



AUSTRALIAN **BAUXITE** LIMITED
ASX:ABZ

18 December 2009

Company Announcement Office
Australian Securities Exchange Limited

Employee Share Plan

Following is a copy of the Amended Convertible note issued to Hudson Resources Limited pursuant to the Acquisition Agreement dated 15 October 2009.

For further information please contact

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AUSTRALIAN **BAUXITE** LIMITED
ACN 139 494 885

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AUSTRALIAN BAUXITE LIMITED

ACN 139 494 885

CONVERTIBLE NOTE

Terms and Conditions of Issue

1. Definitions

A\$ and \$ means the lawful currency of the Commonwealth of Australia;

ABx Project Tenements Acquisition Agreement means the agreement dated 15th October 2009 between the Issuer, the Noteholder, North Eastern Bauxite Pty Limited ACN 008 701 255, ABX1 Pty Ltd ACN 139 790 364, ABX2 Pty Ltd ACN 139 791 478 and ABX3 Pty Ltd ACN 139 792 073 with respect to the acquisition of 100% interests in each of the ABx Project Tenements by the Issuer;

ABx Project Tenements has the same meaning as in the ABx Project Tenements Acquisition Agreement;

Associated Person has the same meaning given in the Corporations Act 2001;

ASX means Australian Stock Exchange Limited ACN 139 494 885;

Board means the board of directors of the Issuer;

Business Day means a day other than a Saturday, Sunday or a public holiday on which banks are open for business in Sydney;

Cash Component means the sum of \$783,934, including any interest payable on the Note;

Certificate means a certificate evidencing a Note in a form determined by the Issuer from time to time;

Conditions means these terms and conditions of the Note;

Conversion has means conversion in accordance with clauses 8 and 9 of these Conditions and Convert, Converted and Convertible shall be construed accordingly;

Conversion Date means either:

- (a) as the result of an automatic conversion under clause 8; or
- (b) as the result of the Noteholder's election to convert the whole or a part of the Note under clause 9(a), the Conversion Date specified in the Conversion Notice in accordance with clause 9(b),

Provided however that if the Noteholder is required to give notice under section 26 of the Foreign Acquisitions and Takeovers Act (**Act**) of its acquisition of Shares pursuant to a conversion under clause 8, the Conversion Date will be the day which is 2 Business Days after the Noteholder notifies the Issuer of the receipt of advice under the Act that the Treasurer has no objection to the acquisition of Shares by the Noteholder (or its nominee) pursuant to the conversion;

Conversion Notice means a notice in the form of Schedule 2;

Convertible Number means subject to Clause 12, eight million (8,000,000) Shares or such other number of Shares as may result from an application of clause 11(b); or such other number of Shares entitling the Noteholder to convert all or part of the Outstanding Sum at the rate of one fully paid ordinary Share for every \$0.30 of the Outstanding Sum;

Corporations Act means the Corporations Act 2001;

Interest Rate means six percent (6%) per annum;

Issue Date means the date of Completion of the ABx Project Tenements Acquisition Agreement as defined in the ABx Project Tenements Acquisition Agreement;

Issuer means Australian Bauxite Limited (ACN 139 494 885);

Listing Rules means the Listing Rules of the ASX;

Maturity Date means the date three years from the Issue Date of this Note.

Note means the Convertible Note due on the Maturity Date issued by the Issuer to the Noteholder on these Conditions on the Issue Date;

Note Face Value means two million, four hundred thousand Dollars (A\$2,400,000.00);

Noteholder means Hudson Resources Limited (ACN 008 720 965) or its nominee being the registered holder of the Note;

Outstanding Sum means the balance of the amount remaining following the issue of Shares as may result from the application of clause 9;

Overdue Rate means 10% per cent per annum;

Register means the register kept in accordance with clause 3(a);

Replacement Note means a Convertible Note issued in replacement of the whole or part of the Note in the circumstances contemplated under clauses 3 and 12 being a Convertible Note having terms and conditions identical to the Conditions and having a Note Face Value and Convertible Number:

- (a) proportional to the part of Note replaced by the Replacement Note, where the replacement Note is issued in replacement of a Note under clause 3; or
- (b) as specified in clause 12, where the Replacement Note is issued under that clause;

Shares means fully paid ordinary shares in the Issuer;

Shareholder means the registered holder of Shares;

Subscription Price means \$0.30 as adjusted in accordance with clause 12 and rounded (where necessary) to the nearest four decimal places (\$0.00005 being rounded up); and

Term means the period from the Issue Date to the Conversion Date, including those dates.

