

Annual Report

31 DECEMBER 2010



AUSTRALIAN BAUXITE LIMITED

ASX : ABZ | ACN 139 494 885

CORPORATE DIRECTORY

Australian Bauxite Limited

ACN 139 494 885
ABN 14 139 494 885

Registered and Corporate Office

Hudson House

Level 2
131 Macquarie Street
Sydney NSW 2000

Telephone: +61 2 9251 7177
Fax: +61 2 9251 7500

Email: corporate@australianbauxite.com.au
Website: www.australianbauxite.com.au

Directors

Peter J Meers (Chairman)
Ian Levy (Managing Director)
Rado Jacob Rebek
Vincent Tan
Wei Huang

Company Secretaries

David Hughes
Henry Kinstlinger

Share Registry

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001
Australia
Telephone: 1300 850 505 (within Australia)

Auditors

K.S. Black & Co
Level 6
350 Kent Street
Sydney NSW 2000
Telephone: 61 2 8839 3000

Bankers

Australia & New Zealand Banking Group Limited
20 Martin Place
Sydney NSW 2000
Telephone: +61 2 9227 1818

St George Bank Limited
Corporate & Business Bank
Level 5, 2-14 Meredith St
Bankstown NSW 2200
Telephone: +61 2 8760 8100

Lawyers

Piper Alderman
Level 23, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000
Telephone: +61 2 9253 9999

ASX Code – ABZ

Australian Bauxite Limited shares are listed on the Australian Securities Exchange.

This financial report covers both Australian Bauxite Limited as an individual entity and the consolidated entity consisting of Australian Bauxite Limited and its consolidated entities.

Australian Bauxite Limited is a company limited by shares, incorporated and domiciled in Australia.

Contents

Corporate Directory	1
Chairman's Review 2010	2
Review of Operations	3
Directors' Report	12
Remuneration Report - Audited	16
Auditor's Independence Declaration	22
Corporate Governance Statement	23
Statement of Comprehensive Income	29
Statement of Financial Position	30
Statement of Changes In Equity	31
Statement of Cash Flows	32
Notes to the Financial Statements	33
Directors' Declaration	56
Independent Auditor's Report	57
Shareholder Information	59
Tenement Schedule	61
JORC Code Compliant Public Reports	62

**The Annual General Meeting of
Australian Bauxite Limited will be commencing at
12.30pm on 27 May 2011, Hudson House
Level 2, 131 Macquarie Street
Sydney, NSW, 2000.**

CHAIRMAN'S REVIEW 2010

On behalf of your directors I am pleased to present the annual report of the Company for the twelve months ended 31 December 2010. I would like to take this occasion to reflect on accomplishments and challenges of the last year and to look ahead to 2011 and what it holds for Australian Bauxite Limited.

Australian Bauxite Limited (ASX: ABZ) is offering high share value growth.

Since the Company's successful listing on Australian Securities Exchange on 24 December 2009 and most importantly for our shareholders, our Company's success has been reflected in a robust share price throughout 2010. Since listing at 20 cents, the Company's share price has increased 300% to the date of this letter. Our market capitalisation has grown 395% to \$69.4 million.

To achieve this performance against a background of recovering world economies following the late 2008 and 2009 global financial crisis and two additional capital raisings through share placements during 2010 following the IPO is truly reflective of the support by our shareholders and financial supporters to the Company's strategy and business plans to move beyond a position as a junior bauxite explorer.

A number of factors underpin this success:

- the granted tenements under exploration were significantly increased – currently 32 tenements covering 7,231 square kilometres in New South Wales, Queensland, Victoria and Tasmania;
- nearby good freight corridors and infrastructure;
- the announcement of JORC resources – a total of 48 million tonnes in 2 exploration tenements from areas less than 15% of current identified target areas in these tenements;
- identification that the JORC resources consisted of high quality gibbsite bauxite with excellent alumina to silica ratios, but most importantly,
- the high quality performance of a well experienced and seasoned management team that drove exploration activities at a rapid pace but ensured good landowner relationships and maintained a keen eye for new bauxite occurrence through astute geological assessment

The year ahead will create more opportunities and challenges.

On challenges the recent destructive flooding in northern NSW and Queensland will impact drill program time tables however the geographic diversity of the Company's exploration tenements will help overcome location concentration risks and provide ways forward to continue to permit exploration work to advance creating and building of JORC resource assets.

In terms of opportunity the industry outlook is promising.

Aluminium prices increased over the second half of 2010. Industry commentators expect prices to continue to move modestly higher throughout 2011. As with many commodities, developments in China will be a key influence on global supply and demand. When China is included, global aluminium inventories look very high, with significant excess global capacity. However, given that China has effectively removed itself from the global market for the next year or two China will no longer be a major aluminium exporter (which they consider akin to exporting energy), global balances are in practice tighter than they first appear.

Given this situation, it is possible that LME aluminium will trade at a premium to that on the Shanghai exchange over the coming year. This, coupled with continued cost escalation – driven in part by higher oil, thermal coal and alumina costs – and a small production deficit in 2011, is likely to support a modest further increase in LME aluminium prices. These market developments will continue to support demand for raw bauxite feedstock particularly from countries with good geopolitical credentials and with good production cost and logistic frameworks.

With these facts in mind the prospects and potential for substantial value accretion for the Company shareholders look highly promising.

The Directors would like to thank management, staff and our consultants for their work in advancing the performance of the Company over the past year and we look ahead to the delivery of another year high achievement.



Peter J Meers
Chairman

REVIEW OF OPERATIONS

This Review of Operations covers the period to 31 December 2010.

Australian Bauxite Limited (**ABx**) is an emerging bauxite exploration and development company, which listed on the ASX on 24 December 2009 with Company Code ABZ. As of 31 December 2010 ABx through its wholly owned subsidiaries (ABx1 Pty Ltd, ABx2 Pty Ltd, ABx3 Pty Ltd, ABx4 Pty Ltd and ABx5 Pty Ltd) holds 32 bauxite tenements in Queensland, NSW, Victoria and Tasmania covering 7,231 km².

Corporate

On 29 January 2010, ABx4 Pty Ltd was incorporated as a wholly owned subsidiary of ABx. Eight exploration licences were lodged covering an area of 1,639 km² in Tasmania.

On 19 March 2010, ABx completed a placement of 10 million shares, at \$0.35 cents per share, to sophisticated investors, raising \$3,500,000 (before costs).

On 29 March 2010, ABx5 Pty Ltd was incorporated as a wholly owned subsidiary of ABx. An exploration licence was lodged in Victoria over 153 km².

On 1 April 2010, the cash component of the Convertible Note held by Hudson Resources Limited (**Hudson**) in the amount of \$783,934 was paid.

On 28 May 2010, ABx held its first Annual General Meeting. Shareholders ratified the 10 million share placement and approved a further placement of up to 20 million shares.

On 22 July 2010, the balance of the Convertible Note held by Hudson was redeemed. 5,617,337 shares were issued upon conversion and Hudson voluntarily entered into a Restriction Agreement, whereby the Shares are restricted and held in escrow until 23 December 2011.

On 27 August 2010, ABx completed a placement of 13.5 million shares, at \$0.45 cents per share, to sophisticated investors, raising \$6,075,000 (before costs).

Exploration

Exploration Strategy

ABx applies 3 rigorous selection criteria to identify:

1. high-quality, large tonnage gibbsitic bauxite deposits;
2. located close to existing infrastructure (especially port & rail); and
3. free of socio-environmental and native title land constraints.

From some 80 bauxite discoveries, ABx has only retained the 32 best bauxite project areas that meet these 3 selection criteria, so that ABx now controls the core of the East Australian Bauxite Province.

ABx's tenements are all 100% owned and free of 3rd-party royalties. The tenements are generally located on pastoral/grazing and other land not subject to native title issues. Careful attention to landowner dealings has earned their support, especially where agricultural land values are modest, often due to the infertile bauxite layer. ABx aspires to only work with landowner approval and to always leave the land at least as good as found. This corporate ethos has been reciprocated with support from all landowners.

The ABx bauxite projects are within reasonable distance from the two large alumina refineries at Gladstone, Queensland, plus access to local energy sources & water.

All deposits lie on or near the surface and drilling is fast, easy and economical, involving RC drill holes down to typically less than 15 metres.

High Bauxite Quality

The ABx bauxite has relatively low reactive silica content and relatively high proportion of tri-hydrate gibbsite (Al₂O₃, 3H₂O), which is the most valuable alumina ore mineral, being suited to low temperature processing to recover alumina (120°C vs. 350°C). Iron content is typically elevated in NSW & Queensland, but is usually in the form of more easily processed iron minerals than the iron in Western Australian bauxite. ABx bauxite is coarse grained and in fact can deliver processing advantages when blended with lower quality high silica ore.

Thickness

Some areas are known to contain thin bauxite layers, however Inverell, Pindaroi, Binjour, Hampton and Taralga have maximum thicknesses of more than 9 metres, with drill indications that typical average thicknesses range from 4.4 to 6.3 metres. This is relatively thick, high quality bauxite. First pass drill testing of the Tasmanian tenements suggest that bauxite thicknesses up to 11 metres occur but are typically 4 to 5 metres thick.

Review of Operations continued

Land Access

This major bauxite drilling program was completed without interruption and with a 100% approval by landholders of the drill site rehabilitation work done by the ABx field crew. Landholder support has been positive in all areas.

Because ABx is not limited to one or two project areas it is able to avoid land access risks such as native title, local landholder resistance or environmental legislation.

Accelerated Program

A second drill rig has been commissioned and commenced operations during the December quarter at Binjour, QLD and then joined the first rig to accelerate the drilling at Taralga in January 2011.

The addition of the second rig will accelerate resource estimation without hindering the reconnaissance drilling programs testing new bauxite discoveries.

Tenement Status

Tenements are 100% in good standing.

Project Status

The Binjour project in central Queensland and the Taralga project in southern NSW near Goulburn have economic potential. Work is in progress to assess these deposits and their economic settings sufficient for pre-feasibility studies and then more detailed feasibility assessments for each project.

The Deloraine project in central northern Tasmania and the Inverell-Pindaroi-Guyra project area in northern NSW are also considered to be advanced projects where the 2011 drilling will be very informative. Other projects are still in the exploration stages.

ABx commenced its first pass reconnaissance-drilling program of all granted tenements on 12 April 2010 and this was completed ahead of schedule. In December 2010, ABx commenced follow-up evaluation drilling at Taralga near Goulburn in southern NSW and at Binjour in central Queensland.

Queensland

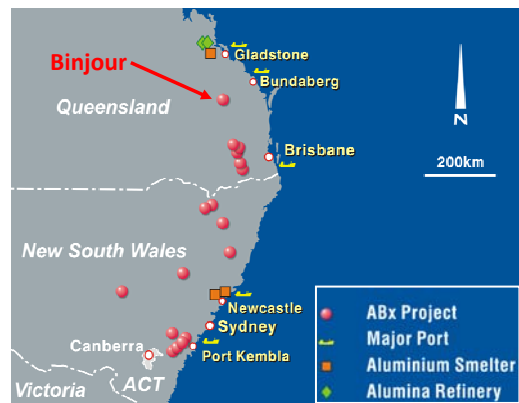
BINJOUR EPM 18014

170km SW of Bundaberg QLD

Holes drilled: 156
Holes with bauxite: 120 (77% hit rate)
Average bauxite thickness: 6 metres (up to 15 metres)

An area of several square kilometres was discovered on the Binjour plateau that has a good quality bauxite layer concealed beneath a soft, free-digging overburden layer.

An encouraging thickness of a concealed bauxite layer up to 15 metres thick was encountered and two stages of drilling were completed in July 2010 and it was drilled again in December 2010 to test continuity.



Results from the drillholes which intersected the main style of bauxite being targeted at Binjour called “Brown Sugar” bauxite, ideal for sweetener bauxite circuits in refineries were as shown in the table below.

Early assays indicate high qualities with high available alumina and very low reactive silica. An average bauxite thickness of 6 metres indicated potential for a large tonnage deposit. Holes BJ 033, 006 and 057 are from that area which was investigated by drilling in December 2010 and the results from holes BJ114 to BJ126 are considered to be highly significant – confirming our geological knowledge.

Bauxite at Binjour is unexpectedly extensive over a wide and diverse area, thus justifying the expansion in drilling strategy to begin mapping out the thicker zones, zones of better grades and zones with bauxite at surface. Several new targets are now being drilled.

Binjour has the potential to be a project worthy of early development.

Review of Operations continued

Binjour "brown sugar bauxite" intercepts in 2010

Hole No	From m	To m	Length m	Yield % wt	Leach 143degC Analyses			Total Analyses for Sieved at 0.26mm					
					Al ₂ O ₃ avl %	Rx SiO ₂ %	Avl/Rx ratio	Al ₂ O ₃ %	SiO ₂ %	A/S ratio	Fe ₂ O ₃ %	TiO ₂ %	LOI %
BJ006	7	12	5	62%	38.7	1.2	31.7	41.4	1.5	26.8	29.6	3.3	23.6
BJ031	10	18	8	60%	40.2	2.2	18.7	44.8	2.5	18.2	23.2	3.9	25.0
BJ032	8	16	8	68%	40.7	1.9	21.0	44.5	2.2	20.2	23.6	3.9	25.1
BJ033	10	19	9	71%	50.5	1.2	42.5	53.1	1.3	39.9	13.1	2.8	29.2
BJ053	7	10	3	70%	49.2	1.9	25.9	52.7	2.2	24.1	12.6	3.5	28.6
BJ059	3	9	6	69%	33.7	1.7	20.2	38.4	2.1	18.3	33.0	3.7	22.1
BJ111	11	17	6	77%	43.7	1.6	27.0	46.9	2.0	24.0	20.6	3.8	26.2
BJ113	13	17	4	65%	43.7	0.9	51.4	47.9	1.0	47.1	19.6	3.6	27.2
BJ114	6	10	4	42%	32.2	2.8	11.4	37.4	3.5	10.7	32.7	4.0	21.7
BJ115	6.5	11	4.5	68%	38.1	0.8	46.2	41.5	1.1	37.7	28.7	3.1	24.8
BJ116	9.5	14	4.5	73%	36.5	0.9	39.5	40.8	1.1	36.3	30.5	3.0	23.8
BJ119	10	14	4	60%	33.9	3.5	9.7	38.9	4.1	9.4	30.3	3.7	22.5
BJ120	7	11	4	78%	36.3	1.1	33.8	39.7	1.3	30.5	29.4	5.3	23.4
BJ121	7.5	14	6.5	68%	47.7	0.5	89.5	50.8	0.7	76.2	16.6	3.0	28.4
BJ122	9	15	6	61%	46.1	0.5	89.2	48.9	0.6	79.3	18.8	3.5	27.6
BJ123	9	12	3	71%	37.1	3.0	12.2	42.4	3.3	13.0	25.4	3.6	24.5
BJ124	10	13	3	70%	42.9	3.1	13.7	47.0	3.3	14.4	19.1	3.7	26.2
BJ125	9	16	7	53%	41.6	4.7	8.9	47.2	5.1	9.2	17.9	3.5	25.8
BJ126	10	16	6	66%	48.8	2.6	19.0	52.9	2.7	19.6	12.0	3.0	28.9
Average	8.6	13.9	5.3	66%	41.1	1.9	32.2	45.1	2.2	29.2	23.0	3.6	25.5

* Leach conditions to measure available Al₂O₃ avl & reactive Rx SiO₂ were 1g leached in 10ml of 90gpl NaOH at 143 degrees C for 30 mins.

