

ISSUE

Dec 09

QUARTERLY NEWSLETTER
AUROX RESOURCES LIMITED



AUROX
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Quarterly Activities



"Aurox developing resources,
Shareholders developing wealth"

Market News

ASX Code:	AXO
Issued Shares:	193.5M
Fully diluted shares (Excl Convertible notes):	200.5M
Cash on exercise of options:	\$3.86M
12mth range Cents:	9 - 49

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Project Funding Discussions Underway

29 January 2010

e-lodgement

Company Announcements Office
Australian Stock Exchange Limited
2 The Esplanade
Perth WA 6000

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UPDATE: The Balla Balla Project

EXECUTIVE SUMMARY

Over the last quarter Aurox achieved several important milestones and made significant progress in relation to its West Pilbara Balla Balla Project.

Most importantly Aurox completed its engineering and cost study for the integrated production of iron ore, vanadium and titanium at its West Pilbara Balla Balla Project.

The study confirms Balla Balla as a world class low cost producer with strong financial returns from a low risk, low cost operation. The project has a pre tax NPV of \$A1.5 billion on 16 year JORC ORE Reserves and Phase I operations are scheduled to commence in the first half of 2012 with the production of 6 million tonne per annum (Mtpa) iron (Fe) concentrate and 280,000 tpa of titanium (TiO₂) concentrate. This will be followed by a Phase II expansion to 10 Mtpa of iron concentrate within 4 years. The expansion in Phase II will include the construction of a facility capable of producing 7,000 tpa ferrovanadium (FeV-80). In addition, an average of 470,000 tpa of titanium concentrate will be recovered.

The integrated project will provide Aurox with the benefit of three product revenue streams across iron ore, vanadium and titanium, with life of mine average net cash operating costs estimated to be A\$22.04/tonne of Fe concentrate, net of TiO₂ and FeV-80 revenue, free on board (FoB) Port Hedland. This compares very favourably to other existing and potential sources of iron ore from Western Australia.

Aurox was also able to confirm the size and quality of Balla Balla with Project Ore Reserves increasing 15% from 207 to 238 million tonnes with 79% being classified in the Proved Ore Reserve category. The Ore Reserve increase is a result of pit optimisation and design work carried on near surface mineral resources located in the Far West Area of the Balla Balla deposit.

Aurox also completed the Pilbara Water Reuse Initiative Scoping Study which has resulted in a number of positive outcomes including the prospect that up to 5 gegalitres per annum (GLpa) of low-end water can be delivered to Utah Point at Port Hedland at relatively low capital and operating costs. The proposed uses for the low-end water, which is filtered from Balla Balla concentrate slurry, include dust suppression and equipment wash-down. It is now being proposed that a detailed definitive feasibility study be conducted into the Pilbara Water Reuse Initiative.

The Water Reuse Study demonstrates the potential for an additional low cost revenue stream that has not yet been factored into Balla Balla's pre tax NPV of \$A1.5 billion.

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INTEGRATED FEASIBILITY STUDY

Aurox has completed its engineering and cost study for the integrated production of iron ore, vanadium and titanium at its West Pilbara Balla Balla Project

The feasibility study confirmed Balla Balla as an integrated low cost producer of Iron Ore, Vanadium and Titanium. The project economics highlight the strong financial returns from a low risk, low cost operation, with a pre tax NPV of \$A1.5 billion on 16 yr JORC Ore Reserves, and A\$2.0 billion based on 26 yr JORC Mineral Resources.

Phase I operations are scheduled to commence in the first half of 2012 with the production of 6 Mtpa iron (Fe) concentrate and 280,000 tpa of titanium (TiO₂) concentrate. This will be followed by a Phase II expansion to 10 Mtpa of iron concentrate within 4 years. The expansion in Phase II will include the construction of a facility capable of producing 7,000 tpa ferrovanadium (FeV-80). In addition, an average of 470,000 tpa of titanium concentrate will be recovered.

Capital costs required to commence production in 2012 for Phase I are currently A\$1.3 billion. This estimate includes all expenditure associated with mining pre-strip, manufacturing, installation and manning of the 6 Mtpa iron concentrate plant, 280,000 tpa titanium circuit, slurry and return water pipelines from site to Port Hedland and stacker / reclaimer infrastructure at Utah Point. The Phase II upgrade to the iron and titanium circuits to 10 Mtpa and 470,000 tpa respectively, plus the installation of the ferrovanadium plant will require further investment of A\$0.7 billion.