2. Interpretation

In these Conditions, unless the context otherwise requires:

- (a) headings and underlinings are for convenience only and do not affect interpretation of these Conditions;
- (b) words importing the singular include the plural and vice versa;
- (c) words importing a gender include any gender;
- (d) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and any governmental entity;
- (e) a reference to any thing includes a part of that thing;
- (f) a reference to a part, clause, party, annexure, exhibit or schedule is a reference to a part and clause of, and a party, annexure, exhibit and schedule to, these Conditions;
- (g) a reference to any statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations, ordinances or by-laws varying, consolidating or replacing them, and a reference to a statute includes all regulations, proclamations, ordinances and by-laws issued under that name;
- (h) a reference to a document includes an amendment or supplement to, or replacement or novation of, that document;
- (i) a reference to a party to a document includes that party's successors and permitted assigns;
- (j) where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the preceding Business Day;
- (k) no rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of these Conditions or any part of them;
- (l) a covenant or agreement on the part of two or more persons binds them jointly and severally;

- (m) a reference to an agreement includes an undertaking, deed, agreement or legally enforceable arrangement or understanding whether or not in writing;
- (n) a reference to an asset includes all property of any nature, including, but not limited to, a business, and all rights, revenues and benefits;
- (o) a reference to a document includes any agreement in writing, or any certificate, notice, instrument or other document of any kind; and
- (p) a reference to a currency is a reference to the lawful currency of the Commonwealth of Australia.

3. Registration And Transfer

- (a) The Issuer must keep a register which contains:
 - (i) the name and address of the Noteholder;
 - (ii) the particulars of the Note; and
 - (iii) the particulars of all transfers of the whole or part of the Note.
- (b) Subject to clause 3(c), the Noteholder may transfer the whole or a part of the Note if the Noteholder has lodged with the Issuer a duly signed, stamped and completed Transfer in the form of Schedule One together with the Note.
- (c) A Noteholder may transfer the whole or a part of the Note to:
 - (i) any Associated Person without the consent of the Issuer;
 - (ii) any person other than an Associated Person, only with the consent of the Issuer which consent may not be unreasonably withheld in the discretion of the Issuer.

If the issuer has any objection to a proposed transferee of the Notes, the Issuer will in good faith liaise with the Noteholder for the purpose of giving the Noteholder the opportunity to address such objection.

- (d) Subject to any contrary provision in these Conditions, where the Issuer receives an instrument of transfer in accordance with clause (b), the Issuer must promptly register the transferee named in the instrument as the holder of the whole or part of the Note to which it relates. Upon such registration the issuer must cancel the Note transferred, issue a Replacement Note to the transferee for the whole or part of the Note transferred and, if the transfer related to part only of the Note, issue a Replacement Note to the transferor representing the balance of the Note not transferred.

4. Title

- (a) Title to the whole or part of the Note passes when the whole or part of the Note is registered in the name of the transferred in the Register.
- (b) Except as ordered by a court of competent jurisdiction or as required by law:
 - (i) the Issuer may treat the person who is registered as the Noteholder of the Note as the absolute owner of the Note (notwithstanding any notice of ownership or writing on the Note or any notice of previous loss or theft or of any trust or any other interest) and is not required to obtain any proof of ownership as to the identity of the Noteholder; and
 - (ii) the Issuer is not required to recognise or give effect to any legal or equitable interest in the Note not entered on the Register notwithstanding that the Issuer may have actual or constructive notice of the interest.

