

Australia – NSW, WA, Qld

KIMBERLEY METALS LIMITED

Base Metals, Gold, Silver

Current Price: A\$0.17

PFS, Advanced Exploration

Exchange: ASX: KBL

June 16 2010

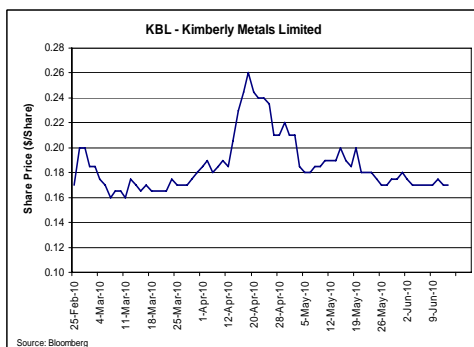
Kimberley Metals' recently discovered high grade NSW gold resource should see the company in production and generating cash flow within 12 months. But the big news is a Chinese major's intention to take a stake in KBL at A\$0.25/share and a 25% JV interest in KBL's large-scale Sorby Hills lead-silver project in WA. This de-risks an investment in KBL, which is trading 54% below our assessed NAV of A\$0.37/share.

Capital Profile

Share price (A\$)	0.17
52 week range (A\$/share)	0.16 to 0.26
Number of shares (m)	117.9
Options and performance rights (m)	5.8
Convertible notes (m)	0.0
Fully diluted (m)	123.7
Market capitalisation (undiluted) (A\$m)	20.0
Debt (A\$m) - Jun '10F	3.6
Enterprise value (A\$m)	23.6
Major shareholders: Toho Zinc Company Ltd (22.9%), Jinji Australia Ltd (19.2%), ANZ Nominees (4.6%)	
Avg monthly volume (m)	5.3
Cash (A\$m) - Jun '10F	7.5
Price/Cash (x)	2.7
Price/Book (x)	0.8
Listed company options:	No

INVESTMENT POINTS

- Our base case valuation is **A\$0.37/share** (fully diluted, US\$850/oz gold) or **A\$0.42/share** using spot gold.
- Chinese lead giant Henan Yuguang's proposed 15% investment at A\$0.25/share and JV on Sorby Hills flagship lead-silver project is a major boost to KBL.
- If the Chinese see value at A\$0.25/share and rate Sorby Hills as a viable flagship project, we expect the stock to trade at least to A\$0.25 when the deal is approved.
- Cashflow from initial high grade gold production (~30kozpa from 2Q11) will provide development capital.
- Sorby Hills (WA - lead-silver) is the flagship – PFS completed. 16.9mt Pb/Ag mineral resource (A\$2.5bn gross value), potential 0.5 mtpa open cut mine in 2014.
- Stock looks undervalued versus peer group base metals companies and recent corporate transactions, which imply much higher valuations than current share prices.
- Senior executives have extensive experience in base metals operations and project development.



Note: KBL was listed on February 25 2010

FINANCIAL FORECASTS

Directors

J Wall (Exec Chairman)
B Besley (Exec Dir)
R McDonald (Non Exec Dir)
J Richards (Non Exec Dir)

Kimberley Metals Limited
Tel: +61 (0) 2 9925 8100
Australia, North Sydney, NSW
www.Kimberleymetals.com.au