"Avl/Rx" ratio is (Available Al₂O₃)/(Reactive SiO₂). "A/S" ratio is (Total Al₂O₃)/(Total SiO₂). Values above 10 are excellent

HAMPTON EPM 17790
20km N of Toowoomba QLD

Holes drilled: 136

Holes with bauxite: 56 (41% hit rate)

Average bauxite thickness: 5.9 metres (up to 13 metres)

The Geham deposit is a relatively consistent bauxite layer whilst Peachey deposit has two layers.

Indicative Bauxite grades from initial holes from the Peachey deposit was sent for analysis:



Hole	From m	To m	Metres m	Sieved at 0.26mm								Recovery % +0.26mm
				Al2O3avl %	Rx SiO2 %	aA/Sx	Al2O3 %	SiO2 %	A/S	Fe2O3 %	LOI %	
HM036	0	8	8	35.1	4.5	13.4	42.6	5.6	11.8	24.4	22.5	51
HM042	1	4	3	32.5	4.1	8.7	39.6	5.1	8.1	28.2	20.9	40
HM002	1	3	2	34.8	5.4	6.6	41.3	6.5	6.4	26.7	19.7	49
HM003	1	12	11	32.2	4.9	8.3	39.4	5.9	7.9	28.4	20.1	36
HM035	0	9	9	32.5	5.5	8.6	40.4	6.4	7.9	27.4	20.5	51
HM041	1	9	8	35.3	3.3	18.8	41.5	4.0	14.3	27.2	22.2	62

* Leach conditions to measure available Avl Al₂O₃ & reactive SiO₂ rx were 1g leached in 10ml of 90gpl NaOH at 143 degrees C for 30 mins.

"aA/Sx" ratio is (Available Al₂O₃)/(Reactive SiO₂). "A/S" ratio is (Total Al₂O₃)/(Total SiO₂). Values above 10 are excellent

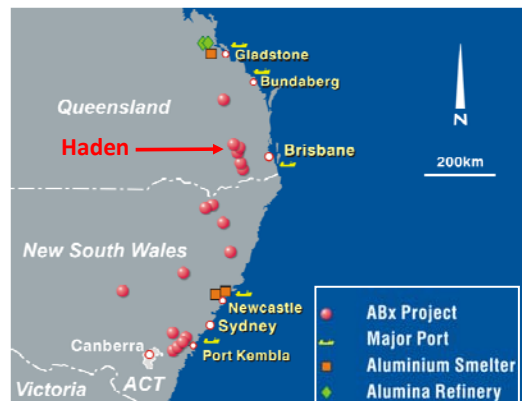
Review of Operations continued

HADEN EPM 17830
40km N of Toowoomba QLD

A new deposit colloquially called “Steam Engine” was discovered near Haden, 15kms to the northwest of the Pechey-Geham deposits at Hampton. The new deposit averages 3 to 5 metres thick and appears a consistent style of bauxite, more akin to Inverell bauxite than to Hampton styled bauxite.

Holes drilled: 39
Holes with bauxite: 23 (59% hit rate)
Average bauxite thickness: 4.4 metres (up to 9 metres)

The deposit extends over a wide area and will be explored by surface mapping prior to its next phase of drilling.

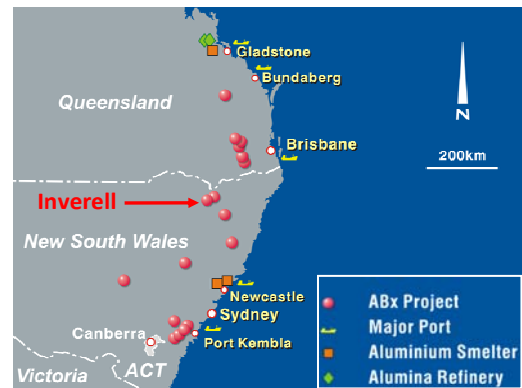


New South Wales
INVERELL EL 6997
20km NW of Inverell NSW

Total drilling completed at Inverell in 2009 and 2010 is 280 drill-holes totalling 3,400 metres.

A thick bauxite intercept of 9.4 metres was encountered in the 2010 drilling campaign – a similar result to the 9.5 metres maximum thickness encountered in the 2009 drill campaign at the southern end of the tenement.

Drilling in the initial resource area encountered a remarkably uniform bauxite layer typically 3.5 to 9 metres thick with a thin soil profile. Most of this very thick deposit lies at surface with no overburden.



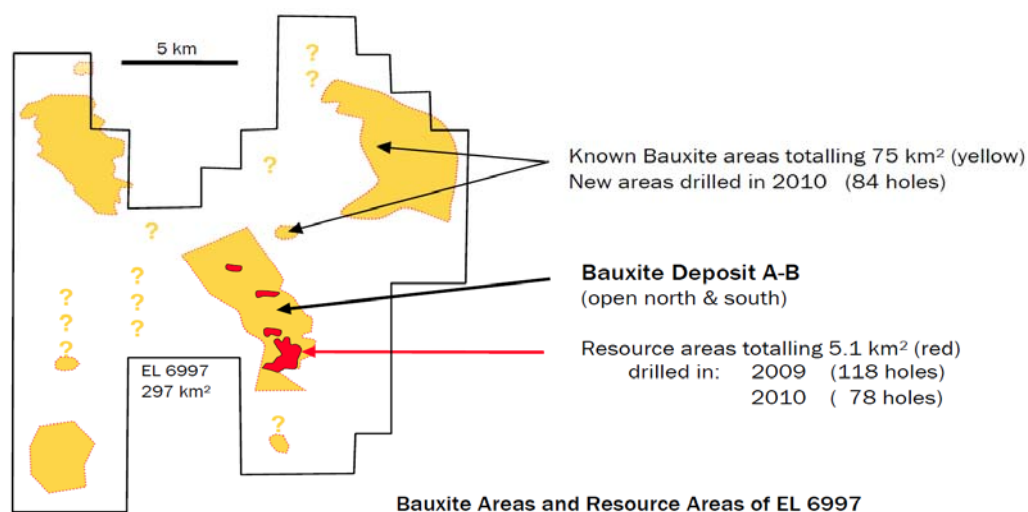
The Inferred and Indicated Resources of its bauxite deposit A-B at Inverell, Northern NSW (EL 6997) is 36 million tonnes of gibbsite-rich bauxite.

On 2 September 2010 a JORC resource update was announced to the ASX. The bauxite resource increased by 64% based on the results of 78 new holes drilled into A-B deposit in May-June 2010 and the 118 holes drilled in 2009. A total of 196 holes with 2,748 metres have drilled and sampled in this deposit. Deposit A-B is only one of 4 major bauxite areas identified to date on EL 6997 and the area drilled for resources to date represents less than 15% of the bauxite areas identified. At least 50% of the large EL 6997 tenement is yet to be explored for bauxite (see below).

Parts of the deposit have been confirmed as high grade, Direct Shipping Grade (“DSO” bauxite) up to 9.4 metres thick and averaging 6 metres thick. The A-B deposit is a relatively consistent, thick, high quality bauxite deposit averaging 5.6 metres in bauxite thickness and approximately 1 metre of overburden.

Resource estimates after application of cut-off grades for the drilled resource areas on the A-B deposit are summarised as follows:

Review of Operations continued



In situ bauxite (unscreened):

Resource category	Tonnes millions	Avl Al ₂ O ₃ %	SiO ₂ Rx %	Avl/Srx ratio	Al ₂ O ₃ %	SiO ₂ %	A/S ratio	Fe ₂ O ₃ %	TiO ₂ %	LOI %
Inferred	11.7	34.3	5.6	7.2	39.3	6.1	6.9	27.5	4.5	21.7
Indicated	24.4	31.5	5.5	6.0	37.1	6.1	6.6	25.5	4.2	20.5
Total	36.1	32.4	5.6	6.4	37.8	6.1	6.7	26.1	4.3	20.9

Leach conditions to measure available Avl Al₂O₃ & reactive SiO₂ rx were 1g leached in 10ml of 90gpl NaOH at 143 degrees C for 30 mins.
"Avl/Srx" ratio is (Available Al₂O₃)/(Reactive SiO₂). "A/S" ratio is (Total Al₂O₃)/(Total SiO₂). Values above 10 are excellent
Cut-off grades applied: 2 metres minimum thickness, 32% minimum Al₂O₃ & 8% maximum SiO₂

PINDAROI EL 7268
15km NE of Inverell, northern NSW

Holes drilled: 18
Holes with bauxite: 12 (67% hit rate)
Average bauxite thickness: 5.9 metres (up to 12 metres)

Pindaroi is situated 5 km from the Inverell deposit and has potential for very large tonnages with average bauxite thickness of 5.9m. The thickest bauxite intercept of 12 metres is quite remarkable and the fact that this is the same maximum thickness that was estimated from detailed mapping is considered encouraging.

Indicative Bauxite grades from initial holes sent for analysis:

Hole	From m	To m	Metres m	Sieved at 0.26mm							Recovery % +0.26mm
				Al ₂ O ₃ avl %	Rx SiO ₂ %	aA/Sx	Al ₂ O ₃ %	SiO ₂ %	A/S	Fe ₂ O ₃ %	LOI %
PR005	0	5	5	26.6	7.3	3.7	36.1	8.6	4.2	29.4	21.0
PR013	0	10	10	30.9	5.4	6.9	38.8	6.4	7.0	27.4	21.9
PR015	0	5	5	36.3	5.1	8.2	42.8	5.7	8.4	23.4	23.5

* Leach conditions to measure available Avl Al₂O₃ & reactive SiO₂ rx were 1g leached in 10ml of 90gpl NaOH at 143 degrees C for 30 mins.
"aA/Sx" ratio is (Available Al₂O₃)/(Reactive SiO₂). "A/S" ratio is (Total Al₂O₃)/(Total SiO₂). Values above 10 are excellent

Pindaroi was drilled to confirm the observation that extensive surface areas of bauxite extended to depth. This has been confirmed after reviewing the results from this preliminary first-pass drilling program. Follow-up, second-pass drilling will be carried out during 2011.



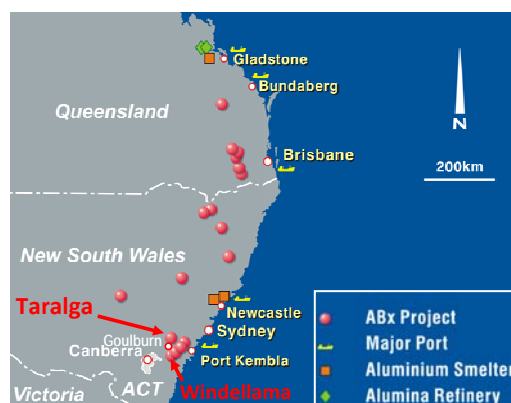
Review of Operations continued

WINDELLAMA EL 7269
25km S of Goulburn, southern NSW

Holes drilled: 58
Holes with bauxite: 47 (81% hit rate)
Average bauxite thickness: 3.3 metres (up to 7 metres)
Bauxite Grades from these holes are still being assessed.

This drilling was completed during the September quarter. Improved hit rates were achieved that reflected the improved geological knowledge and resulting confidence in being able to identify these types of bauxite deposits.

Sampling of the Windellama bauxite deposits during 2009 returned encouraging grades. These deposits are adjacent to an operating rail line that carried mineral products for several decades to Port Kembla for export. Windellama and the other prospects around Goulburn (see adjacent figure) are considered as satellite deposits feeding bauxite into a supply chain centred at Goulburn and exporting blended bauxite products through Port Kembla, 145kms east of Goulburn.



TARALGA EL 7269
40km N of Goulburn, southern NSW

The bauxite resources at Taralga increased to 12 million tonnes following first-pass drilling as announced on 6 December 2010. More than half of the resources are easily mined Direct Shipping Ore (DSO) grade bauxite suitable for direct shipping to customers that require gibbsite-rich bauxite, which is the premium quality bauxite that is in highest demand globally. Since the resource estimates were done, a much larger bauxite deposit has been discovered and drilled sufficient for a resource upgrade in 2011.

Resource estimates on the deposits tested at Taralga in mid 2010 are summarised as follows:

Total in-situ bauxite (screened at 0.26mm)

Resource category	Tonnes millions	Thickness	Al ₂ O ₃ avl %	Rx SiO ₂ %	Avl/Sx Ratio	Al ₂ O ₃ %	SiO ₂ %	A/S Ratio	Fe ₂ O ₃ %	LOI %	Yield %
Inferred	4.79	4.5m	28.1	1.6	18.1	38.8	5.6	6.9	33.5	17.5	64%
Indicated	7.17	4.5m	28.1	1.6	18.1	38.8	5.6	6.9	33.5	17.5	64%
TOTAL	11.95	4.5m	28.1	1.6	18.1	38.8	5.6	6.9	33.5	17.5	64%

DSO Bauxite at Taralga

Part of this total bauxite resource is an easily mined, thick layer of DSO grade gibbsite as follows:

Resource category	Tonnes millions	Thickness	Al ₂ O ₃ avl %	Rx SiO ₂ %	Avl/Sx Ratio	Al ₂ O ₃ %	SiO ₂ %	A/S Ratio	Fe ₂ O ₃ %	LOI %	Yield %
Inferred	2.45	4.2m	34.9	1.9	18.4	40.9	4.7	8.7	27.1	22.4	58%
Indicated	4.37	4.2m	34.9	1.9	18.4	40.9	4.7	8.7	27.1	22.4	58%
TOTAL	6.82	4.2m	34.9	1.9	18.4	40.9	4.7	8.7	27.1	22.4	58%

Unsieved in-situ raw grades

TOTAL	6.82	4.2m	31.4	4.3	7.3	38.8	6.6	6.0	26.7	21.6	100%
--------------	-------------	-------------	-------------	------------	------------	-------------	------------	------------	-------------	-------------	-------------

Cut-off grades applied: 30% Al₂O₃ & 2m thickness. Leach conditions to measure available Al₂O₃avl & reactive Rx SiO₂ is 1g leached in 10ml of 90gpl NaOH at 143 degrees C for 30 mins. "Avl/Sx" ratio is (Al₂O₃ avl)/(Rx SiO₂). "A/S" ratio is Al₂O₃/SiO₂. Values above 10 are excellent. Tonnage is for bauxite in-situ. Yield is for screening at 0.26mm. If a different beneficiation method is used, yield will be different. Tonnages requiring no upgrade will have 100% yield.

Gibbsite DSO bauxite (screened at 0.26mm & unscreened grades)

This DSO bauxite represents approximately 55% of the total bauxite resources identified at Taralga to date.

