

17 November 2017

Dear Fellow Shareholder

Proposed Proportional Off-Market Takeover Bid for Bauxite Resources Limited

On 8 November 2017 Bauxite Resources Limited (“the Company”) became aware of an announcement made by Mercantile Investment Company Limited (“MVT”) that MVT, through its wholly owned subsidiary, Mercantile OFM Pty Ltd (“MOFM”), intended to make a proportional off market takeover bid for one of every two shares in the Company that it did not control at an offer price of 9 cents per share. No formal bid documents have been received to date.

Attached to MVT’s letter of announcement was a letter from the chairman of MOFM, addressed to the Company’s shareholders, in which he proposed a termination of the Company’s present Joint Venture and exploration activities, for all of the Company’s fixed assets to be sold, and, after payment of liabilities, for the remaining funds to be distributed to shareholders.

There was no contact or engagement with the Company from MVT or MOFM prior to the announcement of 8 November 2017. The Company was not aware of MVT or MOFM’s interest in the Company until the announcement was made.

The letter from the chairman of MOFM, made the following statement:

After 10 years unsuccessfully searching for bauxite, lithium and silica sands, it is time to call a halt.

The Company considers that the above statement is misleading. It is important to set out some facts about what has been achieved by the Company since the listing in 2007. These facts will already be known to those shareholders who have made an effort to acquaint themselves with the operational history of the Company.

- As part of the Bauxite Alumina Joint Venture between the Company and Yankuang Group, through its subsidiary Yankuang Resources Pty Ltd (“Yankuang”), the world class JORC 2012 compliant “Felicitas” bauxite resource was established comprising 227.9Mt of bauxite at an average grade of 31.3% available Al₂O₃ – of which 199.8Mt was in the Measured and Indicated Resource Category. This resource was comparable with the bauxite resources of Alcoa and South 32, situated to the south of “Felicitas”. [See Annual Report 2016 - Mineral Resources and Ore Reserves Statement]
- The successful exploration and establishment of the then 100% Company owned JORC 2012 compliant “Fortuna” resource comprising 40.2Mt at 32.1% available Al₂O₃. [See Annual Report 2016 - Mineral Resources and Ore Reserves Statement]
- For reasons that have been well articulated in the past, the Company negotiated for Yankuang to acquire the Company’s interests in Felicitas and Fortuna for a payment of \$7.5m, together with a royalty right on the first 100 million tonnes of bauxite mined at a rate of 0.9% of the price paid, which represented an estimated 50c per tonne at the time the royalty deed was executed.



- The establishment of an 87.6Mt resource at an average 31.9% Available Al₂O₃ in joint venture with the Chinese State owned HD Mining Pty Ltd (“HDM”) [See Annual Report 2017 - Mineral Resources and Ore Reserves Statement]. The costs of this joint venture are funded by HDM.
- The Company has been very disciplined with capital management in recent years. It returned 4 cents per share by way of capital return in June 2014 (\$9.3m). Following the Yankuang settlement in April 2016, the Company acquired back all of Yankuang’s shares (9% of the issued capital) for \$1.15M (representing 5.838 cents per share). After that, the Company returned 5 cents per share (\$10.7m) to shareholders in the form of a further capital return.
- The Company has been most recently focussed on its Silica projects, and believes it will, in the near future, be in a position to announce that a potential project has been internally generated at relatively low cost for shareholders.

The Company’s board is focussed on continuing to generate real shareholder value over the medium to longer term. Ongoing capital management initiatives are also constantly being considered by the board.

Assets such as the HDM Joint Venture and the potential realisation of the Yankuang royalty rights, cannot be quickly realised without significant value destruction for shareholders.

In the last 18 months, there has been a substantial reduction in the Company’s cash burn rates throughout all parts of the Company’s organisation, which has included staff and directors taking significant cuts in fees, a move to lower rent modest offices, and a complete change in the Company’s operating structure.

All the substantial shareholders in the Company have to date advised the Company of their support of the current board following the bid by MOFM, and of their support for the board’s current strategy.

The board reiterates its previous advice to **TAKE NO ACTION** in relation to the MOFM bid. The Company will update shareholders once it has received the Bidders Statement from MOFM.

Yours sincerely

Robert Nash
Chairman

Competent Persons Statement

The information in this report that relates to the past and present BRL and Partners bauxite 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.