Analyst: Dr Tony Parry
tonyparry@rcresearch.com.au

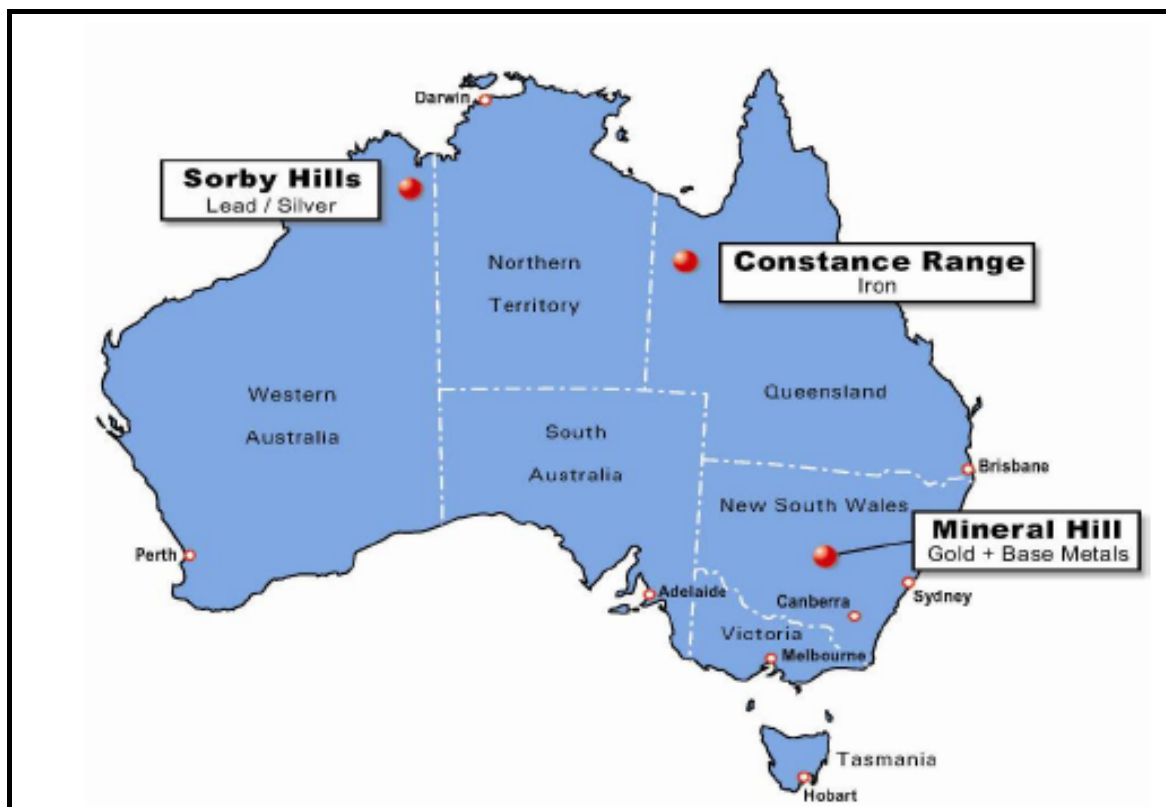
YEAR END: 30 June	2010F	2011F	2012F	2013F	2014F
Gold Price (US\$/oz)	1088.8	1078.7	1022.4	975.6	932.3
Exchange Rate (A\$/US\$)	0.88	0.83	0.80	0.80	0.80
Ore Milled (kt)	0.0	10.0	180.0	150.0	0.0
Equity Production (koz contained Au)	0.0	1.8	32.7	27.3	0.0
Total Revenue (A\$m)	0.2	2.8	43.1	35.2	1.4
EBIT (A\$m)	-1.5	-0.4	17.5	13.5	-0.6
Net Profit (norm) (A\$m)	-1.6	-0.6	12.9	9.3	-0.8
EPS (norm) (A¢/share)	-1.3	-0.4	8.9	6.5	-0.5
CFPS (A¢/share)	-1.2	-0.3	12.1	9.4	-0.4
Dividends (A¢/share)	0.0	0.0	0.0	0.0	0.0
PER (x)	na	na	1.9	2.6	-31.9
P/CF (x)	na	na	1.4	1.8	-39.8
Yield (%)	0	0	0	0	0
EV/EBITDA (x)	-15.4	-64.3	1.3	1.7	-38.2
Shares on Issue (30 June) (m) *	117.9	138.7	138.7	138.7	138.7

* Shares on issue assumes proposed Strategic Cooperation Agreement with Henan Yuguang in place from 3Q10.
Note: Forecasts are based only on initial proposed fast track Mineral Hill gold/silver operation

