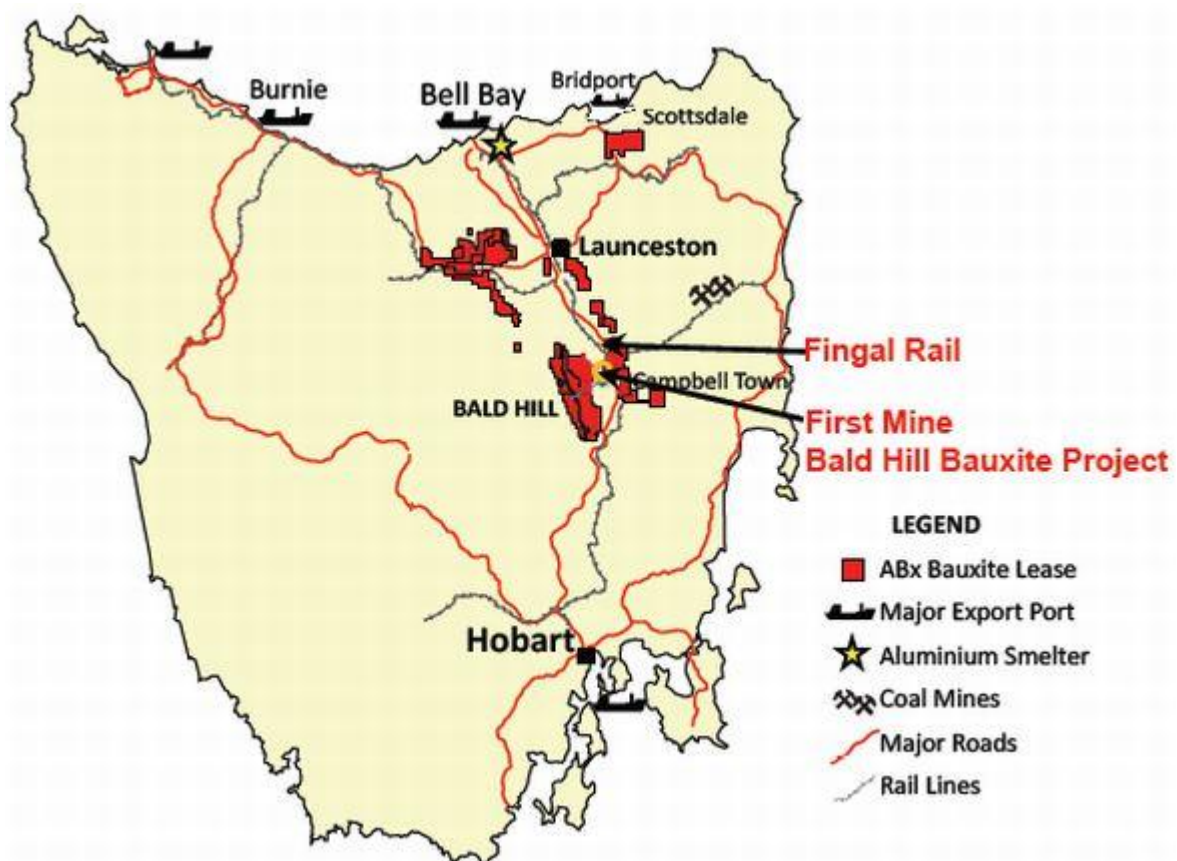


Fingal Rail; but wait there's more bauxite

Australian Bauxite continues to successfully drill for bauxite, with first drilling at its Fingal Rail prospect in Tasmania intersecting bauxite. The Fingal Rail drilling followed hard on the heels of the company completing further delineation drilling at its Bald Hill project also in Tasmania. The following figure shows the locations of both the Bald Hill project and the Fingal Rail prospect.



Source: Australian Bauxite

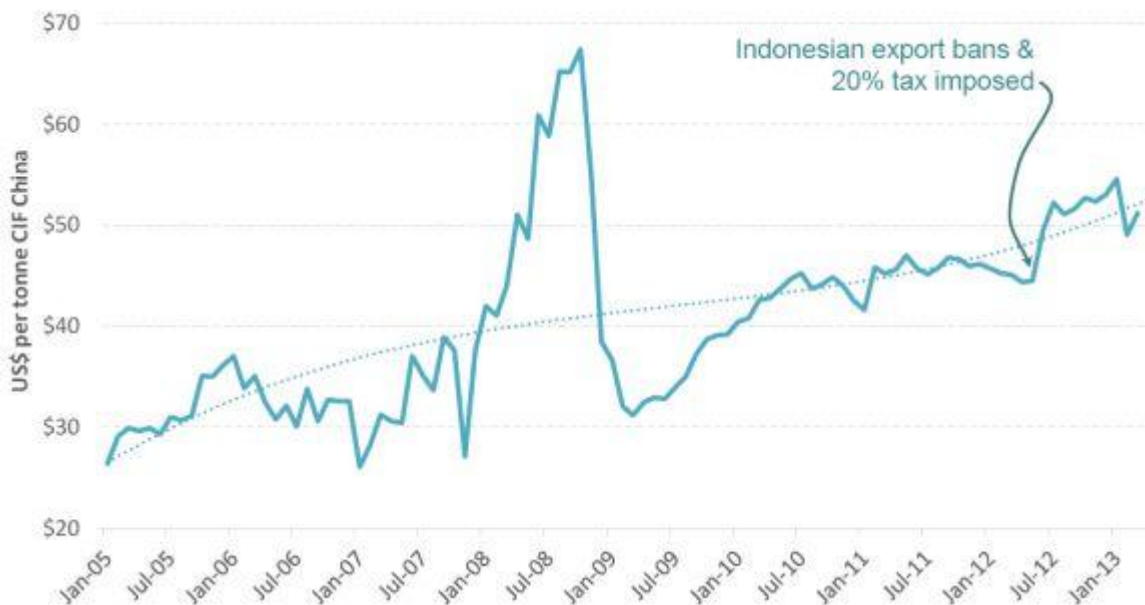
The Fingal Rail prospect is only 11 kilometres from the company's soon to be first bauxite mine in Bald Hill. Details of the Fingal Rail deposit are at this stage sketch. The company has indicated that the bauxite intersection was a **'solid bauxite layer'** and that the deposit lay open along strike. The outcropping deposit is hosted beneath a thin cover of sand and mud layers in close proximity to the surface. The assay results for