In places, there is a thin top layer of iron-rich, dehydrated bauxite described as pisolite layers which is included in the Total In-Situ Bauxite estimate quoted above. Available alumina values may increase if a higher-temperature leach is used. Within the resource drilled to date, this unit totals as follows:

Review of Operations continued

Pisolitic bauxite (screened at 0.26mm)

Resource category	Tonnes millions	Thickness	Al ₂ O ₃ avl %	Rx SiO ₂ %	Avl/Sx Ratio	Al ₂ O ₃ %	SiO ₂ %	A/S Ratio	Fe ₂ O ₃ %	LOI %	Yield %
Inferred	1.13	2.3m	21.1	1.0	21.2	38.0	5.0	7.7	40.5	12.3	74%
Indicated	1.01	2.3m	21.1	1.0	21.2	38.0	5.0	7.7	40.5	12.3	74%
TOTAL	2.15	2.3m	21.1	1.0	21.2	38.0	5.0	7.7	40.5	12.3	74%

Cut-off grades applied: 30% Al₂O₃ & 2m thickness. Leach conditions to measure available Al₂O₃avl & reactive Rx SiO₂ is 1g leached in 10ml of 90gpl NaOH at 143 degrees C for 30 mins. "Avl/Srx" ratio is (Al₂O₃ avl)/(Rx SiO₂). "A/S" ratio is Al₂O₃/SiO₂. Values above 10 are excellent. Tonnage is for bauxite in-situ. Yield is for screening at 0.26mm. If a different beneficiation method is used, yield will be different. Tonnages requiring no upgrade will have 100% yield.

New kind of Bauxite: Taralga contains a quartz-bearing bauxite. This has strong similarities with the world-famous bauxite deposits in the Darling Ranges south of Perth Western Australia, which is the world's largest bauxite-alumina production province, producing the world's lowest-cost alumina because the aluminium ore mineral is exclusively gibbsite which can be processed at low temperatures and pressures. Resource estimations for this new style of bauxite based on results to date are:

Quartz-bearing, gibbsite-rich bauxite (screened at 0.26mm)

Resource category	Tonnes millions	Thickness	Al ₂ O ₃ avl %	Rx SiO ₂ %	Avl/Sx Ratio	Al ₂ O ₃ %	SiO ₂ %	A/S Ratio	Fe ₂ O ₃ %	LOI %	Yield %
Inferred	0.52	3.6m	33.2	2.2	15.2	39.6	15.0	2.6	20.4	20.6	57%
Indicated	0.65	3.6m	33.2	2.2	15.2	39.6	15.0	2.6	20.4	20.6	57%
TOTAL	1.16	3.6m	33.2	2.2	15.2	39.6	15.0	2.6	20.4	20.6	57%

Cut-off grades applied: 30% Al₂O₃ & 2m thickness. Leach conditions to measure available Al₂O₃avl & reactive Rx SiO₂ is 1g leached in 10ml of 90gpl NaOH at 143 degrees C for 30 mins. "Avl/Srx" ratio is (Al₂O₃ avl)/(Rx SiO₂). "A/S" ratio is Al₂O₃/SiO₂. Values above 10 are excellent. Tonnage is for bauxite in-situ. Yield is for screening at 0.26mm. If a different beneficiation method is used, yield will be different. Tonnages requiring no upgrade will have 100% yield.

Note that the total silica (SiO₂) is 15% but only 2.2% of that is reactive silica (ie. Rx SiO₂). Therefore, 12.8% of the bauxite is non-reactive silica in the form of quartz particles.

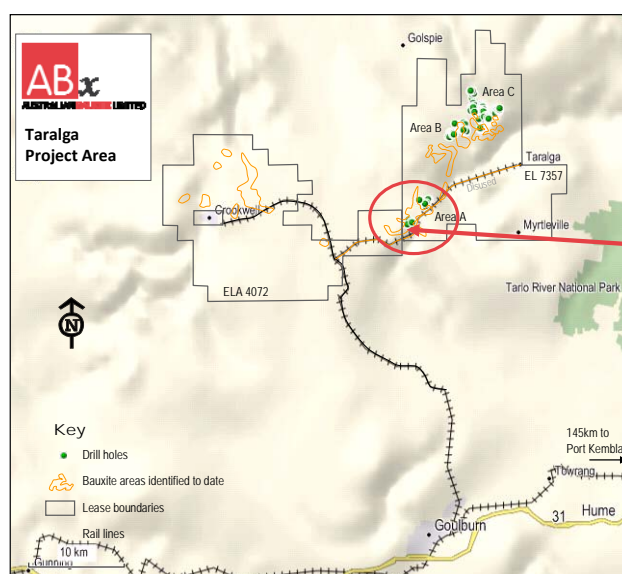
New Bauxite Deposit Discovered at Taralga

Drilling commenced in Areas B & C because of obvious bauxite plateaus.

Unexpectedly good bauxite was discovered in Area A and has recently been drilled.

The western extensions of this large deposit are now covered by EL 7681 (previously ELA 4072)

Note that the Goulburn to Port Kembla rail line is heavy duty.



Areas B & C
12 million tonnes
resources

NEW DISCOVERY
Major deposit

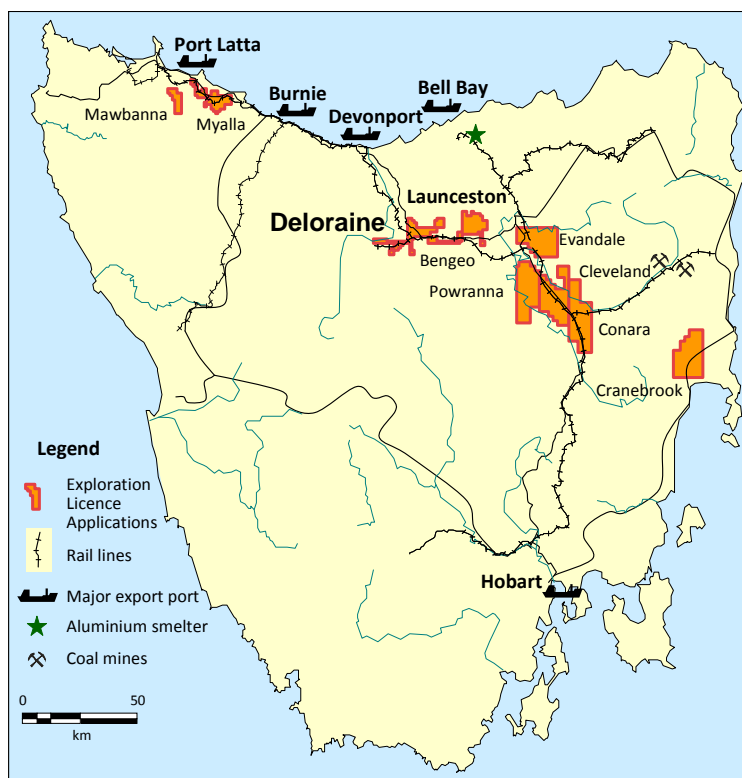


Review of Operations continued

Tasmania

Seven of eight tenements in Tasmania were granted in the September quarter.

ABx Tasmanian tenement portfolio consists of seven granted tenements and 1 application pending (see map), covering 1,639 sq kms.



On 14 October 2010 drilling commenced in Tasmania.

Deloraine EL 9/2010

In December 2010, the main bauxite occurrence identified in Tasmania by ABx staff was drilled for the first time and was confirmed to be a substantial bauxite deposit.

The deposit has proven to be more extensive than first recognised and a new tenement covering the extension is going through the approval stage. No drilling is being conducted in Tasmania whilst this application is progressing.

Results demonstrate that Direct Shipping Ore grades occur in reasonable thicknesses up to 7 metres as shown by results from hole DL 025 below (screened at 0.26mm):

Hole: DL 025			Leach 143degC			Total Analyses					
From m	To m	Yield % wt	Al ₂ O ₃ avl %	Rx SiO ₂ %	Avl/Rx ratio	Al ₂ O ₃ %	SiO ₂ %	A/S ratio	Fe ₂ O ₃ %	TiO ₂ %	LOI %
0	1	62%	31.4	4.5	7.0	38.2	9.6	4.0	26.0	2.9	22.3
1	2	77%	41.4	0.7	59.1	44.4	1.1	41.1	25.6	2.7	25.5
2	3	78%	44.1	0.9	49.0	46.4	1.3	36.8	22.2	2.9	26.5
3	4	80%	40.2	1.5	26.8	44.3	2.0	21.7	24.4	3.1	25.4
4	5	62%	37.8	2.6	14.5	42.9	3.3	13.1	25.3	3.2	24.5
5	6	56%	33.9	5.1	6.6	40.6	5.8	7.0	25.9	3.8	22.9
6	7	77%	28.9	5.8	5.0	37.2	6.7	5.6	29.2	3.9	21.5

* Leach conditions to measure available Al₂O₃ avl & reactive Rx SiO₂ were 1g leached in 10ml of 90gpl NaOH at 143 degrees C for 30 mins. "Avl/Rx" ratio is (Available Al₂O₃)/(Reactive SiO₂). "A/S" ratio is (Total Al₂O₃)/(Total SiO₂). Values above 10 are excellent

Review of Operations continued



Project Tenements and Major Infrastructure – February 2011

DIRECTORS' REPORT

Your directors present their report together with the financial statements of the parent entity and the consolidated entity (referred to hereafter as the Group) consisting of Australian Bauxite Limited (the Company) and the entities it controlled at the end of or during the year ended 31 December 2010.

Principal activities

The principal continuing activities of the Group during the course of the financial year were conducting the bauxite exploration and development programs in Queensland, New South Wales, Victoria and Tasmania.

Consolidated results

The net consolidated loss of the Group for the year ended 31 December 2010 was \$834,631 (2009: net losses \$370,635). The consolidated loss arises largely from the exploration activities during the year in Eastern Australia.

Total Shareholders Funds as at 31 December 2010 are \$13.74 million.

Additional information on the operations of the Group is disclosed in both the Chairman's Review and the Review of Operations section of this report.

Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects are set out in the Review of Operations on pages 3 to 11 of this annual report.

Dividends

The Directors of the Company do not recommend that any amount be paid by way of dividend. The Company has not paid or declared any amount by way of dividend since the commencement of the financial year.

Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Peter J Meers	Non-Executive Chairman
Ian Levy	Managing Director
Rado Jacob Rebek	Executive Director
Vincent Tan	Non-Executive Director
Wei Huang	Non-Executive Director

Information on directors & management

Directors

Non-Executive Chairman – Peter J Meers BA (Economics) FAIB

Appointed a Director on 23 September 2009

Peter 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 Resources Limited.

Mr. Meers 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 appointment on company boards in Malaysia, Indonesia and Singapore. Mr Meers is Executive Chairman of Hudson Resources Limited.

Other Current Directorships

Mr Meers is Executive Chairman of Hudson Resources Limited, Executive Director of Tiaro Coal Limited, Non-Executive Director of Sovereign Gold Company Limited and Non-Executive Director of Hudson Investment Group Limited.

Former directorships in the last three years of listed companies

None

Special Responsibilities

Member of the Audit Committee

Managing Director - Ian Levy BSc (Hons) MSc DIC FAusIMM FAIG

Appointed a Director on 23 September 2009

Ian 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 non-executive Chairman of Dynasty Metals Australia and a former founding 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, Australian Institute of Geoscientists.

Directors' Report continued

Other Current Directorships

Nil

Former directorships in the last three years of listed companies

Director of Gloucester Coal, Non-Executive Director of Raffles Capital Limited, Chairman of D'Aguilar Gold and Chairman of Dynasty Metals Australia.

Special Responsibilities

Ex-officio member of sub-committees

Executive Director & Chief Geologist – Rado Jacob Rebek

Appointed a Director on 23 September 2009.

Jacob Rebek is a leading Australian geologist with forty years experience in exploration. From 1970 to 2003 he worked at CRA Exploration and Rio Tinto in various parts of Australia and overseas. His roles included that of Exploration Manager for Papua New Guinea in the 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 Resources Limited as Chief Geologist and led the team which discovered the bauxite deposits.

Other Current Directorships

Mr Rebek is Non-Executive Director of Tiaro Coal Limited and Non-Executive Director of Sovereign Gold Company Limited

Former directorships in the last three years of listed companies

Xtreme Resources Ltd (NSX)

Special Responsibilities

Chief Geologist

Member of the Audit Committee

Non-Executive Director - Vincent Tan BCom and Admin CA

Appointed a Director on 23 September 2009

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.

Other Current Directorships

Executive Director of Raffles Capital Limited

Former Directorships in Last Three Years of Listed Companies

Director of Hudson Investment Group Limited, Director of Hudson Resources Limited, Non-Executive Director of Sovereign Gold Company Limited and Director of Tiaro Coal Limited

Special Responsibilities

Member of the Audit Committee

Member of the Remuneration Committee

Non-Executive Director - Wei Huang BEcon MCom

Appointed a Director on 23 September 2009

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.

Other Current Directorships

Non-Executive Director of Thomas Bryson International Limited and Non-Executive Director of Tiaro Coal Limited.

Former Directorships in Last Three Years of Listed Companies

Non-Executive Director of Hudson Resources Limited.

Special Responsibilities

Member of the Audit Committee

Member of the Remuneration Committee

Directors' Report continued

Officers

Joint Company Secretary - David L Hughes

Mr Hughes has held similar positions with other listed companies for over 20 years. He is currently the Company Secretary of the following other ASX listed public companies; Latrobe Magnesium Limited, Hudson Investment Group Limited, Hudson Resources Limited, Imperial Corporation Limited, Tiaro Coal Limited and Joint Company Secretary of Sovereign Gold Company Limited and Raffles Capital Limited.

Joint Company Secretary - Henry Kinstlinger

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 MComm MBA FCPA(HK) CPA

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.

Meetings of directors

The number of Directors' Meetings and Directors' Committee Meetings held, and the number of meetings attended, by each of the Directors of the Company during the financial year were:

Director	Directors Meetings		Remuneration Committee		Audit Committee	
	Attended	Held Whilst in Office	Attended	Held Whilst in Office	Attended	Held Whilst in Office
Peter Meers (Chairman)	9	9	-	-	1	1
Ian Levy (Managing Director)	9	9	-	-	1	1
Rado Jacob Rebek	8	9	-	-	1	1
Wei Huang	9	9	-	-	1	1
Vincent Tan	8	9	-	-	1	1

Retirement, election and continuation in office by directors

Mr Vincent Tan is the director retiring by rotation in accordance with Article 49.1.3 of the Company's Constitution and being eligible offers himself for re-election.

Likely developments

Information on likely developments in the operations of the Group, known at the date of this report have been covered generally within the report. In the opinion of the Directors providing further information would prejudice the interests of the Group.

Significant changes in state of affairs

In March, the company raised \$3.5 million before costs through 10 million share placement at 35 cents each.

In August, the company further raised \$6.075 million before costs through 13.5 million share placement at 45 cents each.

Matters subsequent to balance date

At the date of this report there are no other matters or circumstances, which have arisen since 31 December 2010 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2010, of the Group;
- the results of those operations; or,
- the state of affairs, in financial years subsequent to 31 December 2010, of the Group.

Directors' Report continued

Environmental regulations

The Group is subject to significant environmental regulation in respect of its exploration activities as follows:

The Company's operations in the State of Queensland involve drilling operations. These operations are governed by the Queensland Government Environmental Protection Act (1994) as reprinted February 2007.

The Company's operations in the State of NSW involve exploration activities. These operations are governed by the Environment Planning and Assessment Act 1979.

The Company operates within the resources sector and conducts its business activities with respect for the environment while continuing to meet the expectations of the shareholders, employees and suppliers.

The Company aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are mindful of the regulatory regime in relation to the impact of the Company's activities on the environment.

To the best of the directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation described above and are not aware of any breach of those requirements during the financial year and up to the date of the Directors' Report.

Environmental Code of Practice for Bauxite Mineral Exploration, adopted 1 March 2010

The Company is committed to conducting its exploration programs by following industry best practice in accordance with published government guidelines and codes.

The following policy is specific to bauxite exploration on the Company's east Australian bauxite province.