These capital estimates have been compiled by Orelogy Pty Ltd and GR Engineering Services for the Integrated Feasibility Study. Aurox has already commenced a process of optimising these capital estimates. It is expected that this work will result in a reduction of these estimates through the use of alternate key equipment suppliers. In addition, the "Pilbara Water Reuse Initiative Scoping Study" is now complete and shows very encouraging outcomes with regards to delivery of process water to Port Hedland. Assuming the associated approvals are granted, this may remove the requirement for a water return line and thus significantly reduce the total capital estimate for installation of the slurry pipeline.

Based on the currently defined ore reserves, Balla Balla has a life of mine ("LOM") of 16 years. Aurox has also undertaken conceptual mine plan studies to explore the potential for extending this mine life through the exploitation of the existing Mineral Resources. This work has shown Balla Balla's mine life could exceed 26 years. In addition, further upside is anticipated from drilling below 100 metres along the 9.5 kilometre Far Western zone.

The headline illustrative projections shown in Table 1 below were generated from the detailed financial analysis of the Integrated Feasibility Study results.



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TABLE 1 – STUDY PROJECTIONS

Key Items	Key Outcomes	
	16 Year LoM	26 Year LoM
Average Annual Revenue	A\$ 1.0 billion	A\$1.0 billion
Average Annual EBITDA	A\$ 510 million	A\$ 450 million
Average Annual Net Cash Cost	A\$ 22.04/tonne	A\$ 30.20/tonne
Project Pre Tax NPV (8% real)	A\$ 1.5 billion	A\$ 2.0 billion

Notes: Project NPV represents the net present value of the cash flows of the Project based on a long-term AUD:USD exchange rate of 80 cents, long-term iron ore price of US 120 cents/dmtu, long-term ferrovandium price of US\$30/kg, and a long-term ilmenite price of US\$105/tonne. Average Annual Net Cash Cost is equal to average site operating costs less average by-product revenues based on these same long-term price assumptions.

ORE RESERVE INCREASE

The JORC compliant Balla Balla Ore Reserves have grown 15% from 207 to 238 million tonnes with 79% being classified in the Proved Ore Reserve category. The Ore Reserve increase is a result of pit optimisation and design work carried out by mining consultants Orelogy Pty Ltd on near surface mineral resources located in the Far West Area of the 18.5 kilometre long Balla Balla deposit.

Currently the drilling in the Far West Area is widely spaced and extends to only 100 vertical metres. Based on the strong continuity of Balla Balla mineralisation, it is reasonable to expect that follow-up drilling will upgrade near surface resources and delineate new resources at depth leading to future Ore Reserve increases in the Far West Area.

Competent Persons Statement

The Balla Balla Ore Reserves were estimated by Mr Steve Craig of Orelogy Pty Ltd who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Steve Craig consents to the inclusion in this report of the above Resource and Reserve information in the form and context in which it appears.

The Balla Balla Ore Reserve Statement is set out in Table 2 below:


TABLE 2 - BALLA BALLA ORE RESERVES - DECEMBER 2009

Category	Area	Mt	Fe%	V2O5%	TiO2%	% of TOTAL
Proved	Western	86	45.9	0.66	14.0	36%
	Central	59	44.5	0.59	13.7	25%
	Eastern	27	45.4	0.59	13.8	12%
	Far West	16	41.3	0.58	12.6	7%
	TOTAL	188	45.0	0.62	13.7	79%
Probable	Western	6	45.8	0.68	13.7	3%
	Central	13	45.2	0.60	13.9	5%
	Eastern	8	44.4	0.56	13.7	3%
	Far West	22	41.9	0.58	12.8	9%
	TOTAL	50	43.7	0.60	13.3	21%
TOTAL	Western	92	45.8	0.66	14.0	39%
	Central	71	44.6	0.59	13.7	30%
	Eastern	36	45.2	0.58	13.8	15%
	Far West	39	41.6	0.58	12.7	16%
	TOTAL	238	44.7	0.62	13.7	100%

Notes:

Cut-off grade = 35% Fe

Fresh Ore only, no oxide material included

The Far West Ore Reserve is based on measured and indicated ore within an optimal shell only

PILBARA WATER RE-USE INITIATIVE SCOPING STUDY

Aurox completed the Pilbara Water Reuse Initiative Scoping Study in conjunction with specialist consultants in November. The study was partially funded through the Royalties for Regions Pilbara Regional Grants Scheme, with the aim of evaluating the concept of providing a low-cost, fit-for-purpose water supply to Port Hedland.

