

**30 October 2009**

## **Australian Bauxite Ltd ("ABx") (ASX Ticker: ABZ)**

**IPO - 20 million shares at an issue price of \$0.20  
 raising \$4.0 M to accelerate exploration  
 on the ABx project tenements.**

**Priority Offer to those Hudson Resources Ltd shareholders  
 holding a Marketable Parcel as at 22<sup>nd</sup> October 2009.**

<b>Capital Structure</b>	
Fully Paid Ord Shares	
Pre IPO	50.00 M
-IPO	20.00 M
<b>POST IPO</b>	<b>70.00 M</b>
Options (i)	
	12.00 M
Convertible Notes (ii)	
	8.00 M
<b>FULLY DILUTED</b>	<b>90.00 M</b>

(i) Exercisable at 30c within 3 years of quotation.

(ii) Convertible at 30 cps or redeemable at ABX's discretion within 3 years of quotation. 6% coupon.

<b>Indicative Timetable</b>	
Offer Opens	3 Nov 09
Offer Closes	14 Dec 09
Despatch of Shareholding Statements	
	21 Dec 09
Listing on ASX	23 Dec 09
<b>All subject to change.</b>	

### **1. Key Points**

- ABx is a speculative investment.
- ABx is seeking to capitalize on the global shortage of low-temperature gibbsite and refractory grade bauxite. It has first mover advantage on three new provinces containing such material, which it has identified in Southern Queensland and New South Wales.
- Subject to Ministerial approval, Hudson is transferring its 100% interest in the project tenements to ABx. The tenements consist of 13 tenements and 4 applications in 3 distinct provinces, covering a total of over 5,000 square kilometres.
- Compared with many other bauxite producers, all 3 provinces are in close proximity to required infrastructure – road, rail and ports.
- To date ABx has drilled 130 drill holes on selected targets on EL 6997 (Inverell) and EL 7269 (Windellama) in NSW.
- More than 4,000 bauxite samples have been collected and analysed, across all the ABx Project Tenements.
- Targets for further drilling and analysis have been identified on all tenements, and will be drilled as soon as funding is available.
- Resource drilling has been conducted largely at Inverell in northern NSW and at Windellama in southern NSW, with 7 metre seams identified at surface in both instances.
- Analysis shows the bauxite ore on EL 6997 at Inverell to be largely gibbsite (i.e. tri-hydrate alumina), a highly desirable feedstock for alumina refineries.
- The ABx ore quality on EL 6997 at Inverell is considered to be very attractive, being characterized by:
  - high alumina (typically 40-50% Al<sub>2</sub>O<sub>3</sub>) and high available alumina (35-40% Al<sub>2</sub>O<sub>3</sub>);
  - low reactive silica: 1.5 - 4.0% SiO<sub>2</sub> (i.e. low clay contamination);
  - coarse grains of gibbsite – implying potential for cheap upgrading by wet screening and other physical beneficiation methods.
- Resource estimates on EL 6997 (Inverell) are well advanced, with a preliminary internal report completed. Subject to satisfactory external review, a JORC-compliant resource is expected on the Inverell project within six months of listing.
- ABx's geological team is very well versed in bauxite exploration, being led by Rado Jacob Rebek who was for many years a manager and director of exploration for CRA and Rio Tinto, in Australia and overseas.

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## 2. Market / Industry Overview