Access to Land

Prior to the commencement of any work, the Company makes contact with landholders/leaseholders and discusses the general aims and types of work likely to be conducted.

Discussion with landowners, leaseholders and Native Title Claimants is ongoing. It commences prior to any work being conducted and continues throughout the program and beyond the cessation of exploration work.

The Company establishes conditions of access with landholders and where practicable, signs a written access agreement that sets out conditions and includes a schedule of agreed compensation payments.

The Company endeavours to provide landholders with ample warning prior to commencing any work and landholders are kept informed upon commencement, during and upon completion of an exploration program.

Type of Land

The type of land is determined and its inhabitants are assessed to identify areas of particular environmental concern including identification of sensitive areas or areas prone to erosion, water catchment, heritage sites, and areas home to vulnerable and endangered species.

Land use is taken into consideration and land under cultivation is not disturbed without the express consent of the landholder.

Mineral Exploration Programs

Access

The Company utilises existing tracks for access where possible.

Climatic conditions are considered when assessing areas to avoid access during extreme conditions such as during bush fire risk during hot, windy conditions and damage to tracks after heavy rain.

Surface disturbances are kept to a minimum.

Drilling

Drilling programs include rehabilitation and where possible holes are positioned in areas requiring little or no clearing.

Small, manoeuvrable drill rigs are used to minimise the need for track clearing and to reduce ground compaction.

Where required, topsoil is removed and stored separately so that it can be replaced during rehabilitation of the site.

Ground sheets are used where required to avoid oil/fuel spills contaminating the soil.

Rehabilitation

Drill sites are rehabilitated as soon as practicable and drill holes are filled and capped where necessary.

Landholders are asked to confirm at the end of each program that exploration has been conducted to their satisfaction and that sites have been rehabilitated.

Directors' Report continued

REMUNERATION REPORT - Audited

This report outlines the remuneration arrangements in place for Directors and Executives of the Company.

Remuneration committee

The Remuneration Committee reviews and approves policy for determining Executive's remuneration and any amendments to that policy.

The Committee makes recommendations to the Board on the remuneration of Executive Directors (including base salary, incentive payments, equity awards and service contracts) and remuneration issues for Non-Executive Directors.

The members of the Remuneration Committee during the period were:

- Vincent Tan
- Wei Huang

The Committee meets as often as required but not less than once per year.

The Committee did not meet during the year as disclosed in the table of Directors Meetings disclosed on page 14.

Options granted to directors and key management personnel do not have performance conditions. As such the Group does not have a policy for directors and key management personnel removing the "at risk" aspect of options granted to them as part of their remuneration.

Directors' and other Key Management Personnel remuneration

The following persons were Directors of the Company during the whole financial year, unless otherwise stated.

- Peter J Meers (Non-Executive Chairman)
- Ian Levy (Managing Director)
- Rado Jacob Rebek (Executive Director)
- Vincent Tan (Non-Executive Director)
- Wei Huang (Non-Executive Director)

The following persons were other key management personnel of the Company during the financial year:

- David Hughes (Joint Company Secretary)
- Henry Kinstlinger (Joint Company Secretary)
- Francis Choy (Chief Financial Officer)

Executive's remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation. Directors are also able to participate in an Employee Share Option Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Group's operations.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Remuneration of Non-Executive Directors is determined by the Board based on recommendations from the Remuneration Committee and the maximum amount approved by shareholders from time to time.

Performance conditions

The elements of remuneration as detailed within the Remuneration Report are dependent on the satisfaction of the individual's performance and the Group's financial performance.

The Board undertakes an annual review of its performance and the performance of the Board Committees.

Details of the nature and amount of each element of the remuneration of each Director of the Company and each specified executive of the Company and the Group receiving the highest remuneration are set out in the following tables. The remuneration amounts are the same for the Company and the Group.

Directors' Report continued

Remuneration Report continued

Directors and Other Key Management Personnel of Australian Bauxite Limited

2010	Short Term Employee Benefits		Post Employment	Long Term Employee Benefits	Share based payments	Total
	Salary and other fees	Travelling Allowance	Super-annuation	Long Service Leave		
Directors	\$	\$	\$	\$	\$	\$
Peter J Meers	25,000	-	-	-	-	25,000
Ian Levy	200,000	1,800	-	-	-	201,800
Rado Jacob Rebek	182,250	5,400	-	-	-	187,650
Vincent Tan	-	2,700	-	-	-	2,700
Wei Huang	15,000	6,300	-	-	-	21,300
Director - Total	422,250	16,200	-	-	-	438,450
Other Key Management Personnel						
David Hughes	-	-	-	-	-	-
Henry Kinstlinger	115,600	-	-	-	-	115,600
Francis Choy	-	-	-	-	-	-
KMP - Total	115,600	-	-	-	-	115,600

The amounts reported represent the total remuneration paid by entities in the Australian Bauxite Group of companies in relation to managing the affairs of all the entities within the Australian Bauxite Group.

There are no performance conditions related to any of the above payments.

There is no other element of Directors and Executives remuneration.

Directors of Australian Bauxite Limited

2009	Short Term Employee Benefits		Post Employment	Long Term Employee Benefits	Share based payments (options) **	Total
	Salary and other fees	Travelling Allowance	Super-annuation	Long Service Leave		
Name	\$	\$	\$	\$	\$	\$
Peter J Meers	247,690	10,800	22,292	1,999	49,000	331,781
Ian Levy	100,000	-	-	-	98,000	198,000
Rado Jacob Rebek	197,500	6,300	-	-	49,000	252,800
Vincent Tan	100,000	10,800	-	-	49,000	159,800
Wei Huang	-	7,200	-	-	49,000	56,200
Total	645,190	35,100	22,292	1,999	294,000	998,581

The amounts reported represent the total remuneration paid by entities in the Hudson Resources Group of companies in relation to managing the affairs of all the entities within the Hudson Resources Group.

***Australian Bauxite Limited issued options to directors and officers under this Employee Share Option Plan.*

Directors' Report continued

Remuneration Report continued

Other Key Management Personnel of Australian Bauxite Limited

2009	Short Term Employee Benefits		Post Employment	Long Term Employee Benefits		
Name	Cash salary and other fees	Travelling Allowance	Super-annuation	Long Service Leave	Share based payments (options) **	Total
	\$	\$	\$	\$	\$	\$
David Hughes*	24,000	-	-	-	4,900	28,900
Henry Kinstlinger *	276,450	10,800	-	-	49,000	336,250
Francis Choy	-	-	-	-	4,900	4,900
	300,450	10,800	-	-	58,800	370,050

* The amounts reported represent the total remuneration paid by entities in the Australian Bauxite Group of companies in relation to managing the affairs of all the entities within the Australian Bauxite Group.

** Australian Bauxite Limited issued options to directors and officers under this Employee Share Option Plan. There are no performance conditions related to any of the above payments.

Service agreements

The Company has entered into an executive service agreement with Hudson Corporate Limited pursuant to which Hudson Corporate Limited has agreed to provide its management, registered office, administrative accounting and secretarial services.

The term of the Executive Services Agreement is two years and the fee payable is that amount agreed between the parties from time to time. The terms of the Executive Services Agreement provide that Hudson Corporate Limited shall act in accordance with the directions of the Board.

In addition the Company has agreed with Hudson Corporate Limited that the services of Ian Levy as Managing Director will be provided to the Company at an agreed rate of \$200,000 for the calendar year 2010.

Share options granted to Directors and Other Key Management Personnel

In 2009, 7,200,000 employee share options were granted over unissued shares to directors and other key management personnel. For details please refer to Note 23 of the financial statements.

End of audited remuneration report.

Directors' Report continued

Loans to Directors and Key Management Personnel

Details of individuals with loans above \$100,000 during the year are set out below.

2010	Balance at the start of the year	Interest payable for the year	Advance/ (Repayments)	Highest indebtedness during the year	Balance as at the end of the year	Additional interest otherwise payable*
Key management personnel	\$	\$	\$	\$	\$	\$
Henry Kinstlinger	-	4,274	520,000	524,274	524,274	2,137

* Market interest rate 6% (2009: N/A). This represents the difference between interest charged at the latter and interest paid.

Terms and conditions of loans

The loan partly relates to the individual's participation in the Company's Employee Share Option Plan. Loans are secured against the shares only. Loans are repayable should the employee leaves the Company. None were written down during the year.

There were no other loans made to Directors or Specified Executives of the Company and the Group during the period commencing at the beginning of the financial year and up to the date of this report.

Directors' interests

The relevant interest of each Director in the share capital of the Company as shown in the Register of Directors' Shareholdings as at the date of this report is:

Particulars of Interest in the Issued Capital of the Company's Ordinary Shares and Options at the date of signing the directors' report are:

Directors	Share Direct Holding	Share Indirect Holding	Options
Peter J Meers ¹	-	55,627,337	1,000,000
Ian Levy ²	-	235,500	2,000,000
Rado J Rebek ³	70,000	-	1,000,000
Vincent Tan ⁴	-	60,000	1,000,000
Wei Huang	20,000	-	1,000,000

¹ Mr. Meers has an indirect interest in 55,617,337 ordinary shares by virtue of his position as Director of Hudson Resources Limited, a parent entity and has indirect interest in 10,000 shares which were purchased by a related party of Mr. Meers in 2010.

² 173,000 shares were purchased by related entity of Mr. Levy in 2010

³ 70,000 shares were purchased by Mr. Rebek in 2010.

⁴ 60,000 shares were purchased by related parties of Mr Tan in 2010.

For details please refer to the Note 23 in financial statements.

Shares under option

Unissued ordinary shares of Australian Bauxite Limited under option at the date of this report are as follows:

Class	Date options granted	Expiry Date	Exercise Price	No. of Options
Employee Share Options	15 October 2009	15 October 2012	\$0.30	6,400,000
Performance Options* - unallocated			\$0.30	1,420,000
Performance Options - allocated	8 December 2010	30 November 2013	\$0.30	380,000
IPO - Success Option	24 December 2009	21 December 2012	\$0.30	3,000,000
Success Option		15 August 2013	\$0.55	500,000
				11,700,000

Directors' Report continued

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

* Unallocated options under the Employee Share Option Plan, expiry date is three years from date of issue.

Shares Issued on the exercise of options

800,000 options, expiring 15 October 2012, were exercised at \$0.30 during the financial year under the Company Employee Share Option Plan.

No other options have been exercised and no options expired during the financial year and in the period up to the date of this report.

Directors' and Officers' indemnities and insurance

During the financial year Australian Bauxite Limited (holding company) paid an insurance premium, insuring the Company's Directors, (as named in this report), Company Secretary, Executive officers and employees against liabilities not prohibited from insurance by the *Corporations Act 2001*.

A confidentiality clause in the insurance contract prohibits disclosure of the amount of the premium and the nature of insured liabilities.

Proceedings on behalf of the Company

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in or on behalf of the Company with leave of the Court under Section 237 of the *Corporations Act 2001*.

Auditor's independence declaration

The auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 22.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (K.S. Black & Co) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity:

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Audit services:				
Amounts paid or payable to auditors for audit and review of the financial report for the entity or any entity in the Group				
- K.S. Black & Co	23,245	15,000	23,245	15,000
Taxation and other advisory services:				
Amounts paid or payable to auditors for non audit taxation and advisory services for the entity or any entity in the				
Taxation - K.S. Black & Co	7,200	-	7,200	-
Advisory Services - K.S. Black & Co	-	15,851	-	15,851
	7,200	15,851	7,200	15,851

Directors' Report continued

The directors' report, incorporating the remuneration report, is signed in accordance with a Resolution of the Board of Directors.



Peter J Meers
Chairman



Ian Levy
Managing Director

Signed at Sydney
29 March 2011

AUDITOR'S INDEPENDENCE DECLARATION

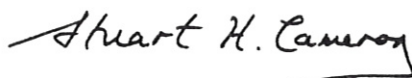
Declaration of independence to the Directors of Australian Bauxite Limited and Controlled Entities

As lead auditor of Australian Bauxite Limited for the period ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Bauxite Limited and the entities it controlled during the period.

KS Black & Co
Chartered Accountants



Stuart H. Cameron
Partner

Sydney, 29/3/11

CORPORATE GOVERNANCE STATEMENT

Australian Bauxite Limited (the Company) provides the following statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council and where the Company has not followed all of the recommendations, those recommendations that have not been followed have been identified and reasons for not following them given.

Overview

The Company and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the "Principles of Good Corporate Governance and Best Practice recommendations" set by the ASX Corporate Governance Council.

However, given the current size of both the Company's operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations.

Consistent with the ASX best practice recommendations, the Company's corporate government practices have been disclosed in the Annual Report and are regularly reviewed and will be available on the Company's website.

Compliance with ASX Corporate Governance Council best practice recommendations

The ASX Listing Rules require public listed companies to include in their annual report a statement regarding the extent to which they have adopted to ASX Corporate Governance Council best practice recommendations.

This statement provides details of the Company's adoption of the best practice recommendations.

Principle 1 – Lay solid foundations for management and oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

Board responsibilities

The Board of directors is accountable to shareholders for the performance of the group. In carrying out its responsibilities, the board undertakes to serve the interest of shareholders honestly, fairly and diligently.

The Board's responsibilities will be encompassed in a formal charter to be published on the Company's website. The charter will be reviewed annually to determine whether any changes are necessary or desirable.

The responsibilities of the board include:

- Reporting to shareholders and the market;
- Ensuring adequate risk management processes exist and are complied with;
- Reviewing internal controls and external audit reports;
- Ensuring regulatory compliance;
- Monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company auditors;
- Reviewing the performance of senior management;
- Monitoring the Board composition, Director selection and Board processes and performance;
- Validating and approving corporate strategy;
- Reviewing the assumptions and rationale underlying the annual plans; and
- Authorising and monitoring major investment and strategic commitments.

Directors' education

The Company issues a formal letter of appointment for new directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director.

The Company also provides a formal induction process which provides key information on the nature of the business and its operations

Continuing education is provided via the regular Board updates provided by the divisional chief executives.

Role of Chairman

The chairman is appointed by fellow board members and acts as the link between the board and the Chief Executive Officer (CEO).

He acts as the link between the board and the Company, establishing and maintaining an effective working relationship with the CEO. The chairman sets the tone for the board, including the establishment of a common purpose. He is responsible for chairing board meetings and shaping the agenda in relation to goals, strategy, budget and executive performance.

The chairman ensures all board members contribute and reach consensus in making decisions. He also assists in the selection of board committee members.

Corporate Governance Statement continued

The chairman provides direction to the board in matters of corporate governance.

Role of Chief Executive Officer

The Board delegates responsibility for implementing the strategic direction and for managing the day to day operations of the Company to the CEO.

There are clear lines of communication established between the Chairman and CEO to ensure that the responsibilities and accountabilities of each are clearly understood.

The CEO has a formal service contract in place setting out duties, responsibilities, and rights, conditions of service and termination entitlements. Performance will be assessed against pre-determined objectives on an annual basis or more frequently if required.

The assessment and monitoring of the CEO is the responsibility of the Chairman. The Chairman provides an initial assessment and recommendation to the Board. The matter is then considered by the Board and their views are communicated to the CEO by the Chairman.

Principle 2 – Structure the board to add value

Companies should have a board of an effective composition, size and commitment to efficiently discharge its responsibilities and duties.

Composition of the Board

The Board of Directors is comprised of two executive directors and three non-executive directors, one of whom is also Chairman. All of its directors have a broad range of skills and experience.