5. Status of Notes

The Note is an unsecured obligation of the Issuer, which has and may give security for other obligations.

6. Payment

In the event that any tax is imposed on any payment under the Note by any jurisdiction, the Issuer may deduct the amount of the tax and pay or remit that amount so deducted to the appropriate tax authorities in respect of the Note, including any amounts of additional tax by way of penalty.

7. Interest and Payment

- (a) The Issuer must pay interest on the Note to the Noteholder calculated in accordance with clause 6(b).
- (b) Interest on the Note accrues on the Note Face Value on an annual basis at the Interest Rate, and is payable on the Maturity Date. This interest cannot be paid by the Issuer as Shares.
- (c) The issuer may without penalty, pay the Interest or part thereof at any time.
- (d) If the Issuer fails to redeem the Note on the Maturity Date and that failure is not attributable to any failure of the Noteholder, interest will continue to accrue on the Note Face Value, but at the Overdue Rate. This interest will be calculated on the basis of a 365 day year and the actual number of days elapsed and will be payable on the last day of each calendar month or on the earlier payment or repayment of the relevant amount due.
- (e) Any payment of interest on the Note must be paid without deduction or withholding for or on account of any taxes imposed by any jurisdiction unless such withholding or deduction is required by law.
- (f) In the event that any tax is imposed on any payment under the Note by any jurisdiction, the Issuer may deduct the amount of the tax and pay or remit that amount so deducted to the appropriate tax authorities in respect of the Note, including any amounts of additional tax by way of penalty.

8. Redemption

- (a) Subject to clause 9, on the Maturity Date the Issuer must at its sole discretion, either:
 - (i) redeem the Note for the Note Face Value by:
 - (A) paying to the Noteholder a proportion of the Note Face Value in cash up to the amount of the Cash Component; and,
 - (B) allotting to the Noteholder (or its nominee as notified) the proportional part of the Convertible Number of Shares equal to the balance of the Note Face Value not paid in cash pursuant to paragraph (A) above;
 - or
 - (ii) allot to the Noteholder (or its nominee as notified) the Convertible Number of Shares.
- (b) The Cash Component shall be adjusted downwards to ensure that where the whole or a part of the Note is converted into Shares and upon such conversion the aggregate number of Shares to which the Noteholder is entitled does not include a fraction of a Share.

9. Conversion

- (a) Subject to clause (b), the Noteholder may at any time and from time to time during the Conversion Period by way of full or partial redemption of the Note elect to convert on or prior to the Maturity Date the whole or part of the Note into fully paid Shares subscribed for at the Subscription Price by delivering to the Issuer:-
 - (i) the Note; and

- (ii) a duly completed Conversion Notice relating to the Note and specifying a Conversion Date which is:
 - (A) on or before the Maturity Date; and
 - (B) not earlier than 2 Business Days after the date upon which the notice is given.
- (b) On the Conversion Date the Issuer must:
 - (i) redeem the Note for the Note Face Value or in the case where a part only of the Note is being converted under sub-clause (a), redeem the relevant part of the Note for a proportional part of the Note Face Value;
 - (ii) subject to clause (d), allot to the Noteholder (or its nominee as notified) the Convertible Number of Shares or, in the case where a part only of the Note is being converted under sub-clause (b), a proportional part of the Convertible Number of Shares;
 - (iii) on behalf of the Noteholder apply the proceeds of the redemption as full payment of the Subscription Price owing to the Issuer in respect of the Shares to be issued.
- (c) Where the whole or a part of the Note is converted into Shares and upon such conversion the aggregate number of Shares to which the Noteholder is entitled includes a fraction of a Share, that fraction must be disregarded and the Issuer must pay to the Noteholder any balance of any moneys outstanding on the whole or relevant part of the Note.
- (d) The Issuer must dispatch to the Noteholder certificates for the Shares allotted on conversion free of charge to or to the order of the Convertible Noteholder, in accordance with the instructions from the Noteholder (subject to any applicable laws or regulations).
- (e) Shares issued under this clause 9 rank equally and form one class with the Shares on issue on the Conversion Date, including with respect to entitlement to any dividend that has been declared but not paid before the Conversion Date.
- (f) Other than on the Maturity Date, the Issuer may at its sole discretion refuse to allow the Noteholder to convert the Note or part of the Note.