several drill batches from the Fingal Rail prospect drill programme are pending. We will watch for these announcements with interest, as additional bauxite would add to the value of the Bald Hill development.

Development of the Fingal Rail deposit will likely be assured should the prospect be found to host direct shipping ore (DSO) quality bauxite. With Bald Hill in close proximity, the company would likely develop the Fingal Rail deposit in unison with developing Bald Hill. A reminder for Members that DSO requires little capital outlay and can be shipped at low cost and quickly.

Bald Hill will be the company's first operating bauxite mine when production commences in the second half of 2014. Operations at Bald Hill will be small scale, with the company looking to initially extract some 800,000 tonnes of bauxite per annum. The company envisages production reaching 2.5 million tonnes per annum as the Bald Hill resource expands. The initial mine life is around 4 years.

Importantly, the company has placed some cost parameters around its Bald Hill development. Capital costs are estimated at A\$10 million and operating costs in the range A\$25 to A\$29 per tonne. The following chart shows the bauxite price on a cost, insurance and freight basis price into China.



Source: Australian Bauxite

Based on the current bauxite price of around US\$55 (A\$61) per tonne, the company will generate a robust operating margin in the plus 50% vicinity from its Bald Hill mine. Free cash flow from operations would also be substantial. **The investment value of Bald**

Hill could be improved further with the integration of the Fingal Rail deposit.

The region is well serviced with infrastructure including road, rail and port facilities. All the required mine site infrastructure including power and a workforce are also readily available.

We note the company’s goal to pay dividends from 2015/16.

On bauxite pricing, we view the move by Indonesia to tighten its bauxite export capacity from 2014 will benefit Australia producers. Indonesia also tightened export capacity in 2012, with a resultant impact on the bauxite price (see the prior bauxite price chart). The following chart shows bauxite imports into China.



Source: Australian Bauxite

In the first half of 2013, Indonesia exported 21.4 million tonnes of bauxite to China, representing a rise of 3.0% on the same half in 2012. Annually to June 2013, China imported 32.7 million tonnes of bauxite printing a 29.8% rise for the year. Australia’s contribution was 6.7 million tonnes of bauxite for the 12 months to June 2013. Although small in volume the number was 57% higher that the previous year. **We expect Australia’s future exports of bauxite to China will continue to expand well into the future.** The company in our view is well positioned, with four bauxite projects that have the potential to come on stream between now and 2018, to sell into a robust market.

The bauxite price has remained robust as globally aluminium smelters battle for market share. China is well positioned in the aluminium smelting business, with many new cost efficient smelters. Bauxite benefits as it takes four to five tonnes of bauxite to produce one tonne of aluminium.

We reported in FAT-MIN-373 on the corporate activities with **Chinese aluminium giant Xinfa Group (Xinfa)**. The company has received the exclusivity payment of A\$500,000 from Xinfa; with that company now undertaking its due diligence. The above scenario fits with the attention the company is receiving from Xinfa.



At 30 June 2013, the company had a cash resource or equivalent of A\$2.2 million. Expenditure in the current quarter has been budgeted at A\$380,000. Exploration expenditure is forecast at A\$150,000, while the forecast for development activities is A\$100,000. We consider the company has sufficient cash resources to meet all its current commitments.



With a 200 million tonne bauxite resource now readily achievable and the road to first production now appearing to open up, the company will continue to focus on developing its bauxite assets. We expect further positive news flow from the company in the months ahead, as it continues to improve the in ground value of its bauxite projects.

With the above in mind, Australian Bauxite will remain firmly held in the Fat Prophets portfolio.

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Corporation, Standard Chartered, Sumitomo Mitsui Financial, Toyota Motor, X iShares A50. These may change without notice and should not be taken as recommendations.

Snapshot ABZ

Australian Bauxite Limited

Latest closing price: \$0.20

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

\$22.7m

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