In determining independence the board has regard to the guidelines of directors' independence in the ASX Corporate Governance Council and Best practice Recommendations and other best practice guidelines.

Each director's independent status is regularly assessed by the Board.

The Company does not comply with recommendation 2.1 which provides that a majority of the board be independent directors.

At this stage of the Company's development, the board considers it is neither appropriate nor cost effective for there to be a majority of independent directors.

This matter continues to be under review and as circumstances allow, consideration will be given to the appropriate time to move to adopting the ASX Corporate Governance Guidelines.

The board considers that its composition provides for the timely and efficient decision making required for the Company in its current circumstances.

The board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three directors and a maximum of ten. Details of the Board, their experience, expertise and qualifications are set out in the Directors Report on pages 12-13.

The Board proposes to hold 6 scheduled meetings each year together with any ad hoc meetings as may be necessary. The Board met 9 times during the year and Directors attendance is disclosed on page 14 of the Directors' Report.

Access to independent professional advice

All directors are required to bring an independent judgement to bear on Board decisions.

To facilitate this, the Board has adopted a procedure which allows each Director the right of access to all relevant Company information and to the Company's Executives. The directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of these resources is co-ordinated through the Chairman of the board.

Nomination Committee

The role of the Nomination Committee is undertaken by the full Board.

The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders

For directors retiring by rotation the Board assesses that Director before recommending re-election.

The ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" recommends the appointment of a Nomination Committee for prospective Board

Corporate Governance Statement continued

appointments. The Board considers the Company and the Board are currently not of sufficient size to justify the establishment of a Separate Nomination Committee.

Board performance evaluation

The Company has processes in place to review the performance of the board and its committees and individual directors. Each year the board of directors will give consideration to broad corporate governance matters, including the relevance of existing committees and to reviewing its own and individual directors' performance. The Chairman is responsible for monitoring the contribution of individual directors and consulting with them in any areas of improvement.

Principle 3 – Promote Ethical and Responsible Decision making

Companies should actively promote ethical and responsible decision making.

Code of conduct

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the consolidated entity.

The Company has established a code of conduct applicable to all Directors and employees. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism.

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for the Company's ethical practices.

Policy on dealing in Company securities

The Company has a policy on how and when the Directors and employees may deal in the Company's securities.

In addition to these legal and regulatory restrictions, the Company has adopted a robust trading policy whereby trading in Company shares are prohibited under certain circumstances, and short-term trading is discouraged.

The purpose of this policy is to ensure that the Directors and employees deal in the Company's securities in a manner which properly reflects their fiduciary duty, and that they do not transact in those securities whilst in possession of price sensitive information.

This policy requires that all Directors and Senior Executives to disclose their share trade intentions to the Managing Director or Chairman prior to dealing in the Company's securities.

The Company maintains compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

Details of both the Company's Code of Conduct and Share Trading Policy which, among other things, describes 'closed periods' and 'prohibited periods' that describes when trading is restricted. Share Trading Policy has been lodged with the ASX and is contained on the Company's website under Corporate Governance.

Diversity and Gender

The Board embraces the view that "diversity is an economic driver of competitiveness for companies".

The Board's substantial international experience arises from the diversity of its members' cultural background.

At this stage, the Board has not formalised a diversity policy as suggested in Recommendation 3.2. It is the Board's position that the spirit of this Recommendation is self-evident from the structure of the Board and its senior management team.

The Company has likewise yet to adopt Recommendations 3.3 and 3.4. These Recommendations requires that a diversity policy include measurement objectives for facilitating greater participation of woman to the Board, and produce tables describing the proportion of females across the Company's Board, management and employee tiers.

The implementation of an appropriate diversity policy to reflect the circumstances of the Company and the industry in which the Company operates is currently under review. The Board wishes to note that it supports these Recommendations in principle and anticipates their adoption in the near future.

Corporate Governance Statement continued

Principle 4 – Safeguard Integrity in Financial Reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Audit committee

The audit committee consists of the full Board. The structure of the audit committee does not comply with recommendation 4.2 which recommends that the audit committee consists of only Non-Executive Directors and the committee should have an independent Chairperson who is not the Chairperson of the Board.

The Board considers that given its current size and structure it is neither appropriate nor cost effective for the establishment of a separate audit committee.

The committee met once during the year. The audit committee has adopted a formal charter which set out the responsibilities of the audit committee.

Details of the Formal Charter have been posted on the Company's website.

These responsibilities include:

- Reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Monitoring corporate risk management practices;
- Review and approval of the Group's accounting policies and procedures;
- Reviewing the external audit plans;
- Reviewing the nomination, performance and independence of the external auditors; and
- Organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

External auditors

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board will receive regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

K.S. Black & Co were appointed auditors in 2009.

The Australian accounting bodies' statement on professional independence requires mandatory rotation of audit partners for listed companies every five years.

K.S. Black & Co confirms that they conform with the requirements of the statement.

K.S. Black & Co are required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

Principle 5 – Make timely and balanced disclosure

The Company promotes timely and balanced disclosure of any material matters concerning the Company.

The Company has a written policy on information disclosure that focuses on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Company Secretary in consultation with the Chairman, is responsible for communications with the ASX. He is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public. A copy of the policy is posted on the company's website.

Principle 6 – Respect the rights of shareholders

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Communication with shareholders

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company follows a communications strategy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Company; and
- encouraging and facilitating shareholder participation in general meetings.

Corporate Governance Statement continued

The Company achieves this through the following avenues:

Regular mailings

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available via an electronic link to the ASX web site, ensuring that all shareholders are kept informed about the Company.

Shareholders also have the option of receiving a hard copy of the Annual Report each year.

Email update service

An email update service has been established and is available to the general public as well as shareholders at the Company's website or upon request.

General meetings

All shareholders are invited to attend the Annual General Meetings which are held at the Company's Head Office in Sydney. The full Board and senior executives will be present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

Principle 7 – Recognise and Manage Risks

Companies should establish a sound system of risk oversight and management and internal control.

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

Management is required to provide monthly status reports to the Board which identify potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment.

The Board regularly assess the Company's performance in light of risks identified by such reports.

Management are also required to design implement and review the Company's risk management and internal control system. The Board reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requested the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

Principle 8 – Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

The Board has established a remuneration committee consisting of Vincent Tan and Wei Huang.

The Committee has adopted a formal charter.

The main responsibilities of the Remuneration Committee includes: -

- review and approve the Group's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations to the Board on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive Directors.
- The committee will meet as often as required but not less than once per year.

The Committee did not meet during the year as disclosed in the table of Directors Meetings disclosed on page 14.

Corporate Governance Statement continued

Executive directors and executive remuneration

The remuneration committee reviews and approves the policy for determining executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Share Option Plan and Employee Share Purchase Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of effectively managing the Company's operation.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Non-executive directors

Remuneration of Non-Executive Directors will be determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time.

Directors have the right to participate in the Company's Share Option Plan and Employee Share Purchase Plan.

Further information on the Directors and Executives remuneration is included in the Remuneration Report which forms part of the Director's Report.

Statement of Comprehensive Income

For the year ended 31 December 2010

(Corresponding period: 4 months ended 31 December 2009)

		Consolidated		Parent Entity	
		2010	2009	2010	2009
	Notes	\$	\$	\$	\$
Revenue	4	379,814	8,130	376,821	8,130
		379,814	8,130	376,821	8,130
Administrative expenses		(920,762)	(19,616)	(784,852)	(19,616)
Consulting and professional expenses		(209,787)	(6,260)	(209,787)	(6,260)
Finance costs		(83,896)	(89)	(76,648)	(59)
Share based payment expenses	5	-	(352,800)	-	(352,800)
Profit/(Loss) before income tax expense		(834,631)	(370,635)	(694,466)	(370,605)
Income tax expense	6(a)	-	-	-	-
Profit/(Loss) for the year		(834,631)	(370,635)	(694,466)	(370,605)
Other Comprehensive Income					
Other comprehensive income for the year net of tax		-	-	-	-
Total comprehensive income for the year		-	-	-	-
Total comprehensive income attributable to members of the consolidated entity		(834,631)	(370,635)	(694,466)	(370,605)
		Cents	Cents		
Basic earnings/(loss) per share	22	(0.96)	(0.53)		
Diluted earnings/(loss) per share	22	(0.85)	(0.45)		

The above Statement should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 31 December 2010

	Notes	Consolidated		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	7	8,568,713	3,517,895	8,334,906	3,516,425
Trade and other receivables	8	256,487	38,406	204,817	38,406
Other current assets	9	117,526	-	117,526	-
Total current assets		8,942,726	3,556,301	8,657,249	3,554,831
Non-current assets					
Trade and other receivables	8	524,274	-	5,155,450	2,401,497
Plant, equipment and vehicles	10	90,010	-	90,010	-
Mining tenements and capitalised expenditures	11	4,381,395	2,400,000	107,284	-
Other financial assets	12	-	-	5	3
Total non-current assets		4,995,679	2,400,000	5,352,749	2,401,500
Total assets		13,938,405	5,956,301	14,009,998	5,956,331
Current liabilities					
Trade and other payables	13	196,444	27,186	127,842	27,186
Employee benefits provision	14	1,139	-	1,139	-
Total current liabilities		197,583	27,186	128,981	27,186
Non-current liabilities					
Employee benefits provision	14	2,170	-	2,170	-
Other liabilities	15	-	2,400,000	-	2,400,000
Total non-current liabilities		2,170	2,400,000	2,170	2,400,000
Total liabilities		199,753	2,427,186	131,151	2,427,186
Net assets		13,738,652	3,529,115	13,878,847	3,529,145
Equity					
Issued capital	16	14,444,118	3,399,950	14,444,118	3,399,950
Reserves	27	499,800	499,800	499,800	499,800
Accumulated losses		(1,205,266)	(370,635)	(1,065,071)	(370,605)
Total equity		13,738,652	3,529,115	13,878,847	3,529,145

The above Statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 31 December 2010

(Corresponding period: 4 months ended 31 December 2009)

Consolidated	Notes	Issued Capital	Options Reserve	Accumulated Losses	Total Equity
		\$	\$	\$	\$
Balance at 1 January 2010		3,399,950	499,800	(370,635)	3,529,115
Contributions of equity		11,563,951	-	-	11,563,951
Share issuing cost		(759,783)	-	-	(759,783)
Options exercised		240,000	-	-	240,000
Loss for the year		-	-	(834,631)	(834,631)
Balance at 31 December 2010		14,444,118	499,800	(1,205,266)	13,738,652
Balance at 1 January 2009		-	-	-	-
Contributions of equity, net of transaction costs		3,399,950	-	-	3,399,950
Options issued	16(b)	-	499,800	-	499,800
Loss for the year		-	-	(370,635)	(370,635)
Balance at 31 December 2009		3,399,950	499,800	(370,635)	3,529,115
Parent Entity	Notes	Issued Capital	Options Reserve	Accumulated Losses	Total Equity
		\$	\$	\$	\$
Balance at 1 January 2010		3,399,950	499,800	(370,605)	3,529,145
Contributions of equity		11,563,951	-	-	11,563,951
Share issuing cost		(759,783)	-	-	(759,783)
Options exercised		240,000	-	-	240,000
Loss for the year		-	-	(694,466)	(694,466)
Balance at 31 December 2010		14,444,118	499,800	(1,065,071)	13,878,847
Balance at 1 January 2009		-	-	-	-
Contributions of equity, net of transaction costs		3,399,950	-	-	3,399,950
Options issued	16(b)	-	499,800	-	499,800
Loss for the year		-	-	(370,605)	(370,605)
Balance at 31 December 2009		3,399,950	499,800	(370,605)	3,529,145

The above Statement should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 31 December 2010

(Corresponding period: 4 months ended 31 December 2009)

	Notes	Consolidated		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		-	-	-	-
Payments to suppliers and employees		(3,241,082)	(37,184)	(1,246,722)	(38,654)
Interest paid		-	-	-	-
Interest received		264,631	8,130	267,615	8,130
Net cash inflow/(outflow) from operating activities	18	(2,976,451)	(29,054)	(979,107)	(30,524)
Cash flows from investing activities					
Acquisition of plant and equipment		(96,899)	-	(96,899)	-
Advance to controlled entities		-	-	(2,229,681)	-
Advance under employee share plan		(520,000)	-	(520,000)	-
Net cash inflow/(outflow) from investing activities		(616,899)	-	(2,846,580)	-
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities		10,118,750	4,000,000	10,118,750	4,000,000
Share issuing costs		(759,783)	(453,051)	(759,783)	(453,051)
Repayment of convertible note		(714,799)	-	(714,799)	-
Net cash inflow/(outflow) from financing activities		8,644,168	3,546,949	8,644,168	3,546,949
Net increase/(decrease) in cash and cash equivalents		5,050,818	3,517,895	4,818,481	3,516,425
Cash and cash equivalents at the beginning of the year		3,517,895	-	3,516,425	-
Cash and cash equivalents at the end of the year	7(a)	8,568,713	3,517,895	8,334,906	3,516,425

The above Statement should be read in conjunction with the accompanying notes

Notes to the Financial Statements

for the year ended 31 December 2010

1 CORPORATE INFORMATION

The financial report of Australian Bauxite Limited for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the Directors on 29 March 2011 and covers Australian Bauxite Limited as an individual parent entity as well as the consolidated entity consisting of Australian Bauxite Limited and its subsidiaries as required by the *Corporations Act 2001*.

The financial report is presented in Australian currency.

Australian Bauxite Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

The Company was incorporated as an unlisted public company on 23 September 2009 and successfully listed on the ASX on 24 December 2009.

2 SUMMARY OF ACCOUNTING POLICIES

a. Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporation Act 2001*.

Statement of Compliance

Compliance with Australian Accounting Standards ensures that the financial report of Australian Bauxite Limited complies with International Financial Reporting Standards ('IFRS').

Critical to accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Options valuation

Refer to Note 25 for estimates and assumptions used to calculate the valuation of options.

Critical judgements

Management have made the following judgements when applying the Group's accounting policies:

Capitalisation of exploration costs

The Group follows the guidance of AASB 6 Exploration for and Evaluation of Mineral Resources when determining if exploration costs incurred can be capitalised. This determination requires significant judgement. In making this judgement, the Group evaluates if any one of the following conditions is met:

- The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
- Exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

If one of the above conditions is met then the Group has made the judgement to capitalise the associated exploration expenses.

Historical cost convention

These financial statements have been prepared on an accruals basis and are based on the historical cost convention except where noted in these accounting policies.

Material Accounting Policies

The policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010** continued

2. SUMMARY OF ACCOUNTING POLICIES continued

b. Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Bauxite Limited (the "parent entity") as at 31 December 2010 and the results of all subsidiaries for the year then ended. Australian Bauxite Limited and its subsidiaries together are referred to in this financial report as the Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. Reporting to management by segments is on this basis.

d. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

Interest Revenue

Interest revenue is recognised as it accrues taking into account the effective yield on the financial asset.