10. Restricted Securities

- (a) Shares issued under clause 9 may at the sole discretion of the ASX be considered Restricted Securities (as defined from time to time in the Listing Rules).
- (b) Restricted Securities may not be dealt with for a specified time (the escrow period) as determined by the ASX.
- (c) If required by the ASX:
 - (i) the Noteholder agrees to enter into a restriction agreement with the Issuer in respect of the Shares issued under clause 9 in the form provided for in Appendix 9A of the Listing Rules
 - (ii) The Noteholder must give the certificates to a bank or trustee recognised by the ASX to hold in escrow.

11. Rights and bonus issues

- (a) Where during the Term the Issuer offers new Shares or other securities for subscription to the holders of its ordinary Shares, the Noteholders will be entitled without there having been a prior conversion of the Note to Shares under clause 9 to participate in that offer in the same manner in all respects as if the whole Note had been converted into Shares on the date on which entitlement to participate in the offer is determined and the Noteholder held on that date the Shares which would have been issued to it in respect of that conversion (including any Shares arising from the prior application or applications of clause (b)).
- (b) If at any time or from time to time during the Term the Issuer resolves to pay up new Shares (whether by way of capitalisation of profits or reserves, capital redemption reserve fund or otherwise) and to issue those Shares (referred to in this clause as “Bonus Shares”) to the holders of its ordinary Shares the right described in clause 9 will, from the date on which entitlements to the Bonus Shares are determined, be a right to convert the Note into that number of Shares which would have been held by the Noteholder after the issue of the Bonus

Shares if the whole of the Note had been converted into Shares on that date and the Noteholder held on that date the Shares which would have been issued to it in respect of that conversion (including any Shares arising from the prior application or applications of this clause).

12. Other Adjustments

If at any time or from time to time during the Term:

- (a) the Issuer consolidates its Shares, the Convertible Number must be reduced in the same proportion as the number of Shares is reduced under that consolidation and the Subscription Price must be increased in the inverse proportion;
- (b) the Issuer subdivides its Shares, the Convertible Number must be increased in the same proportion as the number of Shares is increased under that sub-division and the Subscription Price must be reduced in the inverse proportion;
- (c) the Issuer returns any capital to the holders of Shares (other than on a cancellation of Shares), the Convertible Number is to remain the same and the Subscription Price must be reduced by the same proportion per Share as is returned to those holders;
- (d) the Issuer returns any capital to the holders of Shares upon a cancellation of Shares, the Convertible Number is to be reduced in the same proportion as the number of Shares is reduced under that cancellation and the Subscription Price is to be adjusted by:
 - (i) increasing the Subscription Price in the inverse proportion; and then
 - (ii) decreasing the Subscription Price by an amount equal to that amount which bears the same proportion to the amount returned to those holders in respect of each Share cancelled as the number of Shares cancelled bears to the total number of Shares on issue immediately before the cancellation;
- (e) the Issuer cancels Shares without returning any capital to the holders of those Shares, the Convertible Number must be reduced in the same proportion as the total number of Shares and the Subscription Price is to be increased in the inverse proportion;
- (f) the Issuer issues further Shares, there is no adjustment, provided that if, in any case, the application of this clause results in the product of the Subscription Price multiplied by the Convertible Number being less than the Note Face Value, the Issuer must immediately:
 - (i) pay the difference between these amounts to the Noteholder;
 - (ii) cancel the Note; and
 - (iii) issue a Replacement Note with a Subscription Price and Convertible Number as determined under this clause and having a Note Face Value equal to the product of the Subscription Price multiplied by the Convertible Number.