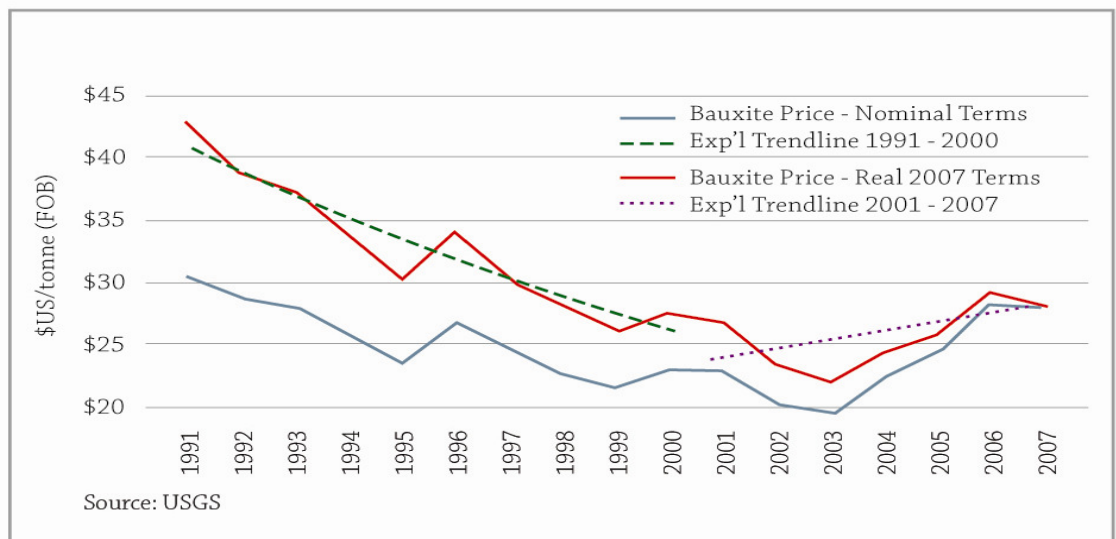
### • Aluminium Industry Overview

The principal ore source for the aluminium industry is bauxite, the demand for which is growing faster than global supply, especially in the emerging economies of Asia.

In particular, the continued above-average growth of the Chinese economy, the shortage of bauxite deposits in China, and the difficulty of treating them, together with the aggressive expansion of their intrinsically low cost alumina refining capacity, has fuelled a growing demand for bauxite imports into China.

On the supply side, the falling output of bauxite from Indonesia, (traditionally a supplier of gibbsite-rich products to China), leaves Australia well-positioned to develop as a major supplier into the Chinese alumina refineries.

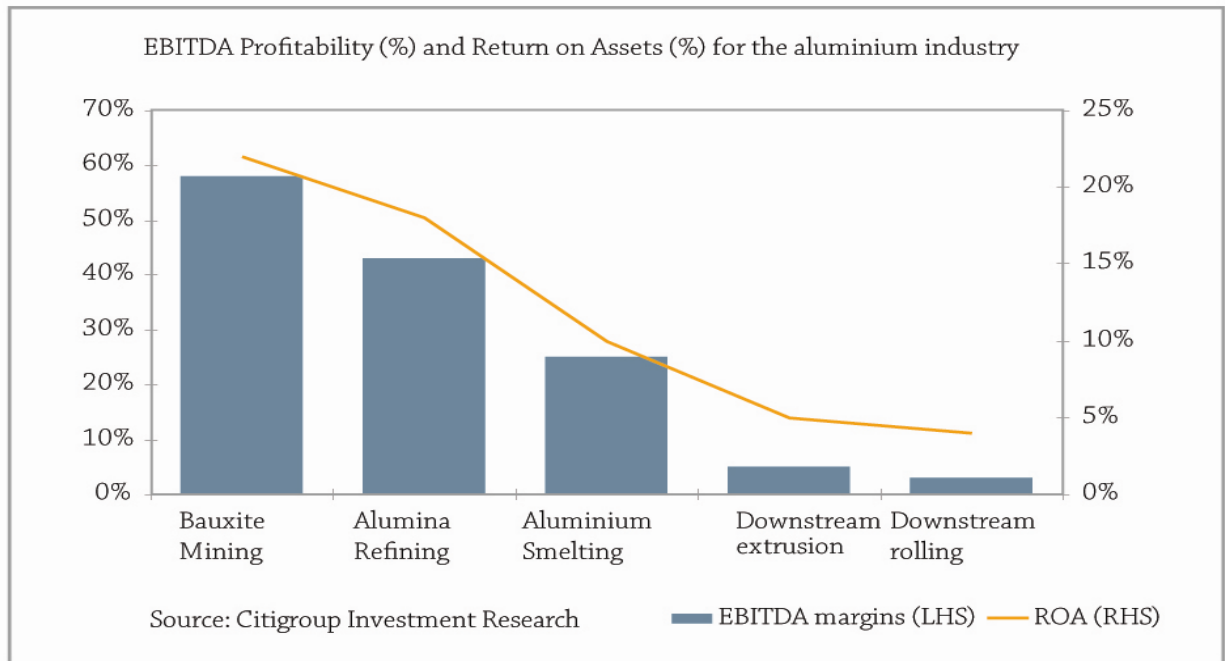
The evolving more positive supply-demand equation is reflected in the recent reversal of the previous long-term declining trend in bauxite prices:



In addition, the ever-increasing costs of providing infrastructure in remote locations and the socio-political instability of some of these locations, together favours the continued development of bauxite in stable countries with existing infrastructure such as Australia.

Australia was the leading global producer of bauxite and alumina in 2008 and, with a resource base of 7.9 GT bauxite, ranks as the second largest bauxite province in the world after the Republic of Guinea.

One feature of the Australian aluminium industry is its high degree of vertical integration, with the vast majority of the bauxite production in Queensland and Western Australia "tied" by Government decree to the respective alumina refineries and smelters near the coast. There is now an attractive opportunity for an independent bauxite producer to feed the hungry Chinese refineries, without being tied to local beneficiaries. This view is supported by data which suggests that the return on assets in bauxite mining is typically superior to that on the highly capital-intensive downstream components of the aluminium supply chain. See chart overleaf:



One company which appears set to exploit this opportunity is Bauxite Resources Ltd in Western Australia (ASX code BAU), with its recent agreements to supply bauxite direct to Chinese customers.

- **Metallurgical Bauxite**

Over 85% of the bauxite mined globally is converted to alumina for the production of aluminium metal. In almost all commercial operations, alumina is extracted through refining metallurgical bauxite in a wet chemical hot caustic soda leach process known as the Bayer process. Alumina is smelted to produce aluminium metal by electrolytic reduction in a molten bath.

- **Non-Metallurgical Bauxite**

Although a much smaller market than the metallurgical one, demand for non-metallurgical bauxite has continued to steadily increase, with the principal product categories being:

- chemical grade bauxite for the production of aluminium chemicals;
- refractory grade bauxite for producing high alumina refractories;
- and
- abrasive grade bauxite for alumina abrasives.

Typically, non-metallurgical bauxite is calcined (following iron reduction) by heating to 900-1200 deg C to remove the water of crystallization and produce a high grade anhydrous alumina product.

- **Bauxite Chemistry**

Bauxite is an impure hydrated aluminium oxide, occurring as gibbsite (a tri-hydrate) and boehmite and diaspore (both mono-hydrates) with the main impurities being iron oxides and silica. The key implications of the bauxite composition for downstream refining in the Bayer process are:

- both of the mono-hydrates require significantly higher digestion temperatures and pressures than gibbsite, with resulting increases in both energy requirement and caustic soda consumption;

- silica content (especially “reactive silica”, usually in the form of the clay kaolinite) has a strong proportional influence on not only caustic consumption but also alumina losses;
- the iron oxide mineralogy (i.e. hematite or goethite) has a major impact on iron oxide settling rates and therefore ease of separation of the “red mud” iron oxides from the alumina post-dissolution.

An ideal metallurgical bauxite for the Bayer process would be a low (<5%) reactive silica content gibbsite with quick-settling hematitic iron oxide mineralogy.

The main criterion for non-metallurgical bauxite is a high alumina content coupled with a low iron content.

Globally, gibbsite ores are in short supply.

- **Sustainability**

In a macro sense, the aluminium industry employs a lifecycle approach to address future challenges, focusing not only on the high energy required to produce aluminium products but also on the energy savings to be made through their use and reuse. The high strength-to-weight ratio of aluminium plays a crucial role in producing lighter vehicles and other forms of transport, reducing fuel consumption without compromising performance and safety.

The International Aluminium Institute material mass flow model projections show that greenhouse gas emissions from the global aluminium industry will be fully offset through a combination of reduction measures, increased recycling and the benefits of using aluminium in transport by around 2020.