Other Income

Income from other sources is recognised when proceeds or the fee in respect of other products or service provided is receivable.

e. Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010** continued

2. SUMMARY OF ACCOUNTING POLICIES continued

The Company and its wholly owned entities are part of a tax-consolidated group under Australian taxation law. Australian Bauxite Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

The amounts receivable/payable under tax funding arrangements are due upon notification by the entity which is issued soon after the end of each financial year. Interim funding notices may also be issued by the head entity to its wholly owned subsidiary. These amounts are recognised as current intercompany receivables or payables.

f. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

g. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h. Cash and cash equivalents

For the purpose of the statement of cash flows, cash includes cash on hand and in at call deposits with banks or financial institutions, investment in money market instruments maturing within less than two months, net of bank overdrafts.

i. Trade and other receivables

Trade receivables are recognised initially at original invoice amounts and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that entities in the Group will not be able to collect all amounts due according to the original terms of receivables.

j. Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

2. SUMMARY OF ACCOUNTING POLICIES continued

Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- (d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

i. Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after reporting date. (All other loans and receivables are classified as non-current assets.)

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after reporting date. (All other investments are classified as current assets.)

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to be disposed of within 12 months after reporting date. (All other financial assets are classified as current assets.)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

2. SUMMARY OF ACCOUNTING POLICIES continued

- v. Financial liabilities
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

k. Tenement exploration, valuation and development costs.

Costs incurred in the exploration for, and evaluation of, tenements for suitable resources are carried forward as assets provided that one of the following conditions is met:

- the carrying values are expected to be justified through successful development and exploitation of the area of interest; or
- exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable mineral resources, and active and significant operations in relation to the area are continuing.

Expenses failing to meet at least one of the aforementioned conditions are expensed as incurred.

Costs associated with the commercial development of resources are deferred to future periods, provided they are, beyond any reasonable doubt, expected to be recoverable. These costs are amortised from the commencement of commercial production of the product to which they relate on a straight-line basis over the period of the expected benefit. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

l. Property, plant and equipment

Land and building are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are credited to the asset revaluation reserve in equity. A revaluation surplus is credited to the asset revaluation reserve included within shareholder's equity unless it reverses a revaluation decrease on the same asset previously recognised in the Statement of Comprehensive Income. A revaluation deficit is recognised in the Statement of Comprehensive Income unless it directly offsets a previous revaluation surplus on the same asset in the asset revaluation reserve. On disposal, any revaluation reserve relating to sold assets is transferred to retained earnings. Independent valuations are performed regularly to ensure the carrying amounts of land and buildings do not differ materially from the fair value at the Statement of Financial Position date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010** continued

2. SUMMARY OF ACCOUNTING POLICIES continued

Land is not depreciated. Depreciation on other assets is calculated using the straight line, over their estimated useful lives, as follows:

- Plant and equipment 5-15 years
- Buildings 30 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date.

Any asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Comprehensive Income.

m. Leases

Company as lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases, and capitalised at inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Capitalised leased assets are depreciated over the shorter for the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis.

Company as lessor

Lease income from operating leases is recognised in the Statement of Comprehensive Income on a straight –line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying value of the leased asset and recognised as an expense over the lease term on the bases as the lease income.

n. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

o. Restoration and rehabilitation provisions

Both for close down and restoration and for environmental clean up costs from exploration programs, if any, a provision will be made in the accounting period when the related disturbance occurs, based on the net present value of estimated future costs.

p. Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

2. SUMMARY OF ACCOUNTING POLICIES continued

q. Contributed Equity

Ordinary shares are classified as equity.

r. Share based payments

Ownership-based remuneration is provided to employees via an employee share option plan.

Share-based compensation is recognised as an expense in respect of the services received, measured on a fair value basis.

The fair value of the options at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

s. Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for costs of servicing equity (other than dividends), the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

t. New Accounting Standards for Application

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. We have viewed these standards and interpretations and there are none having any material effect.

3 FINANCIAL RISK MANAGEMENT

a. General Objectives, Policies and Processes

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The Groups' risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material. The Board receives reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's finance function also reviews the risk management policies and processes and report their findings to the Audit Committee.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

3. FINANCIAL RISK MANAGEMENT continued

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility. Further details regarding these policies are set out below:

b. Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group.

The maximum exposure to credit risk at balance date is as follows:

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash and cash equivalents	8,568,713	3,517,895	8,334,906	3,516,425
Current				
Trade and other receivables	256,487	38,406	204,817	38,406
Non Current				
Trade and othe receivable	524,274	-	5,155,450	2,401,497
	9,349,474	3,556,301	13,695,173	5,956,328

c. Liquidity Risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments that is, borrowing repayments. There is no bank borrowing at the balance date. It is the policy of the Board of Directors that treasury reviews and maintains adequate committed credit facilities and the ability to close-out market positions.

Maturity Analysis	Carrying Amount	Contractual Cash Flows	< 6 mths	6 - 12 mths	1 - 3 years	> 3 years
	\$	\$	\$	\$	\$	\$
Consolidated - 2010						
Financial Liabilities						
Current						
Trade and other payables	196,444	196,444	196,444	-	-	-
Non-Current						
Other Liabilities *	-	-	-	-	-	-
Total financial liabilities at amortised cost	196,444	196,444	196,444	-	-	-
Consolidated - 2009						
Financial Liabilities						
Current						
Trade and other payables	27,186	27,186	27,186	-	-	-
Non-Current						
Other Liabilities *	2,400,000	783,934	-	-	783,934	-
Total financial liabilities at amortised cost	2,427,186	811,120	27,186	-	783,934	-

* Australian Bauxite Limited is required to pay the cash component to the extent of \$783,934 in 2010.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

3. FINANCIAL RISK MANAGEMENT continued

Parent Entity - 2010	Carrying Amount	Contractual Cash Flows	< 6 mths	6 - 12 mths	1 - 3 years	> 3 years
Financial Liabilities	\$	\$	\$	\$	\$	\$
Current						
Trade and other payables	127,842	127,842	127,842	-	-	-
Non-Current						
Other Liabilities *	-	-	-	-	-	-
Total financial liabilities at amortised cost	127,842	127,842	127,842	-	-	-
Parent Entity - 2009						
Financial Liabilities						
Current						
Trade and other payables	27,186	27,186	27,186	-	-	-
Non-Current						
Other Liabilities *	2,400,000	783,934	-	-	783,934	-
Total financial liabilities at amortised cost	2,427,186	811,120	27,186	-	783,934	-

* Australian Bauxite Limited is required to pay the cash component to the extent of \$783,934 in 2010.

d. Interest Rate Risk

The Group is constantly monitoring its exposure to trends and fluctuations in interest rates in order to manage interest rate risk. There is no bank borrowing at the balance date, therefore there is no material exposure to interest rate risk.

Sensitivity Analysis

There is no bank borrowing at the balance date.

The following tables demonstrate the sensitivity to a reasonably possible changes in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on fluctuation on deposit interest rate). There is no impact on the Group's equity.

	Carrying Amount AUD	+1% of AUD Profit/ (Loss)	-1% of AUD Profit/ (Loss)
Consolidated - 2010	\$	\$	\$
Cash and cash equivalents	8,568,713	85,687	(85,687)
Tax charge of 30%	-	(25,706)	25,706
After tax increase/(decrease)	8,568,713	59,981	(59,981)
Consolidated - 2009	\$	\$	\$
Cash and cash equivalents	3,517,895	35,178	(35,178)
Tax charge of 30%	-	(10,553)	10,553
After tax increase/(decrease)	3,517,895	24,625	(24,625)
Parent Entity - 2010	\$	\$	\$
Cash and cash equivalents	8,334,906	83,349	(83,349)
Tax charge of 30%	-	(25,004)	25,004
After tax increase/(decrease)	8,334,906	58,345	(58,345)
Parent Entity - 2009	\$	\$	\$
Cash and cash equivalents	3,516,425	35,164	(35,164)
Tax charge of 30%	-	(10,549)	10,549
After tax increase/(decrease)	3,516,425	24,615	(24,615)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

3. FINANCIAL RISK MANAGEMENT continued

e. **Currency Risk**

In 2010, the consolidated entity and parent entity were not exposed to foreign currency risk (2009: Nil)

f. Capital Risk Management

The Group considers its capital to comprise its ordinary share capital and reserves.

In managing its capital, the group's primary objectives are to pay dividends and maintain liquidity. These objectives dictate any adjustments to capital structure. Rather than set policies, advice is taken from professional advisors as to how to achieve these objectives. There has been no change in either these objectives or what is considered capital in the year.

	Consolidated		Parent Entity	
	Year ended 31 Dec 2010	4 months ended 31 Dec 2009	Year ended 31 Dec 2010	4 months ended 31 Dec 2009
	\$	\$	\$	\$
4 REVENUE				
Interest income	379,806	8,130	376,821	8,130
Other	8	-	-	-
	<u>379,814</u>	<u>8,130</u>	<u>376,821</u>	<u>8,130</u>
5 EXPENSES				
Profit/(loss) before income tax arrived after (charging)/crediting the following specific items:				
Employee benefit expenses	(74,767)	-	(74,767)	-
Depreciation	(6,889)	-	(6,889)	-
Lease payments	(2,300)	-	(2,300)	-
Share based payments (note 25)	-	(352,800)	-	(352,800)
	<u>-</u>	<u>(352,800)</u>	<u>-</u>	<u>(352,800)</u>
	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
INCOME TAX				
(a) Income tax expense				
Current tax expense	-	-	-	-
Deferred tax expense	-	-	-	-
Total income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax expense				
Increase/(decrease) in deferred tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit/(loss) from continuing operations before income tax expense	(834,631)	(370,635)	(694,466)	(370,605)
Income tax expense (benefit) calculated @ 30% (2009:30%)	<u>(250,389)</u>	<u>(111,190)</u>	<u>(208,340)</u>	<u>(111,182)</u>
Temporary differences not brought to account	(639,013)	(27,183)	(76,780)	(27,183)
Tax losses not brought to account	889,402	138,373	285,119	138,365
Income tax expense/(benefit) at effective tax rate of 30% (2009: 30%)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

		Consolidated		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
(c) Amounts recognised directly in equity					
Aggregate current and deferred tax arising during the reporting period and not recognised in profit and loss but directly debited or credited to equity:					
<i>Current income tax</i>					
Current income tax on transaction costs of issuing equity instruments					
		-	135,915	-	135,915
(d) Unrecognised deferred tax assets and liabilities					
Deferred tax assets and liabilities have not been recognised in the balance sheet for the following items:					
Prior year unrecognised tax losses now ineligible due to change in tax consolidation group					
		-	-	-	-
Other deductible temporary differences					
		2,130,043	90,610	-	90,610
Deferred tax asset in respect of exploration activities not brought to account					
		2,816,024	(199,055)	-	(199,025)
Deferred tax liability in respect of exploration activities not recognised to the extent of unrecognised deferred tax asset					
		(1,981,394)	-	-	-
		2,964,673	(108,445)	-	(108,415)
Potential benefit/(expense) at 30% (2009: 30%)					
		889,402	(32,534)	-	(32,525)
(e) Deferred tax assets					
Deferred tax assets comprise temporary differences attributable to:					
Share issue expenses					
		-	453,051	-	453,051
		-	453,051	-	453,051
(f) Deferred tax liabilities					
Deferred tax liabilities comprise temporary differences attributable to:					
Amounts recognised in profit and loss					
Capitalised exploration costs					
		-	-	-	-
7 CASH AND CASH EQUIVALENTS					
Cash at bank and in hand					
		8,378,713	3,517,895	8,334,906	3,516,425
Cash held in trust - tenement guarantee					
		190,000	-	-	-
		8,568,713	3,517,895	8,334,906	3,516,425
(a) Reconciliation to cash at the end of the year					
The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:					
Cash and cash equivalents					
		8,568,713	3,517,895	8,334,906	3,516,425
Balances per Statement of Cash Flows					
		8,568,713	3,517,895	8,334,906	3,516,425
Weighted Average Interest Rates					
		5.96%	6.11%	5.92%	6.11%
(b) Interest rate risk exposure					
The Group's and the parent entity's exposure to interest rate risk is discussed in Note 3.					

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010** continued

8 TRADE AND OTHER RECEIVABLES

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Current				
Tenement security deposit	17,500	-	12,500	-
Other deposits	130,000	-	130,000	-
Related party receivables	-	1	-	1
Other receivables	108,987	38,405	62,317	38,405
	256,487	38,406	204,817	38,406
Non-Current				
Receivable - Controlled entities	-	-	4,631,176	2,401,497
Receivable - Employee share plan	524,274	-	524,274	-
	524,274	-	5,155,450	2,401,497

(a) Impaired receivables and receivables past due.

None of the current or non-current receivables are impaired or past due but not impaired.

(b) Other receivables.

These amounts relate to receivables for GST paid.

Receivable Employee Share Plan

Company advanced \$520,000 to Mr Henry Kinstlinger, Joint Company Secretary, under the employee share plan.

(c) Interest rate risk

Information about the Group's and the parent entity's exposure to interest rate risk in relation to trade and other receivables is provided in Note 3.

(d) Fair value and credit risk.

Current trade and other receivables

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

Non-current trade and other receivables

The fair values and carrying values of non-current receivables are as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$	\$	\$	\$
Consolidated				
Receivable - Employee Share Plan	524,274	524,274	-	-
Related party receivables	-	-	1	1
Parent Entity				
Receivable - Employee Share Plan	524,274	524,274	-	-
Controlled entities receivables	4,631,176	4,631,176	2,401,497	2,401,497

The above related party receivables and controlled entities receivables have no terms of repayment and are not interest bearing.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
9 OTHER CURRENT ASSETS				
Prepayments	9,609	-	9,609	-
Accrued interest receivable	107,917	-	107,917	-
	117,526	-	117,526	-
10 PLANT AND EQUIPMENT				
Plant and equipment				
At cost	10,364	-	10,364	-
Accumulated depreciation	(1,434)	-	(1,434)	-
	8,930	-	8,930	-
Motor vehicles				
At cost	86,535	-	86,535	-
Accumulated depreciation	(5,455)	-	(5,455)	-
	81,080	-	81,080	-
Total plant and equipment	90,010	-	90,010	-

Reconciliations

Reconciliations of the carrying amounts of each class of plant & equipment at the beginning and end of the current and previous financial year are set out below:

	Plant & equipment	Motor Vehicles	Total
	\$	\$	\$
2010			
Carrying amount at 1 January 2010	-	-	-
Additions	10,364	86,535	96,899
Depreciation	(1,434)	(5,455)	(6,889)
Carrying amount at 31 December 2010	8,930	81,080	90,010
2009			
Carrying amount at 1 January 2009	-	-	-
Additions	-	-	-
Depreciation	-	-	-
Carrying amount at 31 December 2009	-	-	-

11 MINING TENEMENTS & CAPITALISED EXPENDITURE

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Mining tenements - interest and prospect	2,400,000	2,400,000	-	-
Capitalised exploration expenditures	1,981,395	-	107,284	-
	4,381,395	2,400,000	107,284	-

12 OTHER FINANCIAL ASSETS

Investment in controlled entities (Note 17)	-	-	5	3
---	---	---	---	---

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010** continued

	Consolidated		Parent Entity	
	2010	2009	2010	2009
13 TRADE AND OTHER PAYABLES	\$	\$	\$	\$
Current				
Trade payables	196,444	25,006	127,842	25,006
Related party payables	-	2,180	-	2,180
	196,444	27,186	127,842	27,186
14 EMPLOYEE BENEFITS PROVISION				
Current				
Provision for annual leave entitlement	1,139	-	1,139	-
Non-Current				
Provision for long service leave entitlement	2,170	-	2,170	-
15 OTHER LIABILITIES				
6% 3 year convertible note	-	2,400,000	-	2,400,000

This represented the consideration for the acquisition of the interest in the exploration tenements from Hudson Resources Limited.

The convertible note was fully settled by Cash and Issuing of shares in 2010.

