

BAUXITE RESOURCES LIMITED

DECEMBER 2017 QUARTERLY REPORT

Highlights

- Proposed proportional off-market takeover bid received from wholly owned subsidiary of Mercantile Investment Company Limited (ASX:MVT), Mercantile OFM Pty Ltd for one of every two shares at an offer price of 9 cents per share – subsequently increased to 11 cents per share on 19 January 2018
- Target Statement prepared by the Company and dispatched to shareholders including an Independent Expert's Report and technical valuations of the Company's assets concluding that the MVT offer was NEITHER FAIR NOR REASONABLE and BRL Directors recommended shareholders REJECT THE OFFER
- The technical valuations put a preferred valuation of 12.1 cents per share on the Company's assets with a range from 11 cents to 13.3 cents per share
- A capital return of 5 cents per share has been recommended by the board and will be subject to shareholder approval on 30 January 2018
- Company update announced on Silica Sand and Hardrock Silica Quartz Projects and website launched for the wholly owned Australia Silica Quartz Pty Ltd at www.austsilicaquartz.com.au
- Silica sand projects at Albany, Esperance and Gingin and hard-rock quartz projects in Halls Creek, South West WA and Far North Queensland progressing
- Roadside silica sand samples return encouraging results, consistent with historically reported grades with washed, screened and density separated silica sand samples returning results up to 99.94% SiO₂
- Planning underway to complete a resource upgrade of the Ceres bauxite resource. The current bauxite resource base is 86.3Mt Inferred Mineral Resource and 1.5Mt Indicated Mineral Resource (refer full detail in the 2017 Annual Report Resources Statement) – HD Mining have an 'earn in' of up to 60% on decision to mine
- Cash at bank at 31 December 2017 was A\$16.1m. The Company has no debt and additional assets including two rural properties in the Bindoon area of Western Australia

29 January 2018



ASX Code: BAU

BAUXITE RESOURCES LTD

ABN: 72 119 699 982

DIRECTORS:

Robert Nash

Non Executive Chairman

Luke Atkins

Non Executive Director

Neil Lithgow

Non Executive Director

Zhaozhong Wang

Non Executive Director

**CHIEF EXECUTIVE OFFICER AND
COMPANY SECRETARY:**

Sam Middlemas

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PROPORTIONAL OFF-MARKET TAKEOVER BID FOR BAUXITE RESOURCES LIMITED

Bauxite Resources Limited (ASX:BAU) (**'BRL' or 'the Company'**) received a Bidder's Statement for a Proportional Off-Market Cash Offer from Mercantile OFM Pty Ltd (**'Mercantile OFM'**) at 9 cents per share for 50% of holder's shares in BRL ("Offer"). This Offer was subsequently increased to 11 cents per share on 19 January 2018.

The Company's directors engaged BDO Corporate Finance (WA) Pty Ltd ("BDO") to provide an Independent Expert's Report which included technical valuations of the Company's assets. BDO concluded that the Offer of 9 cents per share is **NEITHER FAIR NOR REASONABLE** to BRL shareholders that are not associated with Mercantile OFM and have put a preferred valuation of 12.1 cents (being 34% higher than the Offer price), with a range from 11 cents to 13.3 cents per share.

BRL's directors recommended that you **REJECT THE OFFER** for the following reasons:

- the Offer undervalues your BRL shares;
- the Offer does not provide an adequate premium for control of BRL;
- Mercantile OFM's intentions are not sufficiently clear;
- funding for the Offer is uncertain and you may be exposed to credit risk if you accept the Offer;
- the Offer deprives the Company of the potential for an alternative opportunity; and
- by accepting the Offer, you will not have the benefit of any subsequent higher offer from any third party or benefit from the prospect of future growth of the Company.

The BRL directors and their associates, who control approximately 27.8% of BRL's shares on issue, advised that they intended to REJECT the Offer.

The Board of BRL have requested an update to the Independent Expert's Report regarding the revised offer and will update the market with the Board's recommendation following receipt of that report.

PROPOSED CAPITAL RETURN OF 5 CENTS PER SHARE

BRL announced on 15 December 2017 that the Board has resolved to approve a 5 cent per share capital return, subject to shareholder approval on 30 January 2018.

As advised in the 2017 Annual Report and other recent market announcements, the Board has had capital management initiatives under active review. The Company currently has around \$16.1m in cash and cash equivalents in addition to its other real estate and mining project assets. The proposed capital return of 5 cents per share will result in approximately \$10.7m being returned to shareholders, leaving the Company with cash reserves of approximately \$5.5m.

