

Trial mining proves it can be done

Australian Bauxite (ASX: ABZ) has conducted a small scale trial mining operation in Tasmania, to prove-up its bauxite mining concept. The trial proved to be an unequivocal success. The trial also provided the company with critical real time data on the mine to port characteristics of the direct shipping ore quality bauxite.

A critical milestone has been reached in progressing Direct Shipping Ore (DSO) bauxite mining, as the company conducted small scale trial mining operations at its Bald Hill and Fingal Rail projects. The following images show the trial digging:



Source: Australian Bauxite

The Bald Hill and Fingal Rail trial mining involved the excavation of four large pits on site (three at Bald Hill and one at Fingal Rail), with DSO bauxite from four of the pits bulk and channel sampled and assayed. The DSO bauxite ore was hauled to a screening site for final export preparation. The final step was the complete rehabilitation of the sites.

With regard to extraction, the company will not use the excavators as shown in the above images. Instead, a more cost effective continuous surface stripper would be used. The following image shows the surface miner or "harvesting" concept the company plans to use (the plant and hauler are not Australian Bauxite assets):



Source: Australian Bauxite

The trial involved the extraction of 1,500 tonnes of overburden and DSO bauxite, with four 50 tonne bulk DSO bauxite samples hauled away for final screening.

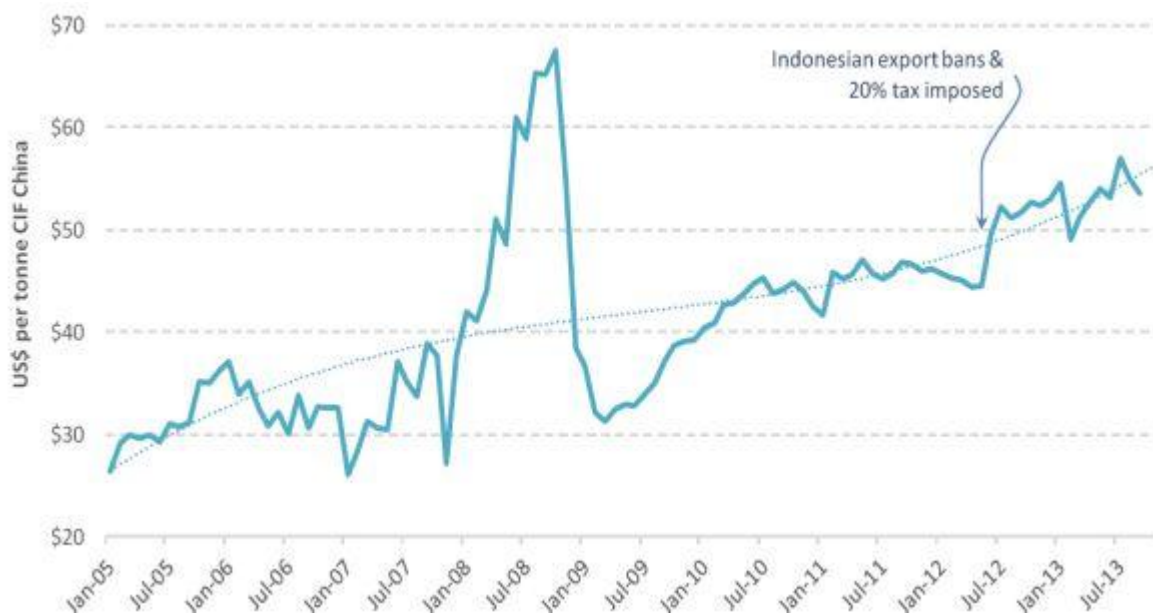
A critical step in the trial mining was the dry screening of the four 50 tonne DSO bauxite samples. Screening involved sorting into four sizes ranging from +100 millimetres oversize down to fines of less than 7.5 millimetres, to determine optimum bauxite yield. The following image shows the dry screening plant (the plant is not an Australian Bauxite asset):



Source: Australian Bauxite

The dry-screening at the +7.5 millimetres produced the optimum results, with consistent bauxite yields of better than 74% from the four pits. The bauxite yields from the three Bald Hill samples were 74%, 80% and 85%. Furthermore, Fingal Rail sample yielded 84%. The screening of the samples was completed in damp conditions which may have influenced outcomes. From the screening trials, the company will determine an optimum screening size, with a bottom size in the range four and seven millimetres. Bauxite yields when in production are expected to exceed 75%.

Tasmania’s Bald Hill is advancing toward first bauxite production in 2014. Production is expected to be in the range 0.7 to 1.5 million tonnes of bauxite per annum at an estimated operating cost of A\$29 per tonne free on board. The following chart shows the bauxite price on a cost, insurance and freight basis into China:



Source: Australian Bauxite

Based on the current bauxite price of circa US\$55 (A\$58) per tonne, the company will generate a robust operating margin from its Bald Hill mine. Free cash flow from operations would also be robust.

The cost to develop Bald Hill is estimated at A\$12 million. The low development capital is a direct result of the quality DSO bauxite. As the trial mining proved, DSO bauxite need only be extracted and screened prior to sale.

The region of Tasmania that hosts Bald Hill 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.

Negotiations between the company and the Xinha Group (Xinha) as a preferred joint venture partner in the Bald Hill project is progressing (See FAT-MIN-373). The company's preferred funding model for Bald Hill is to engage an off-take partner in Xinha, and to earn a 50% interest through part funding the project. The company is, however, remaining open to alternative project funding options.

On the corporate front, we note Hudson Resources on 4 November 2013 sold 19.4% of Australian Bauxite or 22 million shares at 15.9 cents per share. The transaction was completed off market. Hudson Resources retains a 9.33% interest in Australian Bauxite. The purchaser is a single entity and will be required to lodge a substantial shareholder notice shortly. We will monitor company announcements closely.

At 30 September 2013, Australian Bauxite had a cash resource or equivalent of A\$1.1 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 believe the company has sufficient cash resources to meet all its current commitments.

With a 200 million tonne bauxite resource now readily achievable and first production in Tasmania now viable, the value catalysts we see in the company are moving in the right direction. 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. We certainly consider the proving of mining as a critical milestone for the company.

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: \$0.24

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

\$27.4m