The Balla Balla Project will deliver iron ore and titanium concentrates as pumped slurries via a buried pipeline to Utah Point at Port Hedland, where it will be de-watered and stockpiled prior to export.

The study investigated the concept of the Balla Balla Project leaving 5 GLpa of filtered decant water at Port Hedland, instead of pumping it back to the mine site where it would have been used again in the process circuit. The desired outcome is to leave process water at Port Hedland to provide a fit-for-purpose solution for low-end uses, such as dust suppression and equipment wash-down, instead of using scarce, good quality potable water for these purposes.



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Key outcomes of the study include:

- There is a high level of confidence in delineating a long-term sustainable water reserve to support the delivery of 5 GLpa of process water to Port Hedland.
- Capital and operating costs are low relative to other Pilbara water supply options recently studied in a report commissioned by the Department of Water.
- The probable timing of the first delivery of water to Port Hedland coincides conveniently with a projected deficit in supply.
- The study has identified the potential to delineate 30 GLpa of water, so other areas of the Pilbara could be serviced via dedicated pipelines and the volume of delivery to Port Hedland could be increased.

The report has recommended that a detailed definitive feasibility study now be conducted into the Pilbara Water Reuse Initiative. Aurox Resources will be seeking funds from the State and potentially Federal governments to assist in the completion of the feasibility study.

PROJECT FUNDING AND VIRTUAL DATA ROOM

Aurox is in discussions with potential investors and financial institutions to provide the necessary debt and equity funding. Regulatory approvals are in place and the company is ready to commence site development once funding for the Balla Balla project is arranged.

Aurox has designed and populated a virtual data room containing information on the Balla Balla Project appropriate for full due diligence review. To date, access to the data room has been given to potential project partners and funding institutions.

ONGOING BALLA BALLA TECHNICAL WORK

Specific Gravity Confirmation Testwork

Specific gravity (SG) assignments used for resource calculations to date have been based on density data derived from the volumetric measurement of accurately weighed core samples from diamond drill holes. Since the great majority of resource drilling at Balla Balla has been by reverse circulation (RC) method (which returns rock chips from the hole) SG measurements have not been available from these holes.

In order to check the existing data and to increase the quantity and spatial coverage of SG data available for resource calculations and modelling, the company has employed a newly-available geophysical tool which can take density readings from RC holes. ABIM



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Solutions Pty Ltd of Kalgoorlie has been engaged to carry out this work in addition to their routine down-hole directional surveys.

The density logging tool uses a gamma source and gamma detector. The gamma emitter is a 100mCi caesium 137 source and the gamma detector is a sodium iodine scintillation crystal and photomultiplier tube. The tool is calibrated to various known densities including actual Balla Balla lithologies.

Simultaneous logging using magnetic susceptibility and natural gamma tools has also been carried out.

To date, more than 70,000 sets of SG readings have been taken with measurements collected every 10 centimetres down the spread of drill holes. The holes measured cover the entire strike length of the 18.5 kilometre Balla Balla deposit, accounting for all known lithologies and various depths and states of weathering. Preliminary investigations show the new ABMI SG readings are 2-3% higher overall when reconciled against the previous SG work. This indicates the current resource and reserve estimations at Balla Balla may be slightly conservative. Further analysis on the new SG work will be undertaken next quarter.

Titanium Concentrate Equipment Verification

Aurox has commenced its Australian laboratory confirmatory testwork program for the titanium circuit.