During the last three quarters BRL has put together, through its wholly owned subsidiary Australian Silica Quartz Pty Ltd, a number of silica sand and hard rock quartz projects (as announced on 14 December 2017). These projects have been internally generated at a relatively low cost to the Company. The Board has considered the financial requirements for the development of these projects and its other operations, and has determined that there will be sufficient funds for their continued development after the proposed return of capital.

The Company retains substantial exposure to future improvements in bauxite markets through its HD Mining joint venture bauxite projects which are fully funded by HD Mining, and through its royalty entitlement in respect of the world class Yankuang tenements near Toodyay.

The Board realises that the proposed capital return may have an impact on the current Mercantile OFM off-market takeover bid of 11 cents per share for 50% of shareholders' shares. The proposed capital return will only take place if it is supported by a shareholder vote on 30 January 2018. The



Board considers that the proposed capital return offers shareholders both a short term substantial return of capital and also offers an ongoing investment in the Company's various resource projects, with the potential for real value generation over the medium to longer term.

EXPLORATION ACTIVITIES UNDERTAKEN UNDER THE JOINT VENTURE WITH HD MINING

Background

In 2010 the Company entered into a JV with HD Mining & Investment Pty Ltd (HD Mining) a wholly-owned subsidiary of the Shandong Bureau No1 Institute for Prospecting of Geology & Minerals (Shandong) to explore for bauxite. The JV provides for HD Mining to fund 100% of exploration and feasibility costs for HD Mining to earn:

- (a) a 40% interest in any defined area of exploration on the making a binding commitment by HD Mining to undertake a detailed feasibility study for the commercial mining of the defined area; and
- (b) a further 20% interest in a defined area upon completion of the feasibility study and the making by the JV committee of a decision to commence mining.

The current JV resource stands at 87.8Mt and consists of 86.3Mt Inferred Mineral Resource and 1.5Mt Indicated Mineral Resource (refer full detail in the 2016 Annual Report Resources Statement).

Current Activities

BRL and HD Mining continue the evaluation of the potential for economic development of the Dionysus and the combined Ceres/Athena resource areas (Athena: 36.2Mt, 32.8% available alumina, 2.8% reactive silica, see ASX announcement 15/07/14, Dionysus: 20.3Mt, 32.6% available alumina, 3.4% reactive silica, see ASX announcement 24/03/14, Ceres 14.8Mt, 31.7% available alumina, 3.0% reactive silica, see ASX announcement 30/07/12). A resource upgrade to JORC 2012 will be completed for Ceres in early 2018.

SILICA

Over the last few quarters the Company has acquired a range of silica sand and hardrock projects by exploration licence applications 100% held by BRL's wholly owned subsidiary Australian Silica Quartz Pty Ltd (ASQ). These projects now consist of 2 granted exploration licences and 15 applications covering approximately 1,500km² within Western Australia and Queensland.

SILICA SAND PROJECTS – GINGIN, ALBANY AND ESPERANCE

The Gingin Silica Sand Project consists of two application exploration licences located 20-70km north of Perth, the Albany Silica Sand Project consists of five exploration application licences within 10-70km of the Port of Albany and the East Esperance Silica Sand Project consists of two granted exploration licences 15-75km East of the Port of Esperance.

Desktop assessment of historical exploration data is well advanced along with investigations into logistics and market considerations.

A number of roadside grab samples have been collected from the three Silica Sand Projects and these have returned encouraging results consistent with historically reported grades. Selected samples have been processed by washing, screening and density separation to give an indication of potential product characteristics with results up to 99.94% SiO₂ (refer full detail in the 14 December 2017 announcement *Silica Sand and Hardrock Silica Quartz Project Updates*).

Mineral and chemical characterisation of a selected sample from each sand project was carried out at a specialist silica laboratory in Germany indicating the sand should be suitable for the optical glass, glass sand, engineered stone and quartz filler markets.

The desktop assessments and test work programmes are expected to continue over the next few quarters before any detailed exploration fieldwork is proposed.

HARDROCK SILICA QUARTZ PROJECTS – WESTERN AUSTRALIA AND QUEENSLAND

The company has in application four exploration licences in the South West of Western Australia, one in the East Kimberley and three in Far North Queensland. The leases cover known quartz deposits with the potential to contain high purity silica. Preliminary fieldwork is planned for 2018.

