

AUSTRALIAN BAUXITE

THREE STATES TARGETED BY BAUXITE NEWCOMER

Australian Bauxite has pegged some of Australia's most promising bauxite properties on the east coast, stretching from Queensland to Tasmania.

ITS INITIAL 17 TENEMENTS, covering 5000 square kilometres in Queensland and New South Wales, and the eight new tenement applications in Tasmania covering a further 1500sq.km were all selected on three principles: good quality bauxite, proximity to infrastructure connected to export ports, and free of socio-environmental or native title land constraints, Australian Bauxite chief executive Ian Levy says.

The company now has the potential to create three state-significant bauxite processing projects, one each in NSW, Queensland and Tasmania, and also has several deposits that are favourably located for direct shipping of bauxite to export customers.

"Each one of them could justify a project in their own right. Our priority now is to assess which deposits are likely to go into production early on," Levy said.

"It is imperative to scale up our exploration drilling activity. We need to expand our workforce and to add to our bauxite resources."

Australian Bauxite listed on December 24, 2009, as a spin-out of the bauxite interests of Hudson Resources, which currently holds the majority of its shares.

Earlier this year Australian

Bauxite completed the placement of 10 million fully paid ordinary shares (14.29% of its issued capital) at 35c per share to institutional and sophisticated investors, raising \$3.5 million before costs.

The company's bauxite can be processed into alumina at low temperature – the type that is in short supply globally. At the first drilling prospect, a maiden resource of 22 million tonnes was reported from drilling less than 10% of the identified bauxite deposit.

Australian Bauxite aspires to identify bauxite resources in excess of 200Mt on the east coast of Australia, which is considered one of the world's best bauxite provinces.

Broking house State One is impressed with the quality of the company's properties, stating in a recent report that some of the grades represent "truly exceptional quality material".

"Based on an expected resource of 150 million tonnes for ABZ and an enterprise valuation based on 50c per tonne of bauxite, we have a 12-month target of approximately 75c per share," it said.

"The evidence suggests that this figure will continue to increase as further drilling, focusing specifically on resource determination, accelerates through 2010."

All the company's tenements are 100% owned and free of obligations for processing and third-party royalties. Australian Bauxite has a relatively low exploration risk because many of its bauxite deposits have now been discovered – with more to come, Levy says.

"Our business plan is to prove up the largest tonnages of high-quality bauxite resources of any comparable Australian company and to market premium-priced bauxite products into the rapidly growing Asia-Pacific region, especially China, and the large eastern Australian aluminium industry," he said.

The company's focus on exporting bauxite is timely, given the fundamentals of the alumina and aluminium markets.

As a rule of thumb, it takes between 5t and 7t of bauxite to make 2t of alumina, which is then smelted to make 1t of aluminium.

With Australia's aluminium production capacity projected to be largely unchanged, the majority of the projected increase in alumina output will be exported.

According to the Australian Bureau of Agricultural and Resource Economics, in 2010-11 Australian aluminium production is forecast to be around 1.9Mt. There are no committed expansions to Australia's aluminium production capacity over the five years to 2014-15.

Alumina exports are projected to increase from around 16.4Mt in 2009-2010 to around 22.4Mt in 2014-15.

Australia's alumina production is projected to increase steadily from 2010-11 onward, assisted by a number of production expansions.

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IAN LEVY
AUSTRALIAN BAUXITE

The expansion of BHP Billiton's Worsley alumina refinery in Western Australia is expected to be completed in 2011. This expansion will add more than 1.1Mt per annum of alumina capacity to the existing 3.5Mtpa capacity.

Rio Tinto's Yarwun alumina refinery expansion in Queensland is expected to increase production by 2Mtpa to around 3Mt by 2012.

Australia's production of alumina is projected to increase to around 26Mt by 2014-15.

Turning to Australian Bauxite's exploration efforts, it has collected more than 5000 samples from its 17 mainland tenements and has discovered that the deposits are predominantly of the gibbsitic form of bauxite.

They also possess high ratios of alumina to silica, an absence of problematic forms of iron, and a coarse-grain structure which simplifies processing.

Levy believes the company can reduce the moderately high iron content to produce what he maintains will be premium-grade bauxite.

Exploration and the proving up of JORC resources is not cost-intensive, given the location, surficial nature and typically high thickness of the mainland deposits (5-9m), with aircore holes of only 15m required.

Drilling on a 300m grid is typically sufficient to deliver a resource calculation to JORC standards, Levy said.

For the coming 12 months Australian Bauxite is planning to drill at least 1000 holes across a range of tenements in all three states in which it is active.

The Inverell and Pindaroi tenements will figure prominently in this program, as the company seeks sufficient input data for a detailed desktop assessment of the feasibility of the various options for these tenements.

Ideally, Australian Bauxite will be seeking reassurance that 200Mt is a valid target for the Inverell project, and to establish this as a resource.

Other drilling is likely to progress Australian Bauxite's projects in southern Queensland (in the Pechey State Forest) and southern NSW, where bauxite occurrences are smaller in tonnage but located closer to port, and appear to be of higher quality.

Sampling in Tasmania has returned some of the best-quality results of any bauxite areas sampled to date in the extensive eastern Australian bauxite province, Levy said.

Tasmania, which has a mining heritage rivalling NSW and Queensland, also has the advantage of very short-haul distances by rail to export ports that have capacity for increased export volumes.

"We were thoroughly surprised by what we found in bauxite samples from Tasmania," Levy said.

"They contain our best-quality grades from all our assays done to date."

Australian Bauxite will now be looking to drill test the various deposits and replicate the bauxite quality of the first samples taken.

It will also be watching deposit thicknesses, in the hope they match those seen in its mainland tenements.

Discussions with potential customers and partners have started and are continuing as the company progresses its export strategy.

China, which is the largest producer and consumer of aluminium metal, has little bauxite and relies on imports of bauxite and alumina.

The major aluminium companies, known as the "Big AIs", secured the world's major bauxite occurrences in 1950-65 as a barrier to entry, similar to the way the major global mining companies sewed up the iron ore market.

"China and north Asia must support or acquire new bauxite provinces if it is to maintain supply certainty," Levy said.

"Once market prices became more open, prices have risen steadily.

"The main price rise is yet to come in bauxite. China must encourage major new suppliers of bauxite and alumina."

Australian Bauxite has a three-pronged strategy to develop its shareholders' wealth.

Firstly, it plans the direct shipping of bauxite, which will deliver early cash flow for the company. These operations will be near rail and ports, likely to be in southern NSW and central Queensland, and be a simple process of digging, screening and shipping to customers.

The second part of the strategy is developing premium-grade bauxite, which will give the company even higher revenues.

Lastly, the company would like to develop an alumina refinery project, with targets exceeding 200Mt of bauxite. This major investment will need strategic alliances.

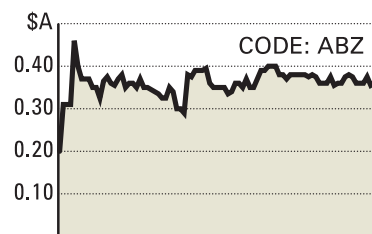
Potential customers and partners have already been identified.

– Lou Caruana



Samples from Inverell

AUSTRALIAN BAUXITE AT A GLANCE



4 months ending April 9, 2010

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MARKET CAPITALISATION

\$A11.4 million (at press time)

QUOTED SHARES ON ISSUE

30 million

MAJOR SHAREHOLDERS

Hudson Resources Limited 62.5%
National Nominees Limited 3.51%
Washington Soul Pattinson and
Company Limited 1.69%