At the project-specific level, ABx is engaging with land owners and local communities, in endeavouring to ensure that the benefits of mining are shared with present and future generations. Appropriate environmental management and rehabilitation, which together ensure that all potential land-use options are conserved, are just two ways in which ABx is meeting its responsibility to the wider community. Other ways in which ABx supports local communities include the creation of employment, the support of local businesses the creation of infrastructure as well as general community initiatives.

### **3. Australian Bauxite Business & Project Review**

- **ABX Business Overview**

Bauxite exploration on the east coast of Australia (see Project tenements below) was commenced 2 years ago by ABx and is still at an early stage. To date only two of ABx’s leases (Inverell EL 6997 & Windellama EL 7269) have been drill-tested, although surface exploration on the other targets has also yielded encouraging results.

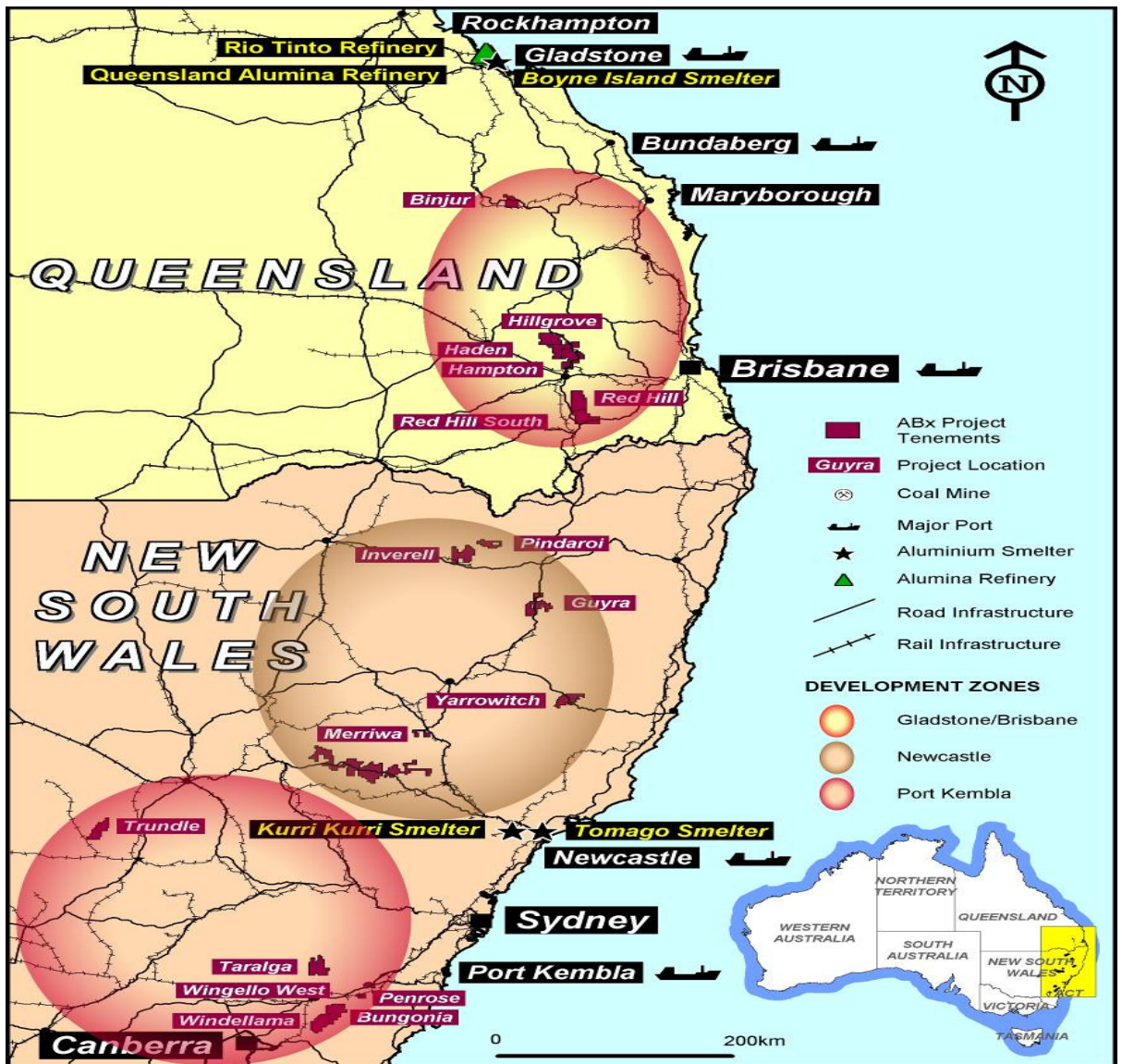
The ABx business strategy is to seek to define several deposits of 100-200 Mt each, of varying quality in various locations. In this way ABx aspires to have the flexibility of meeting, in a significant way, the wide range of customer quality requirements.