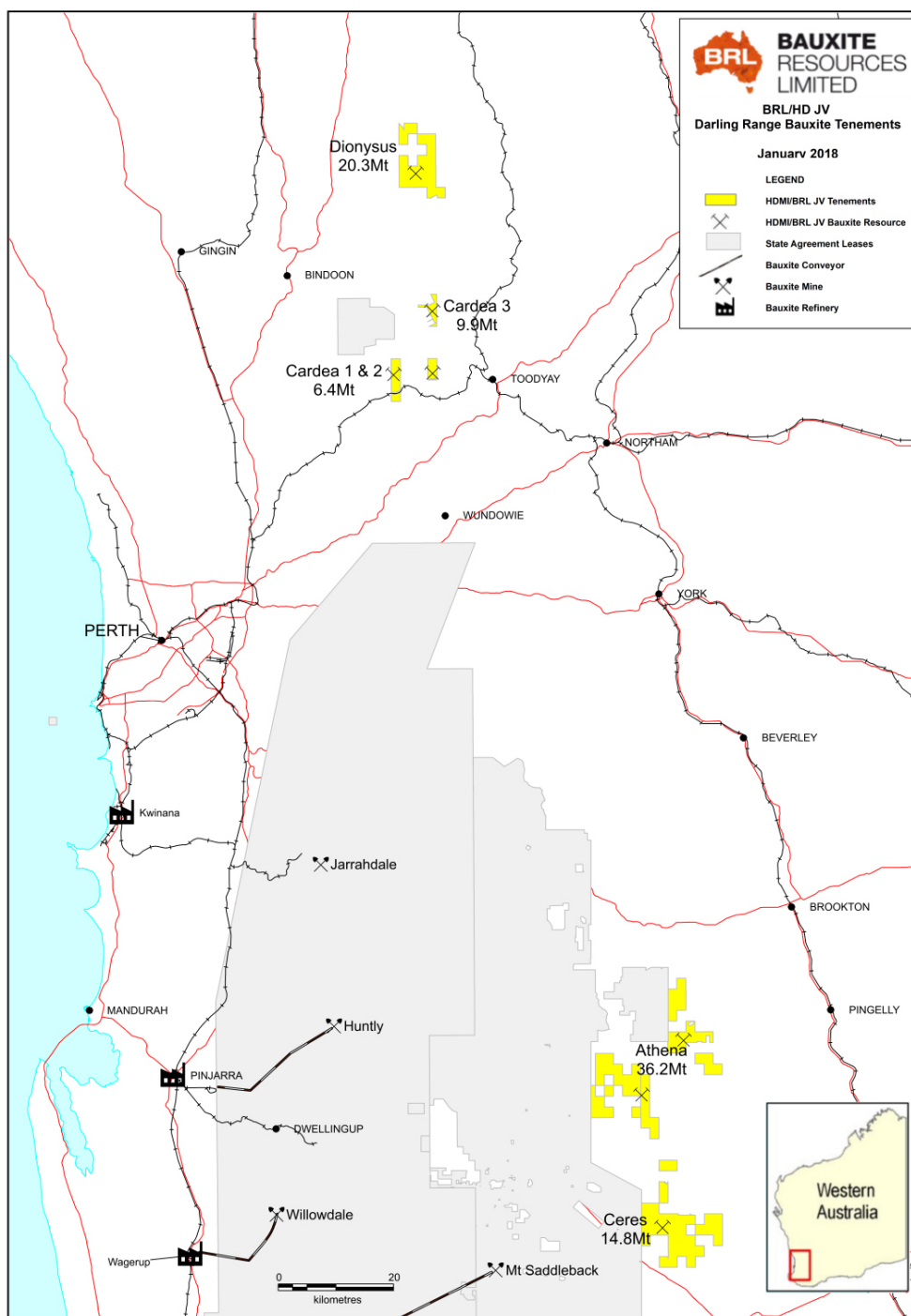


Figure 1 – BRL/HD JV Mining Darling Range bauxite tenement holding and resource locations