13. Undertakings

Whilst the Note remains outstanding the Issuer will:

- (a) not modify the rights attaching to the Share or issued any other class of share capital;
- (b) not reduce any unrecalled liability in respect of any Shares; and
- (c) give to the Noteholder annual and semi-annual financial statements, any other information to which shareholders of the Issuer are entitled and any other information as the Issuer may in its discretion agree to give to the Noteholder.

14. Events of Default

If any of the following events (each an Event of Default) is the subject of a written notice to the Issuer of the Note and continues 20 Business Days after that notice then the Note is due and repayable:

- (a) the Issuer fails to pay or repay any amount due under the Note;
- (b) the Issuer fails to perform any other undertaking, obligation or agreement in respect of the Note;

- (c) any warranty or representation by the Issuer in respect of the Note is or becomes false, misleading or incorrect when made;
- (d) a receiver, receiver and manager, trustee, administrator or other controller (as defined in the Corporations Act) or similar official is appointed, or steps are taken for such appointment, over any of the assets or undertaking of the Issuer;
- (e) the Issuer is or becomes unable to pay its debts when they are due or is or becomes unable to pay its debts within the meaning of the Corporations Act or is presumed to be insolvent under the Corporations Act;
- (f) an administrator is appointed or a resolution is passed to appoint an administrator to the Issuer;
- (g) an order is made for the winding up, bankruptcy or dissolution of the Issuer or a resolution is passed for the winding up or dissolution of the Issuer;
- (h) a notice under section 601AB of the Corporations Act is given to or in respect of the Issuer; and
- (i) all or any part of the provisions of the Note or Conditions is or becomes illegal, void, voidable, unenforceable or otherwise of limited force or effect to the material detriment of the Noteholder.

15. Representation and Warranties

The Issuer represents and warrants to each Noteholder as follows:

- (a) it has the power and authority to enter into and perform each of its obligations under the Note;
- (b) it has obtained all necessary consents and authorisations required to authorise the execution, deliver and performance of the Note;
- (c) the Note constitutes legal, valid and binding obligations of it and is enforceable in accordance with its terms; and
- (d) the execution, delivery and performance by it of the Note does not and will not violate, breach or result in any contravention of any law, regulation or authorisation, any constituent documents or any security document or other document which is binding upon it or any of the assets of it and do not and will not result in the acceleration of the date of payment of any obligation existing under any security document or other document which is binding upon it or any of the assets of it.

16. Payments

All payments to be made by the Issuer in relation to the Notes will be made in Australian dollars by cheque drawn on a bank and mailed to the Noteholder at its address appearing in the Register unless the Noteholder nominates an account with a bank into which such payments are to be made in which case payments shall be made by bank transfer of cleared funds into that bank account.

17. Compliance with Law on Conversion

A Noteholder must not convert the Note or any Replacement Note, and no such purported conversion has any effect if in doing so it would be in breach of any applicable law.

18. Calculations

Any calculations which are required to be made for the purposes of the Note will be made by the Issuer and will be prima facie evidence of such calculation. If the Noteholder disagrees with any calculation by the Issuer, the Noteholder may commission an accountant to independently review the calculation, and the Issuer shall do all things reasonable to cooperate with such accountant for the purposes of enabling the accountant to conduct such review.

19. Replacement of Notes

If the Note certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Issuer upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, indemnity and security as the Issuer may reasonably require. Mutilated or defaced certificates must be surrendered before the replacement will be issued.

20. Notices

- (a) Any notice from the Issuer regarding the Note will be sent to the registered address of the Noteholder as recorded in the Register.
- (b) Any notice from the Noteholder regarding the Note or other act, matter or thing to be done by the Noteholders shall be done at the specified office of the Issuer unless the Issuer otherwise agrees.

21. Governing Law and Jurisdiction

The Note is governed by and constructed in accordance with the laws of New South Wales and the Issuer and the Noteholder agree that any dispute arising in connection with the provisions of the Note will be determined in and by the Courts of that jurisdiction.

22. Duties and Taxes

The Issuer must bear any stamp duty payable upon or in connection with the issue of the Note but the Issuer is not responsible for any duties or taxes which may subsequently become payable in connection with the transfer, conversion, redemption or any other dealing with the Note or the Convertible Number of Shares.