CASH ON HAND

Cash as at 31 December 2009 is \$6.076M.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

AUROX RESOURCES LIMITED

ABN

32 106 793 560

Quarter ended ("current quarter")

31 DECEMBER 2009

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration, evaluation and development	(1,238)	(2,145)
(b) administration	(976)	(1,764)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	57	146
1.5 Interest and other costs of finance paid	(3)	(6)
1.6 Income taxes paid – R&D Tax offset	-	399
1.7 Other (<i>refer to note 6</i>)	(42)	25
Net Operating Cash Flows	(2,202)	(3,345)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	(10)	(20)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	2
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	-	-
Net investing cash flows	(10)	(18)
1.13 Total operating and investing cash flows (carried forward)	(2,212)	(3,363)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(2,212)	(3,363)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings - convertible notes	-	-
1.17	Repayment of borrowings - hire purchase	(7)	(14)
1.18	Dividends paid	-	-
1.19	Other (<i>refer to note 8</i>)	-	(109)
	Net financing cash flows	(7)	(123)
	Net increase (decrease) in cash held	(2,219)	(3,486)
1.20	Cash at beginning of quarter/year to date	8,295	9,562
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	6,076	6,076

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	219
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

N/A

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-
3.3 Other (<i>refer to note 7</i>)	10,000	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration, evaluation and development	1,200
4.2 Administration (<i>refer to note 9</i>)	950
Total	2,150

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	959	48
5.2 Deposits at call	5,117	8,247
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	6,076	8,295

+ See chapter 19 for defined terms.

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	E47/1184	Tenement surrendered	100%	0%
	E47/2038	Application withdrawn	100%	0%
	M59/724	Application withdrawn	100%	0%
	P59/1694	Application withdrawn	100%	0%
6.2 Interests in mining tenements acquired or increased	ELA80/4385	Application	0%	100%
	ELA45/3557	Application	0%	100%
	ELA45/3558	Application	0%	100%
	ELA47/2165	Application	0%	100%
	ELA47/2166	Application	0%	100%
	ELA47/2167	Application	0%	100%
	ELA47/2224	Application	0%	100%
	ELA47/2225	Application	0%	100%
	G45/317	Application	0%	100%
	G45/318	Application	0%	100%
	G45/319	Application	0%	100%
	G45/320	Application	0%	100%

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>	-	-	-	-
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 +Ordinary securities	193,494,413	193,494,413	-	-
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 +Convertible debt securities <i>(7% 30 June 2010 unsecured convertible notes)</i>	8,074,084	8,074,084	-	-
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-	-	-	-
7.7 Options <i>(description and conversion factor)</i>	2,500,000	-	<i>Exercise price</i> \$0.40	<i>Expiry date</i> 27 May 2010
	850,000	-	\$0.75	4 May 2011
	3,700,000	-	\$0.50	30 June 2013
7.8 Issued during quarter	3,700,000	-	\$0.50	30 June 2013
7.9 Exercised during quarter	-	-	-	-
7.10 Expired during quarter	500,000	-	\$1.30	15 November 2009
	500,000	-	\$1.65	15 November 2009
	500,000	-	\$2.05	15 November 2009
7.11 Debentures <i>(totals only)</i>	-	-		
7.12 Unsecured notes <i>(totals only)</i>	-	-		

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: 29 January 2010

Print name: CRAIG FERRIER – CFO/COMPANY SECRETARY

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 Accounting Standards ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.
- 6 Item 1.7 represents flows from goods and services tax. The year to date balance contains a certain government grant of A\$37,000.
- 7 On 4 September 2009 the Company announced that it had secured a A\$10,000,000 facility with US-Based Investment Fund YA Global Master SPV Ltd (YA Global).

Under the terms of the facility, Aurox may, at its discretion, issue shares to YA Global at any time over the next 60 months, up to a total of A\$10,000,000. Aurox may draw down up to A\$300,000 in any period of 10 trading days. Subject to certain conditions, shares issued to YA Global at the completion of the draw down notice will be priced at the higher of the market price or the minimum acceptable price specified by Aurox in the relevant draw down notice. A commission of 4.5% will be payable by Aurox at the time of issue. Aurox is free to obtain additional or alternative financing elsewhere and there will not be any restrictions or penalties.
- 8 Item 1.19 represent costs associated with financing arrangements.
- 9 Item 4.2 does not include convertible note interest payments to holders of A\$271K scheduled for payment in the next (March) quarter.

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+ See chapter 19 for defined terms.