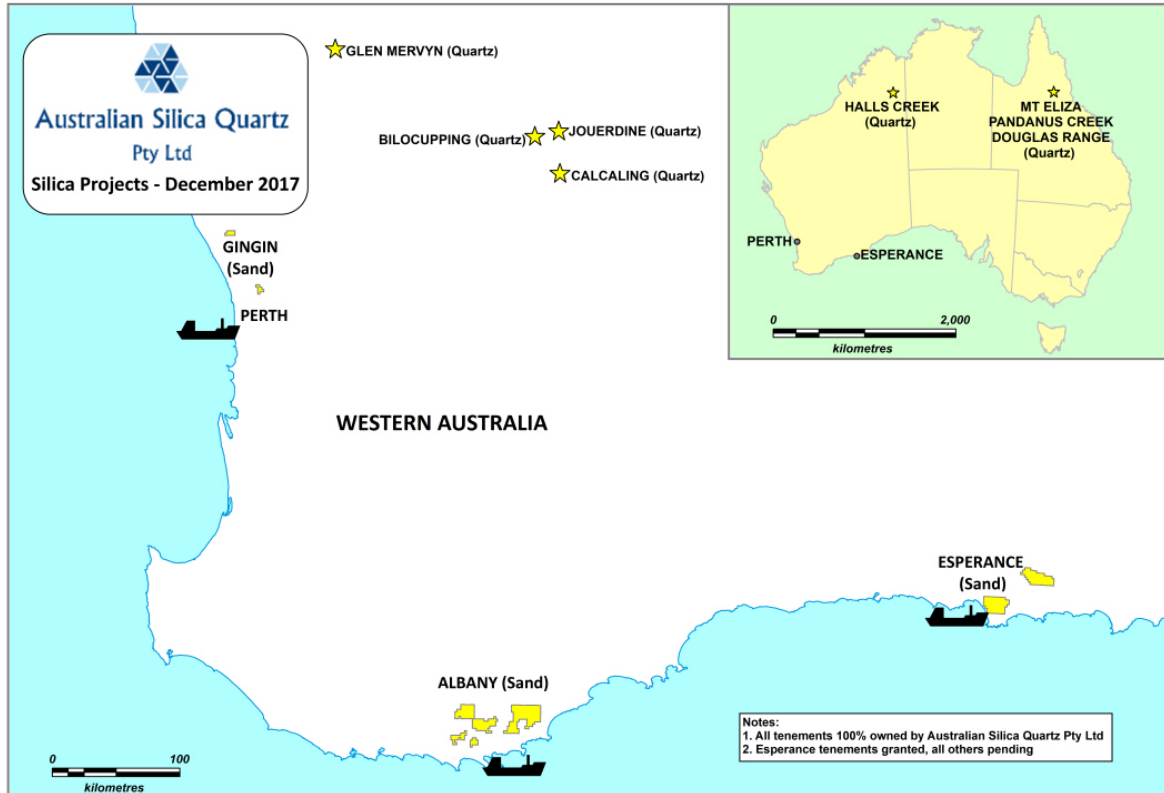


Figure 2 – ASQ Silica Project Locations

LORT RIVER LITHIUM PROJECT- E74/595

The Lort River Lithium Project is located between Ravensthorpe and Esperance and approximately 120 km east of the Mt Cattlin Lithium Mine in Western Australia. The tenement lies adjacent to Pioneer Resources Limited's lithium lease to the east (E74/581).

A Geoscience Australia stream sediment sample taken in the south of the tenement returned an elevated lithium value. Publicly available soil geochemistry sampling is limited within the tenement however extensive soil geochemistry lithium anomalies exist along structural trends immediately adjacent to the tenement.

Work continues on the Lort River Lithium project with preparations underway to carry out reconnaissance bedrock mapping during the current summer field season when the water levels in the Lort river are expected to drop sufficiently to allow good bedrock exposures.

CORPORATE

Cash Position and Shareholder Information

Bauxite Resources is in a strong financial position with significant cash reserves and no debt. As at 31 December 2017 the Company held AU\$16.1 million in cash.

As at 31 December 2017 the Company had 1,298 shareholders and 214,422,336 ordinary fully paid shares on issue with the top 20 shareholders holding 62.02% of the total issued capital.



Future Operations

The Board will continue to focus on its Silica and Bauxite Projects, and seek to enhance the value of these through exploration and development activities.

The Company's current cash burn rate has been reduced significantly, and it is expected to maintain these levels in the near term with surplus assets continuing to be reviewed and rationalised in an orderly manner as markets allow for reasonable prices to be achieved.

The Board will continue to manage the Company in the best manner in which to maximise returns to shareholders and these may include additional capital management initiatives.