23. Variation of Conditions

- (a) Subject to clause 22(b) and the Listing Rules (to the extent applicable), the Conditions applying to all of the Notes may be amended, varied, modified or added to by notice given by the Issuer to all Noteholders provided that the amendment, variation, modification or addition has been agreed to by holders of at least 75% of the Notes on issue at the relevant time.
- (b) Where the Listing Rules:
 - (1) require an amendment to the Conditions to enable Notes to be treated in accordance with Listing Rules on a reorganisation or reconstruction of capital of the Issuer or
 - (2) would prohibit a reorganisation or reconstruction of capital of the Issuer unless the Conditions were amended,the Board may make the necessary amendment to the Conditions by notice given to all Noteholders without requiring the agreement or approval of Noteholders,

Schedule 1
Transfer Notice

To: Australian Bauxite Limited

[Seller] being the registered holder of the Note has sold [the whole/\$xxx of principal amount of] the Note to [Purchaser] in compliance with the terms and conditions of the Note.

[Purchaser] agrees to be bound by the terms and conditions of issue of the Note.

The details of [Purchaser] to be entered in the Register in respect of the Note are as follows:

[]

[Signed by the Seller]

[Signed by the Purchaser]

Date:

Schedule 2
Conversion Table

To: Australian Bauxite Limited

[Name of Noteholder] being the registered holder of the Notes elects to convert the Note of Australian Bauxite Limited in accordance with clause 9 of the terms and conditions of issue of the Note ("Terms"):

1. Amount of Note being converted: []
2. Name and address of Shareholder(s) to be entered into the Register in respect of the Shares issued:
3. Conversion Date upon which Shares and Options are to be allotted:
4. Name and address to which Share and Option certificates shall be sent:
5. Other than on the Maturity Date, the Issuer may at its sole discretion not allow the Noteholder to convert the Note of part of the Note.

Enclosed with this Notice is the Note referred to above.

Dated:

Signed by _____)

for and on behalf of Noteholder)

.....

Note: This notice must be accompanied by the Note Certificate(s) comprising or including the Convertible Note(s) to be converted and should be sent to the Register shown on the Note Certificate(s).

Convertible Note Due [Insert Maturity Date]

Certificate No. 1

Australian Bauxite Limited
ACN 139 494 885

Convertible Note Register:

Computershare Registry Services Pty Ltd, Level 3, 60 Carrington Street Sydney NSW 2000

This is to certify that Hudson Resources Limited ("Noteholder") is registered as the holder of one Convertible Note due [Insert Maturity Date] fully paid up ("Note").

The issue of this Note, and the allotment to the Noteholder of ordinary Shares pursuant to this Note, was authorised by resolution of the board of directors of Australian Bauxite Limited ("Issuer").

The Note has been issued in consideration of part payment toward the acquisition of the ABx Project Tenements in an amount of A\$2,400,000.00 and is held by the Noteholder subject to and with the benefit of the conditions endorsed on this certificate.

For value received, the Issuer promises to pay to the Noteholder the amounts payable in accordance with the conditions endorsed on or attached to this Note.

The Note is issued pursuant to and subject to the terms and conditions contained in the ABx Project Tenements Acquisition Agreement between the Noteholder, North Eastern Bauxite Pty Limited ACN 008 701 255,, ABX1 Pty Ltd ACN 139 790 364, ABX2 Pty Ltd ACN 139 791 478 and ABX3 Pty Ltd ACN 139 792 073 and the Issuer.

Executed by the Issuer.

Dated:

Executed for and on behalf)
of AUSTRALIAN BAUXITE LIMITED)
ACN 139 494 885 by:)

.....
Director

.....
Secretary

PETER MEERS
Name (please print)

HENRY KINSTLINGER
Name (please print)

Note: No transfer of the Convertible Note evidenced by this Note Certificate will be registered until this Note Certificate has been surrendered to the Issuer.