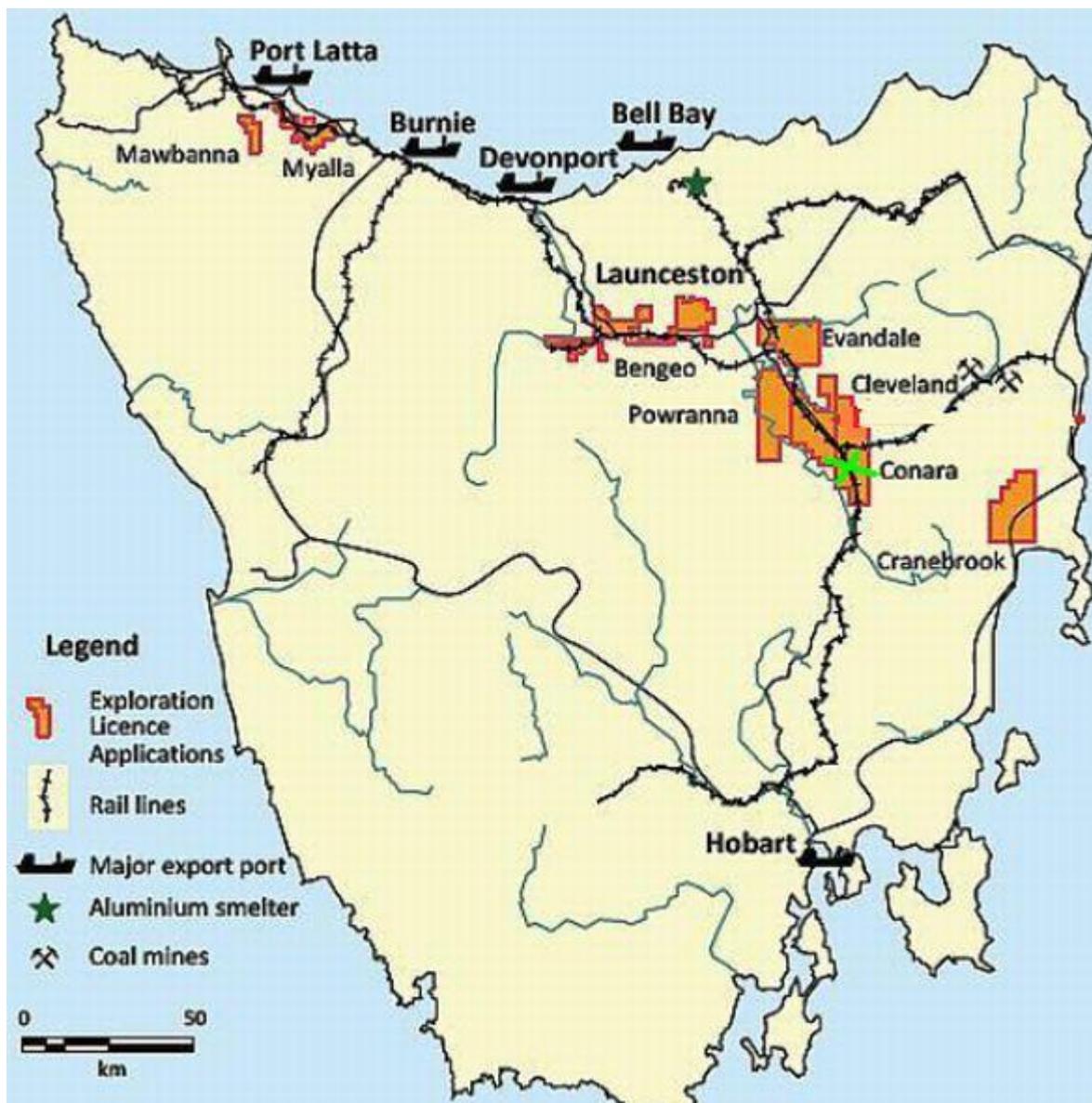


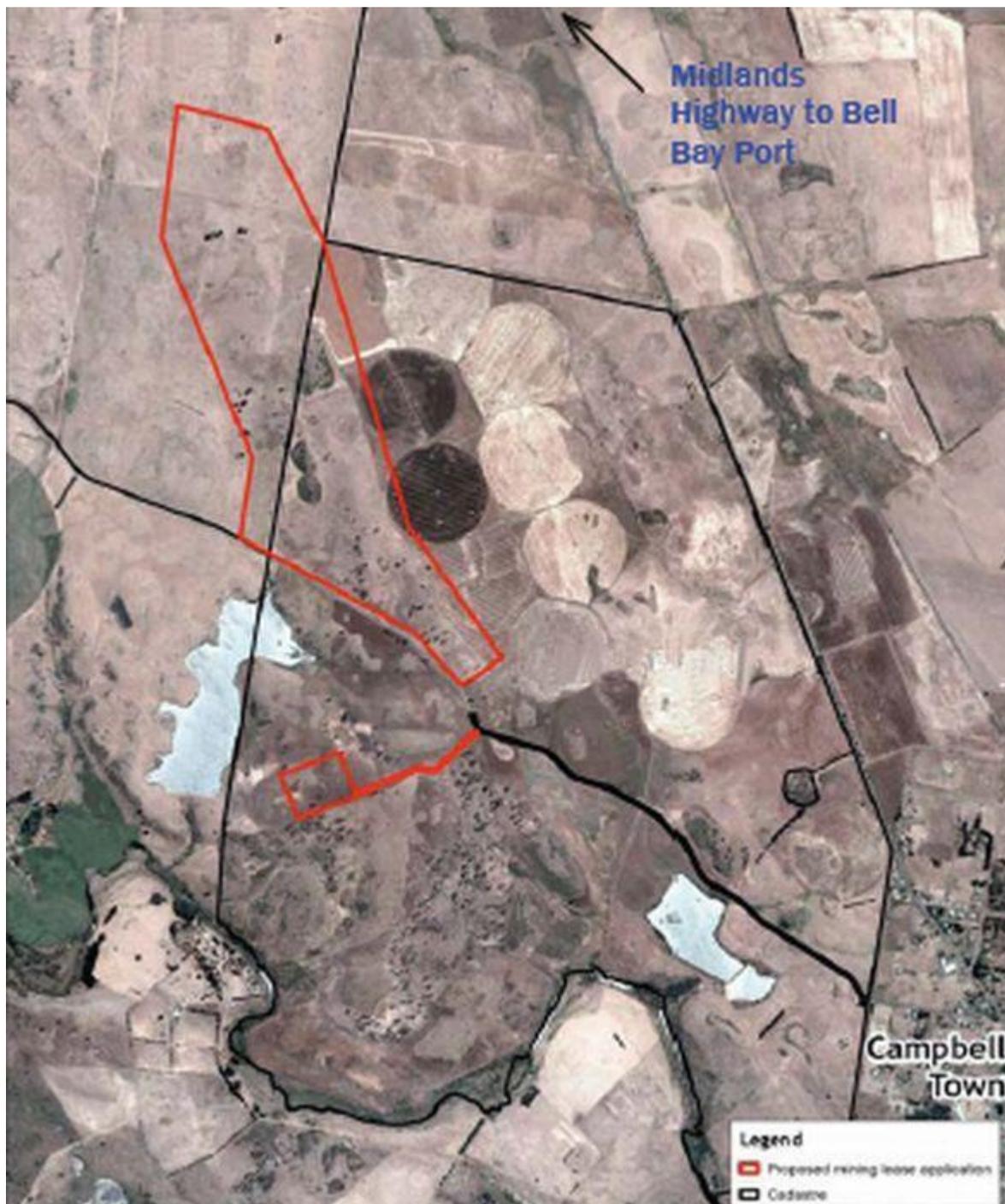
Mining Lease No 1 lodged; with more to come

Australian Bauxite has lodged its first application for a Mining Lease over the company's Bald Hill bauxite project in Tasmania. The application was lodged following the signing of a Development Term Sheet and a potential supportive Off-take Agreement with a major aluminium producer seeking access to quality Australian bauxite. The following figure shows the company's Tasmanian tenements with the location of the Bald Hill project site highlighted (iridescent green cross).