ABx plans to use the funds raised from this IPO for explore all of the existing Project Tenements, plus others which ABx intends to acquire. Activities will include exploration, sampling, drill testing & analysis from a wide range of targets on all exploration tenements; and resource definition drilling and bauxite metallurgical testwork on the more advanced prospects.

• **ABX Project Tenements**

As the basis for this IPO, Hudson is transferring its 100% interest in the ABx Project Tenements to ABx. This transfer is subject to the approval of the respective Ministers in NSW and Queensland. The ABx Project Tenements consist of 17 tenements all of which contain identified areas of bauxite mineralisation. A substantial land-holding has been put together, comprising 3,477km<sup>2</sup> in New South Wales and 1,617km<sup>2</sup> in Queensland.

In the Newcastle and Port Kembla Development Provinces of New South Wales there are 8 granted Exploration Licences (EL) and 3 EL applications (ELA). In Queensland there are 5 granted Exploration Permits (EPM) and 1 EPM application (EPMA). All tenements are new, with the oldest having been granted in December 2007 and only two have been drilled to date, with encouraging results.



• **Key Viability Factors**

The key factors in bauxite production are:

- **Bauxite Composition & Quality:** analysis of bauxite samples received so far from the ABx targets indicates relatively low reactive silica content and a high proportion of the tri-hydrate component. Both of these factors significantly enhance the value of the bauxite to customers. Iron content, although highly variable, is generally higher than the other Australian producers.

However some low iron targets are indicated and in addition Hudson is developing a proprietary low cost physical process for iron extraction for the predominantly coarse-grained bauxites in the ABx project tenements.

- Under a heads of agreement with Hudson Resources Limited, this iron reduction technology will be made available to ABx on attractive terms. It is reckoned that this technology could potentially have a significant impact of on the economics of producing certain ores containing a relatively high iron content.
- **Thickness of the Bauxite Layer:** drill testing of the first set of targets at Inverell in the Newcastle Development Province (northern NSW) has shown average thicknesses of 7m, with some drill intersections exceeding 9.5m. Preliminary results from other targets suggest the presence of equally thick bauxite layers. The thicknesses evident to date in the ABx tenements are comparable with other major Australian deposits. Bauxite layer thickness is important in reducing the mine footprint (and also operating costs).
- **Location - Transport Costs:** ABx's tenements are largely located in regions with existing infrastructure, being close to population centres with skilled workforces and a full range of services, impacting positively on project development costs compared to remote locations. However in the case of some of the Newcastle Development Province tenements, transport distances to the nearest port are considerable, highlighting the criticality of the iron reduction technology to enhance product value and decrease overall transport costs.

These factors all support the ABx objective of producing a range of beneficiated premium quality bauxite products for the Australian east coast and overseas markets.

