9 |
| (Net Debt) /Cash | 3.8 |
| 12m Low/High (\$) | 0.34/0.80 |

Source: Morningstar

Management

| | |
|--------------|---------|
| Ian levy | MD |
| John Dawkins | Chair |
| Peter Meers | D Chair |
| Jacob Rebek | E Dir. |
| Vincent Tan | NE Dir |
| Wei Huang | NE Dir |

Shareholders

| | |
|-------------------|-------|
| Hudson Resources | 55.3% |
| State One Capital | 7.4% |
| Macquarie Funds | 2.7% |
| Soul Pattinson | 1.9% |

Australian Bauxite (ABZ)

RECENT HIGHLIGHTS - FROM TARALGA DRILLING

| HOLE | From m | To m | Thick-ness m | Total analyses for samples sieved at 0.25mm | | | | | Leach 143 deg C analyses | | | Wet Screen Yield % | |
|---------------------------|--------|------|--------------|---|--------------------|-----------|----------------------------------|--------------------|--------------------------|--------------------------------------|-----------------------|--------------------|--------------|
| | | | | Al ₂ O ₃ % | SiO ₂ % | A/S Ratio | Fe ₂ O ₃ % | TiO ₂ % | LOI % | Al ₂ O ₃ Avl % | Rx SiO ₂ % | | Avl/Rx Ratio |
| TG 626 (ended in bauxite) | 1 | 29 | 28 | 41.25 | 1.79 | 23.0 | 33.3 | 3.4 | 19.4 | 31.4 | 0.7 | 43.7 | 75.0 |
| TG 628 (ended in bauxite) | 0 | 13 | 13 | 40.73 | 1.33 | 30.5 | 31.4 | 3.8 | 21.9 | 35.9 | 0.7 | 53.7 | 64.5 |
| TG 677 | 1 | 24 | 23 | Assays pending | | | | | | | | | |
| TG 678 | 1 | 33 | 32 | Assays pending | | | | | | | | | |
| TG 679 | 1 | 33 | 32 | Assays pending | | | | | | | | | |
| TG 680 | 0 | 33 | 33 | Assays pending | | | | | | | | | |
| TG 681 | 6 | 11 | 5 | Assays pending. Hole may need deepening. | | | | | | | | | |
| TG 682 | 3 | 11 | 8 | Assays pending. Hole may need deepening. | | | | | | | | | |

Source: ABZ

- Recent results from Taralga have been outstanding, with several holes reporting thickness of greater than 30m. We believe these are the thickest deposits ever seen in Australia by a significant margin – the typical thickness of commercial deposits seen to date is 2-5m.
- The most pronounced benefits of this thickness will be reduced cost of production, environmental impact and objections from land owners.
- We were also very impressed by the high grades of available alumina and extremely low grade of reactive silica, which equated to an A/S ratio of greater than 40x making the bauxite very desirable.
- Having a high available alumina % enhances the economics of the project - shipping less waste to end user.

Bauxite Quality Scale – A Guide*

| | Fair | Good | Very Good | Excellent |
|------------------------|-----------|--------|-----------|-----------|
| Avail Alumina % | under 30% | 30-35% | 35-40% | Over 40% |
| Reactive Silica | Over 5% | 3-5% | 1-3% | Under 1% |
| A/S Ratio | Under 8 | 8-10. | 10-12. | Over 12 |
| Ave. Dep. Thick | 0-1m | 1-3m | 3-5m | Over 5m |

Source: ABZ

* Assessing a bauxite deposit, factors such as location, depth and impurities will also determine overall quality.

- As an example using the above scale, hole TG 628 achieved an excellent rating in reactive silica, A/S ratio, thickness and very good in available alumina.