The mining resource for Bald Hill project is expected to be around three million tonnes of bauxite to allow the development of the deposit into a mine. Prior to mining proceeding, the Bald Hill project site will require the submission of a Development Proposal and Environmental Management Plan, both of which should be submitted to the relevant authorities by mid year. Mining from Bald Hill is expected to commence in the second half of 2014 (subject to the Term Sheet Agreement discussed later in this review).

Mining at Bald Hill will be small scale, with the company looking to extract some 800,000 tonnes per annum of bauxite over an initial mine life of around 4 years. The following figure shows an aerial view of the Bald Hill project site.



Source: Australian Bauxite

The life of the Bald Hill mine will likely improve as the company is of the view that the Bald Hill tenement hosts additional extensions of bauxite mineralisation totalling circa two million tonnes. **Bald Hill bauxite is direct shipping ore (DSO) quality that will require no further processing once extracted from the ground.** Bauxite from the mine will be transported by road to the port of Bell Bay.

Bald Hill is the first of a series of bauxite mines that the company plans to develop across its Tasmanian tenements. The company expects to "showcase" the Bald Hill mine site as representative of its broader approach to bauxite mining in Tasmania.

The broader development plan for the company's Tasmania assets will include a series of small scale mines totalling production of some 800,000 tonnes per annum. Including Bald Hill, the company plans to develop three other mines on its Tasmanian tenement. **From these mines a total of up to three million tonnes of bauxite per annum could be shipped through the Bell Bay port.** Only DSO would be shipped.

Across the company's Tasmania tenements, the current DSO resource stands at three million tonnes of bauxite. **The company is targeting a total Tasmanian resource of 12 to 20 million tonnes of bauxite it considers can readily be extracted.** A broader target of 30 million to 50 million tonnes of bauxite is likely hosted within the company's Tasmanian tenements.

With regard to logistics including road, rail and port access, the company has signed a MOU with Tasmanian Ports for the movement of bauxite from the mine sites to the customer.

The escalation in development activity is a result of the signing of a Development Term Sheet and potential supportive Off-take Agreement with aluminium giant in Xinfu Group (Xinfu).

In brief, the Development Term Sheet (Agreement) provides Xinfu an exclusivity term to the end of August 2013 for the payment of A\$500,000 (already received), to complete due diligences. Beyond that date a monthly payment of A\$100,000 will keep the exclusivity period open on a monthly basis.

The Agreement covers the Bald Hill project as well as the Goulburn South bauxite project in New South Wales. Under the Agreement, Xinfu will earn a 50% interest in each of the mentioned projects through funding **all** pre-production costs and development and construction costs for the first mines on both sites. The supportive Off take Agreement will require Xinfu take 50% of the bauxite produced from the Bald Hill and Goulburn South mines. Australian Bauxite can direct Xinfu to take 100% on request.

Xinfa can move to a 70% interest in Bald Hill and Goulburn South projects with the payment of the 20% ownership interest at the market value of the projects at the time. This condition is the subject to Australian Bauxite not repaying its portion of development costs.

Xinfa was been granted the right of first negotiation over the development of all the company's current assets.

A signing of a MOU between Xinfa and Australian Bauxite at the end of the exclusivity period will see Xinfa pay to Australian Bauxite A\$2 million dollars and receive inturn 6.58 million shares at A38 cents per share.

We consider the Agreement to be a major breakthrough in allowing Australian Bauxite to seriously move forward the development of its bauxite assets. During the exclusivity period, we will monitor announcements concerning this matter very closely.

At 31 March 2012, the company had a cash resource or equivalent of A\$2.6 million. On 9 May, the company received a payment of A\$500,000 in return for the company granting an exclusivity period to end August 2013. Expenditure in the current quarter has been budgeted at A\$1.1 million. Exploration expenditure is forecast at A\$300,000, while the forecast for development activities is A\$675,000 (reimbursed pursuant to the Off-take Agreement). **We are extremely pleased with the high proportion of the company's cash resources going into the ground or used for development activities.**

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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Snapshot ABZ

Australian Bauxite Limited

Latest closing price: \$0.195

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

\$22.2m

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