Sam Middlemas, CEO, Bauxite Resources Ltd

29 January 2018

Competent Persons Statement

The information in this report that relates to the HD Mining Joint Venture (HDJV) resource base as a whole, was compiled by Nick Algie. Mr Algie is a qualified geologist and a full time employee of Bauxite Resources Limited (BRL). He is a shareholder in BRL and is entitled to participate in BRL's employee performance plan, details of which are included in BRL's 2017 Remuneration Report. Mr Algie is a member of the Australian Institute of Mining and Metallurgy, and 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 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Algie has consented to the inclusion in this report of material in the form and context in which it appears.

SCHEDULE OF MINING TENEMENTS HELD AS AT 31 December 2017 (all 100% owned)

Tenement	Location/ Tenement Name	Status
E70/3160 (a)	Toodyay – Darling Range	Granted
E70/3405 (a)	Victoria Plains – Darling Range	Granted
E70/3179 (a)	Congelin – Darling Range	Granted
E70/3180 (a)	Dattening – Darling Range	Granted
E70/3890 (a)	Wandering – Darling Range	Granted
E74/595	Lort River – Esperance	Granted
E63/1853	Merivale	Granted
E63/1854	Condinup	Granted
E70/4983	Narrikup	Granted
E70/4982	Green Range	Application
E70/5014	Redmond West	Application
E70/5015	Redmond East	Application
E70/5016	Redmond South	Application
E70/5053	Warbrook	Application
E70/5058	Quin Brook	Application
EPMA 26702	Mt Eliza	Application
E70/5069	Glen Mervyn	Application
E70/5070	Jouerdine	Application
E70/5071	Bilocupping	Application
E70/5072	Calcaling	Application
E80/5160	Halls Creek	Application
EPMA 26727	Pandanus Creek	Application
EPMA 26741	Douglas Range	Application

- a) These tenements form the HD Mining & Investments Joint Venture. Under the terms of the Joint Venture, HD Mining is required to fund 100% of all exploration and feasibility costs to earn up to 60% of the bauxite rights. HD Mining is currently working towards obtaining a 40% interest in the bauxite rights on the tenements. This will be triggered if HD Mining enters into a binding commitment to undertake a feasibility study on the tenements. Should HD Mining and BRL make a decision to mine, HD Mining will earn an additional 20% interest in bauxite rights. BRL maintains 100% interest in other minerals. At the date of this report BRL still has 100% interest in bauxite on these tenements.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Bauxite Resources Limited

ABN

72 119 699 982

Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	84	119
1.2 Payments for		
(a) exploration & evaluation	(87)	(195)
(b) development	-	-
(c) production	-	-
(d) staff costs	(10)	(36)
(e) administration and corporate costs	(261)	(494)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	117	204
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(157)	(402)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(2)	(5)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(2)	(5)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	16,288	16,536
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(157)	(402)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2)	(5)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	16,129	16,129

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	131	290
5.2 Call deposits	15,998	15,998
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	16,129	16,288

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	129
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	N/A
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Item 1.23 includes aggregate amounts paid to directors including salary, director's fees and consulting fees.

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available

Add notes as necessary for an understanding of the position

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other (please specify)

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
-	-
-	-

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	155
9.2 Development	-
9.3 Production	-
9.4 Staff costs	13
9.5 Administration and corporate costs	232
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	400

Mining exploration entity and oil and gas exploration entity quarterly report

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	E70/4948 Bumbun	Withdrawn	100%	0%
		E70/4954 Gnangara	Withdrawn	100%	0%
		E70/4955 Warbrick	Withdrawn	100%	0%
		E70/4956 Pinjar	Withdrawn	100%	0%
10.2	Interests in mining tenements and petroleum tenements acquired or increased	E70/5053 Warbrook	Application	0%	100%
		E70/5058 Quin Brook	Application	0%	100%
		EPM 26702 Mt Eliza	Application	0%	100%
		E70/5069 Glen Mervyn	Application	0%	100%
		E70/5070 Jouerdine	Application	0%	100%
		E70/5071 Bilocupping	Application	0%	100%
		E70/5072 Calcaling	Application	0%	100%
		E80/5160 Halls Creek	Application	0%	100%
		EPM 26727 Pandanus Creek	Application	0%	100%
EPM 26741 Douglas Range	Application	0%	100%		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: 
.....
(Director/Company secretary)

Date: 29 January 2018

Print name: Sam Middlemas

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.