16 ISSUED CAPITAL	Consolidated Entity and Parent		Consolidated Entity	
	2010	2009	2010	2009
	Number	Number	\$	\$
	of Shares	of Shares		
Ordinary shares Issued	100,592,337	70,000,000	14,444,118	3,399,950

(a) Movements in ordinary share capital during 2010:

Consolidated Entity and Parent Entity		No. of shares	Issue price	
Date	Details		\$	\$
31 December 2009	Balance	70,000,000		3,399,950
March 2010	Share placement	10,000,000	0.35	3,500,000
July 2010	Convertible note converted to shares	5,617,337	0.30	1,685,201
August 2010	Share placement	13,500,000	0.45	6,075,000
November 2010	Share Issuing cost - issued shares in lieu of payment	675,000	0.45	303,750
December 2010	Exercise option - employee share option plan	800,000	0.30	240,000
	Share issuing costs	-	-	(759,783)
31 December 2010	Balance	100,592,337		14,444,118

(b) Performance Options

In 2009, the fair value of options granted is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.20, the exercise price of \$0.30, expected volatility of 50.0%, expected dividends of \$Nil and a risk-free interest rate of 3.75%.

(c) Terms and Conditions

Each ordinary share participates equally in the voting rights of the Company. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010** continued

(d) Options

There were 11,700,000 options outstanding at the end of the financial year.

Information relating to the Group's options issued for services rendered is set out in note 25.

1,420,000 performance options have been approved for granting relevant to the Company's Employee Share Option Plan. In 2010, 380,000 options were granted and allocated, but not vested, to employee under Company's Employee Option Plan.

17 INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Class of Shares	Equity Holding		Country of Incorporation
		2010 %	2009 %	
ABx 1 Pty Ltd	Ordinary	100	100	Australia
ABx 2 Pty Ltd	Ordinary	100	100	Australia
ABx 3 Pty Ltd	Ordinary	100	100	Australia
ABx 4 Pty Ltd *	Ordinary	100	-	Australia
ABx 5 Pty Ltd *	Ordinary	100	-	Australia

* Wholly owned subsidiaries were incorporated to hold exploration licences in Tasmania and Victoria.

18 RECONCILIATION OF PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	Consolidated		Parent Entity	
	2010 \$	2009 \$	2010 \$	2009 \$
Profit/(Loss) for the year	(834,631)	(370,635)	(694,466)	(370,605)
Share based payments expense	-	352,800	-	352,800
Change in operating assets and liabilities:				
(Increase)/Decrease in trade and other receivables	(218,082)	(38,404)	(176,020)	(39,904)
(Increase)/Decrease in other current assets	(117,525)	-	(112,379)	-
Decrease/(Increase) in other operating assets	(1,975,471)	-	(96,899)	-
Increase/(Decrease) in trade and other creditors and provisions	169,258	27,185	100,657	27,185
(Increase) in deferred tax assets	-	-	-	-
Increase in deferred tax liabilities	-	-	-	-
Net cash inflow/(outflow) from operating activities	(2,976,451)	(29,054)	(979,107)	(30,524)

Significant Non-Cash Transactions

2009: Hudson Resources Limited transferred an interest in mining tenements to Australian Bauxite Limited for \$2,400,000. The investment was funded through a 6% 3 year convertible note.

19 SEGMENT INFORMATION

The Group operates one business being the mineral, exploration, development and geological surveys of resources in Australia.

20 COMMITMENTS AND CONTINGENT LIABILITIES

Tenement expenditure commitments.

The minimum exploration expenditure commitments and lease payments on the Company's exploration tenements totalling approximately \$1,565,000 per annum.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

Service agreements

The Company has entered into an executive service agreement with Hudson Resources Limited pursuant to which Hudson Resources Limited has agreed to provide its management, registered office, administrative accounting and secretarial services.

The term of the Executive Services Agreement is two years and the fee payable is that amount agreed between the parties from time to time. The terms of the Executive Services Agreement provide that Hudson Resources Limited shall act in accordance with the Directions of the Board.

In addition the Company has agreed with Hudson Resources Limited that the services of Ian Levy as Managing Director will be provided to the Company at an agreed rate of \$200,000 for the calendar year 2010.

Lease Commitments

	Consolidated		Parent Entity	
	2010	2009	2010	2009
Non-cancellable operating leases - future minimum lease payments	\$	\$	\$	\$
Within one year	6,900	-	6,900	-
Later than one year but not later than 5 years	18,975	-	18,975	-
Later than 5 years	25,875	-	25,875	-

The Group leases a copier under non-cancellable operating leases expiring in 4 years. Nor do they include commitments for any renewal options on leases. Lease conditions do not impose any restrictions on the ability of Australian Bauxite Limited and its subsidiaries from borrowing further funds or paying dividend.

There are no other material contingent liabilities as at the date of this report.

21 EVENTS SUBSEQUENT TO BALANCE DATE

At the date of this report there are no other matters or circumstances, which have arisen since 31 December 2010 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2010, of the Group;
- the results of those operations; or
- the state of affairs, in financial years subsequent to 31 December 2010, of the Group.

22 EARNINGS PER SHARE

	Consolidated	
	2010	2009
	Cents	Cents
Basic earnings/(loss) per share	(0.96)	(0.53)
Fully diluted earnings/(loss) per share	(0.85)	(0.45)
	2010	2009
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	86,946,169	70,000,000
Adjustments for calculation of diluted earnings per share:		
Options	11,200,000	12,000,000
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	98,146,169	82,000,000
	2010	2009
	\$	\$
Profit/(loss) from continuing operations used in calculating basic and fully diluted earnings per share	(834,631)	(370,635)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

23 KEY MANAGEMENT PERSONNEL DISCLOSURES

a Directors

The following persons were Directors of Australian Bauxite Limited during the financial year unless otherwise stated:

- Peter J Meers Non-Executive Chairman
- Ian Levy Managing Director
- Rado Jacob Rebek Executive Director
- Vincent Tan Non-Executive Director
- Wei Huang Non-Executive Director

b Other Key Management Personnel

The following persons were other key management personnel of Australian Bauxite Limited during the financial year:

- David Hughes Joint Company Secretary
- Henry Kinstlinger Joint Company Secretary
- Francis Choy Chief Financial Officer

c Compensation of Key Management Personnel

	Consolidated		Parent Entity	
	2010	2009	2010	2009
Directors	\$	\$	\$	\$
Short term employee benefits	438,450	680,290	186,666	56,900
Post employment benefits	-	22,292	-	-
Long term benefits	-	1,999	-	-
Termination benefits	-	-	-	-
Share based payments	-	294,000	-	294,000
	438,450	998,581	186,666	350,900
Other Key Management Personnel				
Short term employee benefits	115,600	311,250	115,600	60,000
Post employment benefits	-	-	-	-
Long term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share based payments	-	58,800	-	58,800
	115,600	370,050	115,600	118,800

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

Directors and Other Key Management Personnel of Australian Bauxite Limited

2010	Short Term Employee Benefits		Post Employment	Long Term Employee Benefits	Share based payments	Total
	Salary and other fees	Travelling Allowance	Super-annuation	Long Service Leave		
Directors	\$	\$	\$	\$	\$	\$
Peter J Meers	25,000	-	-	-	-	25,000
Ian Levy	200,000	1,800	-	-	-	201,800
Rado Jacob Rebek	182,250	5,400	-	-	-	187,650
Vincent Tan	-	2,700	-	-	-	2,700
Wei Huang	15,000	6,300	-	-	-	21,300
Director - Total	422,250	16,200	-	-	-	438,450
Other Key Management Personnel						
David Hughes	-	-	-	-	-	-
Henry Kinstlinger	115,600	-	-	-	-	115,600
Francis Choy	-	-	-	-	-	-
KMP - Total	115,600	-	-	-	-	115,600

The amounts reported represent the total remuneration paid by entities in the Australian Bauxite Group of companies in relation to managing the affairs of all the entities within the Australian Bauxite Group.

There are no performance conditions related to any of the above payments.
There is no other element of Directors and Executives remuneration.

Directors of Australian Bauxite Limited

2009	Short Term Employee Benefits		Post Employment	Long Term Employee Benefits	Share based payments (options) **	Total
	Salary and other fees	Travelling Allowance	Super-annuation	Long Service Leave		
Name	\$	\$	\$	\$	\$	\$
Peter J Meers	247,690	10,800	22,292	1,999	49,000	331,781
Ian Levy	100,000	-	-	-	98,000	198,000
Rado Jacob Rebek	197,500	6,300	-	-	49,000	252,800
Vincent Tan	100,000	10,800	-	-	49,000	159,800
Wei Huang	-	7,200	-	-	49,000	56,200
Total	645,190	35,100	22,292	1,999	294,000	998,581

The amounts reported represent the total remuneration paid by entities in the Hudson Resources Group of companies in relation to managing the affairs of all the entities within the Hudson Resources Group.

***Australian Bauxite Limited issued options to directors and officers under this Employee Share Option Plan.*

There are no performance conditions related to any of the above payments.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

Other Key Management Personnel of Australian Bauxite Limited

2009	Short Term Employee Benefits		Post Employment	Long Term Employee Benefits		
	Cash salary and other fees	Travelling Allowance	Super-annuation	Long Service Leave	Share based payments (options) **	Total
Name	\$	\$	\$	\$	\$	\$
David Hughes*	24,000	-	-	-	4,900	28,900
Henry Kinstlinger *	276,450	10,800	-	-	49,000	336,250
Francis Choy	-	-	-	-	4,900	4,900
	300,450	10,800	-	-	58,800	370,050

* The amounts reported represent the total remuneration paid by entities in the Australian Bauxite Group of companies in relation to managing the affairs of all the entities within the Australian Bauxite Group.

** Australian Bauxite Limited issued options to directors and officers under this Employee Share Option Plan. There are no performance conditions related to any of the above payments. There is no other element of Directors and Executives remuneration.

d. Employee Share Option Plan

Australian Bauxite has adopted an Employee Share Option Plan, (ESOP) for its employees. A person is an employee of Australian Bauxite if that person is an Executive Director, Non-executive Director or considered by the Board to be employed by Australian Bauxite or a related party of Australian Bauxite.

The purpose of the ESOP is to provide an opportunity for all eligible employees of Australian Bauxite to participate in the growth and development of Australian Bauxite through participation in the equity of Australian Bauxite.

Australian Bauxite believes it is important to provide incentives to employees in the form of options which provide the opportunity to participate in the share capital of Australian Bauxite. Australian Bauxite expects to apply the proceeds of exercise of the Options to working capital needs, asset or business acquisitions and general corporate purposes. All options to be issued must be consistent with any applicable Listing Rules and having regard to regulatory constraints under the Corporations Act 2001, ASIC policy or any other law applicable to Australian Bauxite.

e Shareholdings and Option Holdings of Key Management Personnel

Shares held in Australian Bauxite Limited - 2010

	Balance at beginning of year	Changes during the year	Balance at end of year
Directors			
Peter J Meers ¹	50,000,000	5,627,337	55,627,337
Ian Levy ²	62,500	173,000	235,500
Rado Jacob Rebek ³	-	70,000	70,000
Vincent Tan ⁴	-	60,000	60,000
Wei Huang ⁵	50,020,000	(50,000,000)	20,000
Other Key Management Personnel			
Henry Kinstlinger ⁶	-	800,000	800,000
David Hughes	-	40,000	40,000
Francis Choy	-	20,000	20,000

¹ Mr Meers has an indirect interest in 55,617,337 ordinary shares by virtue of his position as Director of Hudson Resources Limited and has indirect interest in 10,000 shares were purchased by related party of Mr. Meers in 2010.

² 173,000 shares were purchased by related parties of Mr Levy in 2010.

³ 70,000 shares were purchased by Mr. Rebek in 2010

⁴ 60,000 shares were purchased by related parties of Mr Tan in 2010

⁵ Mr Huang ceased to be director of Hudson Resources Limited in 2010

⁶ Mr Kinstlinger exercised 800,000 options under Company Employee Share Plan during the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010** continued

e. Shareholdings and Option Holdings of Key Management Personnel continued

Shares held in Australian Bauxite Limited - 2009

Directors	Balance at beginning of year	Changes during the year	Balance at end of year
Peter J Meers*	-	50,000,000	50,000,000
Ian Levy ¹	-	62,500	62,500
Rado Jacob Rebek	-	-	-
Vincent Tan	-	-	-
Wei Huang ^{*2}	-	50,020,000	50,020,000
Other Key Management Personnel			
Henry Kinstlinger	-	-	-
David Hughes	-	-	-
Francis Choy	-	-	-

* Mr Meers and Mr. Huang have an indirect interest in 50,000,000 ordinary shares by virtue of their

¹ 62,500 shares were purchased by related parties of Mr Levy during the year.

² 20,000 shares were purchased by Mr Huang during the year.

Options held in Australian Bauxite Limited – 2010

Directors	Nature	Balance at beginning of year	Changes during the year	Balance at end of year*
Peter J Meers	Employee Share Option Plan	1,000,000	-	1,000,000
Ian Levy	Employee Share Option Plan	2,000,000	-	2,000,000
Rado Jacob Rebek	Employee Share Option Plan	1,000,000	-	1,000,000
Vincent Tan	Employee Share Option Plan	1,000,000	-	1,000,000
Wei Huang	Employee Share Option Plan	1,000,000	-	1,000,000

Other Key Management Personnel

Henry Kinstlinger ¹	Employee Share Option Plan	1,000,000	(800,000)	200,000
David Hughes	Employee Share Option Plan	100,000	-	100,000
Francis Choy	Employee Share Option Plan	100,000	-	100,000

* All options at year end are vested and exercisable

¹ Mr Kinstlinger exercised 800,000 options under Company Employee Share Plan during the year and sold 100,000.

Options held in Australian Bauxite Limited - 2009

Directors	Nature	Balance at beginning of year	Changes during the year	Balance at end of year*
Peter J Meers	Employee Share Option Plan	-	1,000,000	1,000,000
Ian Levy	Employee Share Option Plan	-	2,000,000	2,000,000
Rado Jacob Rebek	Employee Share Option Plan	-	1,000,000	1,000,000
Vincent Tan	Employee Share Option Plan	-	1,000,000	1,000,000
Wei Huang	Employee Share Option Plan	-	1,000,000	1,000,000

Other Key Management Personnel

Henry Kinstlinger	Employee Share Option Plan	-	1,000,000	1,000,000
David Hughes	Employee Share Option Plan	-	100,000	100,000
Francis Choy	Employee Share Option Plan	-	100,000	100,000

* All options at year end are vested and exercisable

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

f Loans to Directors and Key Management Personnel

Details of individuals with loans above \$100,000 during the year are set out below.

2010	Balance at the start of the year	Interest payable for the year	Advance/ (Repayments)	Highest indebtedness during the year	Balance as at the end of the year	Additional interest otherwise payable*
Key management personnel	\$	\$	\$	\$	\$	\$
Henry Kinstlinger	-	4,274	520,000	524,274	524,274	2,137

* Market interest rate 6% (2009: N/A). This represents the different between interest charged at the market interest rate and interest paid.

Terms and conditions of loans

The loan partly relate to the individuals participation in the Company's Employee Share Option Plan. Loans are secured against the shares only. Loans are repayable should employees leave the Company. None were written down during the year.

There were no other loans made to Directors or Specified Executives of the Company and the Group during the period commencing at the beginning of the financial year and up to the date of this report.