ABZ Valuation - cps

| | Resource * | Valuation | Comments |
|------------------|------------|-------------|---------------------|
| Goulburn-Taralga | 25Mt | 96c | NPV @ 10% (ABZ 65%) |
| Binjour | 17Mt | 8c | 50c/tonne |
| Inverell | 35Mt | 16c | 50c/tonne |
| Guyra | 6Mt | 6c | 50c/tonne |
| Cash & Corporate | \$3.8M | 3c | |
| Total | | 126c | |

* In the above table we have used the resource figures reported to date. These numbers should be considered to be very conservative given that the drilling campaigns are still in their early stages, especially with regards to Inverell. We believe that a reasonable resource target for the four projects mentioned above is above 200Mt.

Taralga Project Rating

66/85

| Project | Star Rating |
|------------------|-------------|
| Commodity | *** |
| Resource Size | *** |
| Grade | **** |
| Metallurgy | **** |
| Capex | *** |
| Opex | *** |
| Depth | ***** |
| Sovereign Risk | ***** |
| Infrastructure | **** |
| Ownership | ***** |
| Tenement Address | **** |
| Water Access | ***** |
| Power Access | ***** |
| Payback Time | *** |
| Mine Life | *** |
| Management | **** |
| Development Time | *** |

Outlook – Key Factors

- Indonesian Mining Legislation** - Indonesian bauxite mines producing ore for direct shipping are now increasingly being seen as under threat following advice from Indonesian Ministry of Energy and Mineral Resources requiring all metal ores to be processed domestically from 2014. We understand that some operations in the country have already in fact been advised to commence closing down their operations, so it would appear that the Govt. is deadly serious in pushing this plan. Bauxite falls into the category of ores being shipped. With Indonesia currently supplying close to 90% of China's bauxite imports, we expect that Chinese alumina refiners will very soon be scrambling to find alternatives. Australia offers a perfect source of replacement, as the other key suppliers of high quality bauxite, Guinea and Brazil, are both located in the Atlantic Basin. Apart from being the next closest market, it also has very high quality bauxite and a low sovereign risk. ABZ, with the help of Marubeni, is currently engaged in finding a suitable customer for the Taralga bauxite.
- The Taralga Preliminary Feasibility Study**
 The PFS was due for completion by 30th March 2012, with public release soon after. However, the recent significant discoveries at Taralga may delay that by a few weeks. We are expecting a positive outcome with a robust project. Our expectation is for a 3 mtpa DSO operation with fob cash costs below \$30/t and a moderate capex (below \$100M). Overall Taralga should be a straightforward mining operation, producing a majority of DSO bauxite material which will be exported and a modest element of refractory bauxite, which could be sold domestically.
- Resources Upgrades**
 We are anticipating resource upgrades over the coming months for all of ABZ's major projects – Taralga, Inverell and Binjour. We see potential to increase ABZ's global resources to over 100Mt. Already we've upgraded our expectations for the Goulburn-Taralga region and expect >50Mt (current resource @ 25Mt).
- Further drilling results**
 We are also awaiting further drilling results, especially from Taralga where greater than 30m thicknesses were encountered before drilling reached the point of refusal, even though the drill was still in ore. A more highly powered rig has been mobilised, to test the further depth on at least six holes in the region.

Daily High Low Chart



4 Leading Australian Bauxite Provinces – A Comparison of key parameters

| | Rio Tinto Weipa | BHP Billiton Boddington | AWC/Alcoa Darling Ranges | Aus. Bauxite Taralga | Aus. Bauxite Binjour |
|--------------------------|--------------------|----------------------------|-----------------------------|-------------------------|-------------------------|
| Ave Thick. | 3m | 5.5m | 2.5m | 4.5m | 4.5m |
| Overburden | 0.5m | 3m | 0.5m | 0.5m | 9.3m |
| Total Alumina | 53% | | 42% | 40% | 44% |
| Available Alumina | | 31% | 30% | 35% | 39% |
| Silica | 5.5% | | 5% | 4.3% | 3.5% |
| Reactive Silica | | 1.8% | 1.5% | 2.3% | 3.1% |
| A/S ratio* | | 17.2 | 15 | 15.5 | 12.7 |
| Bauxite ore type | Gibbs./Boehmite | Gibbsite | Gibbsite | Gibbsite | Gibbsite |

Source: ABZ

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