## • **Product Marketing**

Three product marketing opportunities appear available to ABx:

- From the initial drill-testing focus area around Inverell, there is potential for a high tonnage deposit to supply a beneficiated premium quality product to the overseas market. However, for the reasons mentioned above, this is critically dependent on the successful development of the iron reduction technology.
- Some of the non-pisolitic targets in the Port Kembla Development Province have yielded preliminary assay results very similar to the DSO bauxite specifications recently announced by Bauxite Resources Limited in its offtake agreement with Hongfan International Ltd. ABx's targets are favourably located close to rail and at a relatively close distance to Port Kembla for economic shipping to China.
- Finally some of the Queensland targets will possibly offer the opportunity of providing a tri-hydrate "sweetener" to the Gladstone alumina refineries, which are within a practicable railing distance. Although these refineries are "tied" to their respective bauxite mines, there is nevertheless a potential appetite for the low digestion temperature gibbsite product and also for a low reactive silica bauxite to offset the increase in silica levels from the north Queensland bauxites.

#### **4. Geology & Metallurgy**

Geology and metallurgy are considered in the one section in order to reinforce the close geo-metallurgical relationship between the bauxite deposit characteristics and its processing response.

An Independent Geological and Technical Review has been carried out by Terence Willstead and Associates, covering all the project tenements. Their review notes that exploration is at an early stage and that details of bauxite mineralization has been determined by hand sampling in most instances, with limited systematic surface and drill sampling recorded in some areas.

Based on the deposit characteristics and resulting impacts on bauxite processing economics, some commentary is provided on exploration priorities to support the business and product marketing strategy outlined in the previous section.

To date 130 drill holes have been completed on selected targets on EL 6997 (Inverell) and EL 7269 (Windellama), and more than 4,000 bauxite samples have been collected and analysed (across all of the ABx Project Tenements).

The most advanced target is Inverell (EL 6997) with a target tonnage of 150 million tonnes, and specifically Targets A and B, described as an "extensive plateau bounded by outcrops of bauxite on the east edge; on west side bauxite is overlain by thin cover; average thickness of bauxite is 7m; there is potential for tens of millions of tonnes;....initial assays showed the presence of high quality bauxite with very low silica". Moreover, "the Loss on Ignition data indicate that the bauxite is present predominantly as gibbsite, which is also a significant advantage".

Complete and independent analysis of data from the most recent drill testing programme should allow a preliminary JORC resource estimate of the bauxite deposits on EL 6997 at Inverell to be made.

The report also makes reference to the metallurgical tests that are underway (see below) and which include microscopy, analyses, wet screening and beneficiation tests to exploit the coarse grain size and hence reduce the iron content. Transport options are readily available but total distance to a port is considerable, hence the importance of iron removal.

The next most advanced target is at Windellama / Bungonia, in the Port Kembla Development Province, where some limited drilling has been carried out and preliminary results indicate potential for lower iron high quality bauxite similar to the DSO bauxite specifications of Bauxite Resources Limited.

In Queensland the Willstead report suggests priority be given to the Hampton and Binjour targets where the low silica tri-hydrate bauxite identified would be within a reasonable transport distance to the central Queensland coast alumina refineries

The metallurgical tests conducted by ABx have focused strongly on iron removal as a critical part of the upgrading of the Inverell bauxites to a premium product either as a tri-hydrate sweetener or as a low iron refractory grade product. Initial laboratory bench scale tests on liberation characteristics and potential concentration have shown that low energy milling or high intensity attritioning will achieve the desired liberation at around 0.5mm size prior to hydro-classification to remove a significant proportion of the iron oxide with possible further upgrading of the fine gibbsite by magnetic separation. It is worth noting that the iron oxides appear to be predominantly hematite. Larger scale tests are planned.

## 5. Use of Funds

ABx is expecting to raise gross proceeds from the IPO of \$4M through the issue of 20M shares at 20c. The intention is that these proceeds will be disbursed as follows:

Direct exploration costs, including drilling & assaying	A\$1.60M
Tenement holding & land acquisition costs	A\$0.70M
Metallurgical processing studies & testwork	A\$0.20M
Product marketing studies	A\$0.20M
Feasibility study	A\$0.30M
Administration & overheads	A\$0.58M
Costs associated with the offer	A\$0.42M

## 6. Balance Sheet

As at the date of listing the pro-forma balance sheet of ABx will be as follows:

	Pro-Forma – Post IPO (Unaudited) (A\$m)
Current Assets – Cash & Equivalents	3.582
Non-Current Assets – Tenements	2.400
<b>TOTAL ASSETS</b>	<b>5.982</b>
Non-current Liabilities – Conv.Notes	2.400
<b>TOTAL LIABILITIES</b>	<b>2.400</b>
<b>NET ASSETS</b>	<b>3.582</b>

At IPO, ABx will have net assets of \$3.58M (5.1 cps).