24 REMUNERATION OF AUDITORS

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Audit services:				
Amounts paid or payable to auditors for audit and review of the financial report for the entity or any entity in the Group				
- K.S. Black & Co	<u>23,245</u>	<u>15,000</u>	<u>23,245</u>	<u>15,000</u>
Taxation and other advisory services:				
Amounts paid or payable to auditors for non audit taxation and advisory services for the entity or any entity in the				
Taxation - K.S. Black & Co	7,200	-	7,200	-
Advisory Services - K.S. Black & Co	-	15,851	-	15,851
	<u>7,200</u>	<u>15,851</u>	<u>7,200</u>	<u>15,851</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010 continued

25 SHARE BASED PAYMENTS

	Number of instruments	Vesting conditions	Expiry
Employee share options were granted to Directors, officers and consultants exercisable at any time prior to expiry	6,400,000	Vested and exercisable	15 October 2012
Initial Public Offer - success options	3,000,000	Vested and exercisable	24 December 2012
Performance Option	95,000	Vested 1/7/2011	30 November 2013
Performance Option	95,000	Vested 31/12/2011	30 November 2013
Performance Option	190,000	Vest 1/7/2012	30 November 2013

The number and weighted average exercise price of share options is as follows:

	Consolidated		Parent Entity	
	2010 Number	2009 Number	2010 Number	2009 Number
Vested and exercisable at beginning of the year	10,200,000	-	10,200,000	-
Granted during the year	-	10,200,000	-	10,200,000
Exercise during the year	(800,000)	-	(800,000)	-
Vested and exercisable at end of the year	9,400,000	10,200,000	9,400,000	10,200,000
<i>Option expenses</i>				
Share options granted	-	10,200,000	-	10,200,000
Expense recognised as costs ¹	-	352,800	-	352,800
Deducted from equity ²	-	147,000	-	147,000
Fair Value per option at grant time	-	4.9 cents	-	4.9 cents

- The fair value of options granted above is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.20, the exercise price of \$0.30, expected volatility of 50%, expected dividends of \$Nil and a risk-free interest rate of 3.75%. There is no service or performance criteria in relation to the options.
- The fair value of options granted above is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.20, the exercise price of \$0.30, expected volatility of 50%, expected dividends of \$Nil and a risk-free interest rate of 3.75%. There is no service or performance criteria in relation to the options.

2010	Exercise date	Exercise price \$	Balance at beginning of year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of year	Vested and Exercisable at end of year
Grant date									
15/10/2009	15/10/2012	0.30	7,200,000	-	-	(800,000)	-	6,400,000	6,400,000
24/12/2009	24/12/2012	0.30	3,000,000	-	-	-	-	3,000,000	3,000,000
Total			10,200,000	-	-	(800,000)	-	9,400,000	9,400,000
Weighted average exercise price			30.0 cents						
2009	Exercise date	Exercise price \$	Balance at beginning of year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of year	Exercisable at end of year
Grant date									
15/10/2009	15/10/2012	0.30	-	7,200,000	-	-	-	7,200,000	7,200,000
24/12/2009	24/12/2012	0.30	-	3,000,000	-	-	-	3,000,000	3,000,000
Total			-	10,200,000	-	-	-	10,200,000	10,200,000
Weighted average exercise price			30.0 cents						

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010** continued

26 RELATED PARTY TRANSACTIONS

(a) Parent Entities

The parent entity within the Group is Australian Bauxite Limited. The ultimate Australian parent entity is Hudson Resources Limited which at 31 December 2010 owns 55.29 % (2009: 71.43%).

(b) Subsidiaries

Interests in subsidiaries are disclosed in note 17.

(c) Key Management Personnel Compensation

Key management personnel compensation information is disclosed in note 23.

(d) Transactions with Related Parties

The following transactions occurred with related parties during the year ended 31 December 2010:

Investment in tenements

Consolidated and parent entity

2009: Hudson Resources Limited transferred bauxite tenements to the Australian Bauxite Group for \$2,400,000

Convertible Note

Consolidated and parent entity

2009: Australian Bauxite Limited issued to Hudson Resources Limited a three year 6% convertible note with a face value of \$2,400,000. The convertible note was fully settled by way of cash payment and issued shares in 2010.

Administration fee

Consolidated and parent entity

The Company paid an administration fee to Hudson Corporate Limited (HCL) of \$215,000 as payment of an internal recharge of general costs incurred at the HCL on behalf of subsidiaries within the group.

(e) Outstanding Balance

Amounts owed to related parties - current payables

Nil

(f) Guarantees

No guarantees were given or received from related parties during the year.

(g) Terms and conditions

All transaction were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms or repayment of loans between the parties and that no interest is charged on outstanding balances.

27 RESERVES

	Consolidated		Parent	
	2010	2009	2010	2009
Option Reserves	\$	\$	\$	\$
Option Reserves	499,800	499,800	499,800	499,800

The Company granted 7,200,000 options to directors and other key management personnel under the Company employee share option plan in 2009. The Company granted a further 3,000,000 success options in 2009. Please refer note 25 to the financial statements for details.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards which as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position as at 31 December 2010 and of the performance for the year ended on that date of the Company and the consolidated entity.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. The remuneration disclosures included on pages 16 to 18 of the directors' report (as part of audited Remuneration Report), for the year ended 31 December 2010, comply with section 300A of the *Corporations Act 2001*.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Peter J Meers
Chairman



Ian Levy
Managing Director

Signed at Sydney
29 March 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTRALIAN BAUXITE LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Australian Bauxite Limited (the company) and Australian Bauxite Limited and Controlled Entities (the consolidated entity) which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accompanying policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Director's Responsibility for the Financial Report

The Directors of Australian Bauxite Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report comprising the financial statement and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Australian Bauxite Limited would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

TO THE MEMBERS OF AUSTRALIAN BAUXITE LIMITED (Cont'd)

Auditor's Opinion

In our opinion:

- (a) the financial report of Australian Bauxite Limited and Australian Bauxite Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2010 and of their performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

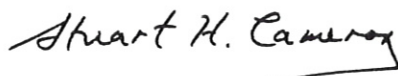
Report of the Remuneration Report

We have audited the Remuneration Report included on pages 16 to 18 of the Directors report for the year ended 31 December 2010. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Australian Bauxite Limited for the period ended 31 December 2010, complies with section 300A of the Corporations Act 2001.

KS Black & Co
Chartered Accountants



Stuart H. Cameron
Partner

Sydney, 29/3/11

SHAREHOLDER INFORMATION

AS AT 28 FEBRUARY 2011

Substantial holders

Those shareholders who have lodged notice under the Corporations Act 2001 advising substantial shareholding under the Corporations Act 2001 are as follows:

Shareholder	No. of Shares	% held
Hudson Resources Limited	55,617,337	55.29%
State One Capital Group	7,418,911	7.43%

Distribution of Equity Securities

Range	Total holders	Units	% of Issued Capital
1-100	6	180	0.00
101-1,000	29	24,262	0.02
1,001-10,000	404	2,616,797	2.60
10,001-50,000	242	6,173,918	6.14
50,001-100,000	50	3,798,294	3.78
100,001-500,000	45	10,777,907	10.71
500,001-1,000,000	10	6,957,297	6.92
1,000,001-9,999,999,999	9	70,243,682	69.83
Rounding			0.00
Total	795	100,592,337	100.00

Unmarketable Parcels

	Minimum parcel size	Holders	Units
Minimum \$500.00 parcel at \$0.77 per unit	650	9	1329

Top Holders Snapshot - Ungrouped

Rank	Name	Units	% of Units
1.	HUDSON RESOURCES LIMITED	55,617,337	55.29
2.	NATIONAL NOMINEES LIMITED	2,646,779	2.63
3.	WSF PTY LTD <ADH S/F A/C>	2,514,788	2.50
4.	BOND STREET CUSTODIANS LTD <MACQUARIE SMALLER CO'S A/C>	2,018,500	2.01
5.	WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	1,905,555	1.89
6.	ALEXANDER CAPITAL INVESTMENT PTY LTD	1,528,271	1.52
7.	STATE ONE STOCKBROKING LTD <SOS HOUSE AHX A/C>	1,449,729	1.44
8.	STATE ONE STOCKBROKING LTD	1,357,500	1.35
9.	STATE ONE EQUITIES PTY LTD	1,205,223	1.20
10.	LATOKA INVESTMENTS LTD	888,000	0.88
11.	MR HENRY KINSTLINGER	800,000	0.80
12.	EQUITY TRUSTEES LIMITED <SGH MICRO CAP FUND A/C>	750,000	0.75
13.	STATE ONE HOLDINGS PTY LTD	694,505	0.69
14.	MR REX ADAMS + MRS JOSEPHINE ADAMS <R & J ADAMS SUPER FUND A/C>	680,000	0.68
15.	BOND STREET CUSTODIANS LTD <MACQ AUST MICROCAP FUND A/C>	668,400	0.66
16.	YARRAANDOO PTY LTD <YARRAANDOO SUPER FUND A/C>	650,000	0.65
17.	MR PETER CLIFFORD CHASE + MRS LESLEY CHRISTINE CHASE <CHASE ENT PL PROV FUND A/C>	646,392	0.64
18.	BOLDBOW PTY LTD	630,000	0.63
19.	AILEENDONAN INVESTMENTS PTY LTD	550,000	0.55
20.	DAVMIN PTY LTD	500,000	0.50

Totals: Top 20 holders of ISSUED CAPITAL - ORD ESCROW

Total Remaining Holders Balance

SHAREHOLDER INFORMATION continued

Unquoted Securities (other than options issued under an Employee Share Option Plan)

Class	Exercise Price	Expiry Date	No. of Securities	No. of Holders	Name where holder holds 20% or more	% held
Success Options	\$0.30	24 December 2012	3,000,000	10	Sing Capital Pty Ltd	33.3%
Success Options	\$0.55	15 August 2013	500,000	1	State One Stockbroking Ltd	100%

Voting rights

There are no restrictions on voting rights. On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Option holders have no voting rights until the options are exercised.

List of escrowed Securities

Australian Bauxite Limited provides the following information with respect to the securities subject to escrow.

The escrow period in each case is 24 months from the date of Official Quotation of the Company's securities on the ASX.

All Options are exercisable at 30 cents within 3 years from the date of issue.

Entity	No of Securities Restricted	Security
Hudson Resources Limited	50,000,000	Fully paid ordinary shares
Peter Meers	1,000,000	ESOP options
Justevian Pty Ltd aff Justevian Superannuation Fund	2,000,000	ESOP options
Vincent Tan	1,000,000	ESOP options
Rado Jacob Rebek	1,000,000	ESOP options
Wei Huang	1,000,000	ESOP options
Eugene Loy	250,000	Success Options
State One Stockbroking Ltd	237,500	Success Options
Alan David Hill	237,500	Success Options
State One Holdings Pty Ltd <incentive a/c>	25,000	Success Options
Union Pacific Pty Ltd	250,000	Success Options
Anything Communication Pty Ltd	350,000	Success Options
Terry Carson	150,000	Success Options
Andrew White	250,000	Success Options
John Glen aff Meridian Employees Super Fund	250,000	Success Options
Sing Capital Pty Ltd	1,000,000	Success Options

5,617,337 shares voluntarily escrowed until 23 December, 2011.

TENEMENT SCHEDULE

New South Wales		
ABx1 Pty Ltd		
EL 6997	Inverell	297
EL 7268	Pindaroi	138
EL 7361	Guyra	300
EL 7344	Yarrowitch	279
EL 7596	Merriwa - 1	75
EL 7597	Merriwa - 2	639
EL 7598	Merriwa - 3	558
ABx2 Pty Ltd		
EL 7269	Windellama	270
EL 7279	Wingello West	21
ELA 4038*	Wingello Extended	39
EL 7357	Taralga	300
EL 7681	Taralga Extension	300
EL 7360	Trundle	252
EL 7641	Trundle Extension	228
EL 7601	Bungonia	276
EL 7546	Penrose	33
		4,005
Queensland		
ABx3 Pty Ltd		
EPM 17790	Hampton	336
EPM 17800	Red Hill	144
EPM 17801	Red Hill South	150
EPM 17830	Haden	264
EPM 17831	Hillgrove	267
EPM 18014	Binjour	150
EPMA 18772	Binjour Extension	123
		1,434
Tasmania		
ABx4 Pty Ltd		
EL 4/2010	Evandale	197
EL 5/2010	Powranna	234
EL 6/2010	Cleveland	209
EL 7/2010	Conara	238
EL 8/2010	Cranbrook	220
EL 9/2010	Deloraine	224
EL 14/ 2010	Myalla	80
EL 37/2010*	Westbury	237
		1,639
Victoria		
ABx5 Pty Ltd		
EL 5279	Rokeby	153
		7,231
* Application pending		

Statement under ASX Listing Rule 4.10.19

From the date of admission of the Company's shares on the ASX (24 December 2009) to the date of this Annual Report, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. Expenditures have been in line with Prospectus estimates.

JORC CODE COMPLIANT PUBLIC REPORTS

The Company advises that this Annual Report contains summaries of Exploration Results and Mineral Resources as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' ("JORC Code").

The following table references the location of the Code-compliant Public Reports or Public Reporting on which the summaries are based. These references can be viewed on the ASX website and the Company will provide these reports, free of charge, to any person who requests it.

Issue Date	Title of Notice as lodged with ASX
27/01/2010	Quarterly Activities Report
18/01/2010	ABZ Drilling Update
13/12/2010	ABZ Presentation to Resources Roadshows
06/12/2010	ABZ Taralga JORC Resource Update
29/10/2010	ABX Quarterly Report Sept 2010
28/10/2010	ASX Mining 2010 Presentation 28.10.2010
18/10/2010	Update – Tasmania drilling commences – Additional tenements
16/09/2010	ABZ Taralga Maiden JORC Resource
02/09/2010	JORC Resource Update
30/08/2010	Half-yearly Reports and Accounts
13/08/2010	Australian Bauxite Limited Broker Presentation
13/08/2010	Drilling Ahead of Schedule – Positive Results
30/07/2010	Quarterly Activities Report (June 2010)
08/07/2010	Amended ABZ Drill Update
26/05/2010	ABZ Drilling Update
22/04/2010	Quarterly Activities Report (March 2010)
09/03/2010	New Bauxite Exploration Tenements
10/02/2010	22 Million Tonnes Maiden Bauxite Resource
29/01/2010	Quarterly Activities Report (December 2009)
13/01/2010	Update – Queensland Tenement Transfer Completed

Qualifying statements

The information in this report that relate to Resource Estimates are based on information compiled by Ian Levy who is a member of Australian Institute of Mining and Metallurgy. Mr. Levy is a qualified geologist and is a director of Australian Bauxite Limited.

Mr. Levy has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of exploration Results, Mineral Resources and Ore Resources. Mr. Levy has consented in writing to the inclusion in the announcement and Appendix A of the matters based on information in the form and context in which it appears.

The information in this report that relate to exploration programs are based on information compiled by Jacob Rebek who is a member of Australian Institute of Mining and Metallurgy. Mr. Rebek is a qualified geologist and is a director of Australian Bauxite Limited.

Mr. Rebek has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of exploration Results, Mineral Resources and Ore Resources. Mr. Rebek has consented in writing to the inclusion in the announcement and Appendix A of the matters based on information in the form and context in which it appears.



Level 2
Hudson House 131 Macquarie St
Sydney NSW 2000
www.abx.com.au