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Kimberley Metals Limited– Base Metals and Gold Projects



Company Valuation

KIMBERLEY METALS LIMITED VALUATION

	Equity	Equity	Resource	Resource	RCR F'cast	Spot *
	Gold Resource	Pb Resource	Valuation	Valuation	L.T. Gold	Gold
	(koz Au-equiv.)	(kt Pb-equiv.)	US\$/oz	US\$/t Pb-Equiv.	US\$850/oz	US\$1,230/oz
	Equity				A\$m^	A\$m*
Projects						
+ Mineral Hill Gold Project (NPV @ 5%DR) **	100%	74.0	252		21.9	27.9
+ Mineral Hill Base Metals Project	100%			30.00	9.9	9.9
+ Sorby Hills Lead-Silver Project ^^	100%	1229		13.83	20.0	20.0
+ Constance Range Iron Ore Project	30%				1.0	1.0
Sub Total					52.9	58.9
+ Cash (est Jun '10)					7.5	7.5
+ Tax Losses					0.7	0.7
- Debt (est. Jun '10)					3.6	3.6
- Corporate					11.7	11.7
Sub Total					-7.1	-7.1
KML NET ASSET VALUE (A\$m)					45.8	51.8
Capital Structure						
Shares (m)					117.9	117.9
Fully Diluted Shares (including 0.75m options and 5.0m performance rights) (m)					123.7	123.7
KML NET ASSET VALUE PER SHARE	:A\$/share				0.39	0.44
KML NET ASSET VALUE DILUTED	:A\$/share fully diluted				0.37	0.42
^ Valuation based on RCR long term gold price forecast of US\$850/ounce from 1Q13, A\$/US\$ = 0.80; linear change from current. * Spot gold valuation based on long term gold price = current spot ~US\$1230/oz, A\$/US\$ = 0.85 ** Mineral Hill Gold Project NPV discounted by 20% for current project status - PFS, further resource drilling and metallurgical testwork required. ^^ Sorby Hills current 100% ownership. Proposed 25% JV farm-in will not be in place for ~2 years after A\$5m spent by Henan Yuguang.						

Proposed Resource Profits Super Tax

The announcement of a proposed 'RSPT' is causing much uncertainty, which will continue until taxation regimes are clarified.

In the worst case it will reduce the Mineral Hill gold/silver project valuation by A\$0.03/share...

...and our base metals project valuations are very conservative, therefore not likely to be reduced significantly.

The recent announcement by the Australian Federal Government of a proposed Resources Profits Super Tax ("RSPT") has caused significant uncertainty in the resources sector. The originally announced application of this additional tax from July 2012 at a rate of 40% on pre-corporate tax, pre-interest earnings, with a tax-free hurdle rate of 6% return on capital, is now subject to on-going consultation/negotiation with the mining sector. Until a final 'compromise' form of the tax is developed, it is not possible to accurately quantify the likely effect.

However, our modelling of the Mineral Hill gold project shows that the RSPT, if applied in the first announced form (i.e. worst case), would reduce the risk-adjusted NPV of the Mineral Hill gold mine by 16.4% from A\$21.9m to A\$18.3m, equivalent to A\$0.03/share.

It is too early to undertake detailed modelling on the longer term Parkers Hill and Sorby Hills base metals projects. We do not consider that our valuations would need to be significantly adjusted by any RSPT that may eventuate, given our already conservative modest valuations. Furthermore, we expect that the proposed farm-in by Chinese group Henan Yuguang will proceed, despite the current tax uncertainty.

Most resources sector share prices will continue to be 'weighed down' until the tax situation is resolved. However, given the worst case RSPT effect on our valuation (which may be ~A\$0.03/share) and our current valuation of A\$0.37/share, the current value-gap is significant whatever the RSPT outcome.

KBL Valuation – RCR Assumptions

Mineral Hill gold/silver project valuation is based on NPV of projected operations.

Mineral Hill base metals resource valued using nominal resource multiples.

Sorby Hills Project valuation is based on the proposed farm-in by Henan Yuguang.