In addition to the 70 million fully paid ordinary shares on issue, at the time of IPO there will also be 12.0 million options, all convertible at 30 cents per share within 36 months of their date of issue. (10.2 million of these options will be issued upon successful completion of the IPO, with a further 1.8 million available for future employees under the ESOP.)

There are also \$2.4 M of convertible notes, which carry interest at 6% pa. The notes have a life of three years from quotation after which, at the discretion of ABx, they must be either redeemed at par or converted to fully paid ordinary shares at a price of 30 cents per share (ie into 8.0 million fully paid ordinary shares).

Assuming full option take-up and conversion of the notes, the Pro-forma Net assets at the time of IPO would increase from \$3.58m to \$9.58m, or 10.6 cps, on an enlarged capital base of 90 million shares.



## 7. Directors & Management

**Chairman - Peter J. Meers** has broad business experience across a range of industries including consumer, commercial and investment banking, securities trading and origination, mining and exploration and building materials. He is CEO of Tiaro Coal Limited, a subsidiary of Hudson. Mr. Meers has held senior executive positions and portfolio management roles in agribusiness, mining, property and trade finance during a career spanning 25 years with ANZ Bank in Australia and Asia. Past directorships include companies in Malaysia, Indonesia and Singapore. Mr Meers is Executive Chairman of Hudson.

**Managing Director - Ian W. Levy** has thirty years senior management experience with small to large mining companies, including WMC, Pancontinental Mining, Gympie Gold and CEO of Allegiance Mining, involving development of bauxite, gold, coal, base metals, nickel and industrial minerals projects from discovery to marketing. He is currently chairman of D'Aguilar Gold, Dynasty Metals Australia and was formerly Director of Gloucester Coal. He was a member of the Joint Ore Reserves Committee (JORC) for 11 years, including 4 years as Vice Chairman and Federal President of the Australian Institute of Geoscientists.

**Director and Chief Geologist: Rado Jacob Rebek** is an Australian geologist with forty years experience in exploration. From 1970 to 2003 he worked for CRA and Rio Tinto in various parts of Australia and overseas. His roles included that of exploration manager for Papua New Guinea in 1970's, South Australia and Northern Territory from 1981 to 1984, Eastern Australia from 1987 to 1993 and Exploration Director for South America from 1997 to 2000. He led teams which discovered new zinc, copper and gold deposits. Since 2003 he worked for emerging companies, generating new projects. In 2006 he started working for Hudson as Chief Geologist and led the small team which discovered the bauxite deposits.

**Non-Executive Director Vincent Tan** is a chartered accountant and has over the past 35 years worked in a range of industries, including insurance, securities trading, finance and property. Mr Tan has held senior management positions in a number of public and non-government organisations and has broad experience in corporate structuring.

**Non-Executive Director Wei Huang** graduated with a Bachelor of Economics from Macquarie University and a Master of Commerce from University of New South Wales. He is a member of CPA Australia. He has experience in financial control, new business start ups and development within the mining, construction, financial services, and retail and textile industries both in Australia and overseas. Mr Huang also has extensive experience in promoting and facilitating two-way investment between China and Australia and is familiar with the business cultures of both China and Australia.

### **Company Secretaries**

**David Hughes** is currently the company secretary for a number of ASX listed public companies including Latrobe Magnesium Limited, HIGL, HRL and Imperial Corporation Limited.

**Henry Kinstlinger** has the past twenty-five years been actively involved in the financial and corporate management of a number of public companies and non-governmental organisations. He is a corporate consultant with broad experience in investor and community relations and corporate and statutory compliance.

**Chief Financial Officer - Francis Choy** has held a number of senior positions in corporate financial management roles throughout Australia and South East Asia. He has extensive experience in project finance, compliance, acquisition and investment appraisals. He has been involved in project financial, financial management of property development and telecommunication projects in South East Asia. He held senior financial roles for numerous public listed companies both in Hong Kong and Australia.

**Consultant - Dr Andrew White** is a consulting geologist, management consultant and company director. He has over forty five years experience in the mining sector, including roles as exploration manager at Comalco (the specialised bauxite-alumina-aluminium subsidiary of CRA / Rio Tinto) and at Poseidon and was a founding director of the W.H. Bryan Mining Geology Research Centre, University of Queensland. He has extensive experience in exploration, mining, financial evaluation, project development and management, and is author of the text, "Management of Mineral Exploration".

## **8. Risks**

Investment risks can be summarized in terms of general investment risks, industry risks and business-specific risks. The major risks pertaining to the resource industry in general and ABx in particular are as follows:-

### **Resource industry risks**

- Being at the exploration stage, the value of ABx's securities are directly related to the success or otherwise of exploration and subsequent development, to which significant risks attach and for which no guarantees can be given.
- Although all the current project tenements are reported as being in good standing, the usual obligations and expenditure commitments applying to any EL apply equally to ABx, along with Native Title compliance. Any non-compliance with obligations and commitments risks the revoking of the tenement licence.
- As with any exploration project, there is no guarantee that a Mining Lease will be granted.
- The project is sensitive to commodity prices, specifically bauxite prices received and oil prices as they affect transport costs, both of which could have an adverse impact on the project economics.
- In common with any mining project there is a risk of disruption to operations from adverse climatic, geological and mining conditions as well as equipment failure and labour disputes.
- Although industry practice with respect to environmental management is generally exemplary, there exists a risk related to environmental approvals and unforeseen environmental impacts.
- The uncertainty associated with the Carbon Pollution Reduction Scheme (CPRS) Bill currently before Parliament constitutes a risk of increased obligations or operating costs as a result of its enactment
- ABx's reliance on third parties for professional and contracted services such as resource estimation, mining etc has the potential to cause financial loss to ABx in the event of deficient performance of those services.

- Not all the risks associated with mineral production can be insured against, so ABx will not be insured against all possible losses.
- Mining is capital-intensive and whilst ABx has a capital raising strategy in place there is no guarantee of adequate funding for development of the project.

### **Risks specific to the ABx business**

- An application for the transfer of titles from Hudson Resources to ABx is currently awaiting government approval and although there is reasonable expectation that approval will be granted such approval cannot be guaranteed.
- A critical feature for the economic development of the Inverell deposits in particular is the development of effective iron removal beneficiation technology and its associated IP protection. Neither is guaranteed.
- The ABx projects, as a consequence of their location, are sensitive to availability and cost of transport in a relatively long chain of road/rail/port facilities and as a function of successful beneficiation to a higher value product.
- As part of its business strategy, ABx may make acquisitions of significant investments in complementary companies, products or assets. Any such future transactions would be accompanied by the risks commonly encountered in making acquisitions of companies, products or assets.

## **9. Conclusion**

On the basis of the aluminium industry supply-demand fundamentals and ABx's business strategy of developing low-temperature, low silica gibbsite and refractory grade bauxite products for the east coast and overseas alumina markets, ABx's business model appears to be sound. Although exploration is at an early stage, the initial results are encouraging and support the potential production of a beneficiated premium quality product although we note that further drilling and analysis and additional metallurgical testing are required.

I recommend subscription at 20 cents per share, recognising that the investment must be considered speculative as the company will have limited cash resources at the time of listing and no JORC-compliant geological resource estimate is yet available.

### **AUTHOR:**

**This report has been prepared by Alan Riles of Riles Integrated Resource Management Pty Ltd. Alan Riles has a first class honours degree in Metallurgy from the University of Sheffield as well as a Post-Graduate Diploma in Professional Management from the University of Tasmania. He has 35 years international experience in the mining industry covering a wide range of commodities: gold, base metals, minerals sands and bauxite, and with operational management experience of significant mining and processing facilities.**

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