Negligible value is placed on iron ore

Mineral Hill Gold	<p>We have modelled the proposed high grade gold operation and undertaken DCF analysis: Long term gold price: US\$850/oz. Long term A\$/US\$: 0.80 Production starts: 2Q11. Nominal treatment Rate: 200,000 tpa (softer ore). Total ore treated: 378kt (resource +80kt). Mine life (gold): 1.75 years Ave Grade: 6.5g/t Au, 80g/t Ag. Gold recovery – oxide CIL: 87%. Gold recovery – sulphide (CIL/flotation): 87% Capital Cost: A\$4.5m, plus A\$0.8mpa sustaining. LOM ave. operating cost: A\$90/t (US\$410/oz). LOM gross cashflow: A\$36m. After Tax NPV @ 5% nominal discount rate. Project NPV discount: 20% due to pre BFS stage data, but extensive past metallurgical data.</p>
Mineral Hill Base Metals Project.	<p>Total resource: Contains 265kt of Pb-equivalent. Resource Valuation: We have applied a valuation of A\$30/t to the Pb equivalent resource. Typically early stage base metals exploration companies are valued at A\$10-A\$15/t Pb-Equiv. However, Mineral Hill is considered an advanced stage brownfields project with an existing treatment plant and the opportunity to commence production with an open pit mine, treating high grade zones. Therefore, we consider a resource multiple of A\$30/t Pb-Equiv. is justified.</p>
Sorby Hills Project Lead-Silver.	<p>We have applied a 100% project valuation of A\$20m, which is effectively the value set by the proposed Henan Yuguang farm-in to earn 25%. The resource: contains 1,229kt Pb-Equiv. This implies a Resource Valuation of A\$16.30/tonne Pb-Equiv.: Given that the operation is likely to be open cut, simple metallurgy, and is a reasonably advanced (PFS stage) development, this valuation (0.7% of the actual lead price per tonne) is arguably conservative, and a value of A\$20-A\$30/t could be applied. However, due to the increased challenges of operating in the proximity of the Ord River Irrigation Scheme, and likely water pumping costs, we have retained the more conservative resource valuation ratio.</p>
Constance Range Iron Ore Project.	<p>Currently KBL holds 30% of this project (option for 50%). Nominal strategic value of A\$1m has been assumed. Project value is currently limited due to modest grades and location of higher grade zone in national park buffer zone.</p>

KBL – a Gold or Base Metals Company?

Kimberley Metals offers the market an interesting hybrid of near term gold production and longer-term base metals potential.

This commodity mix is arguably a positive one, but it begs the question: How will the company be characterised?

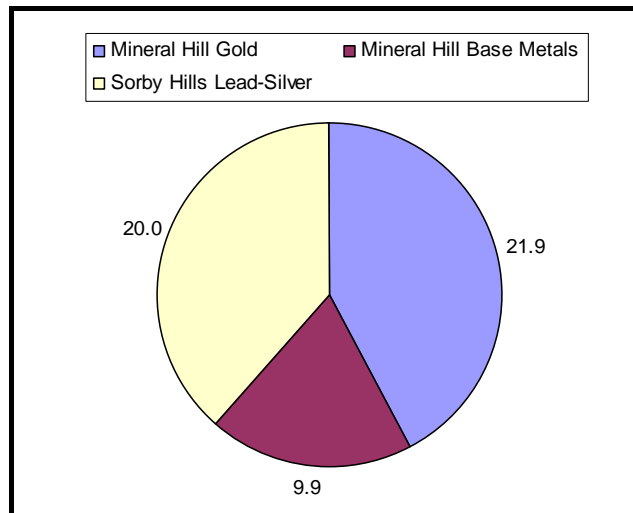
In the short term small scale gold production will be the focus...

...but longer term base metals projects will dominate.

The immediate production potential for KBL comes from a low capex fast track gold production strategy from the Mineral Hill Project – the company is likely to be a 100% gold producer until 2013/2014.

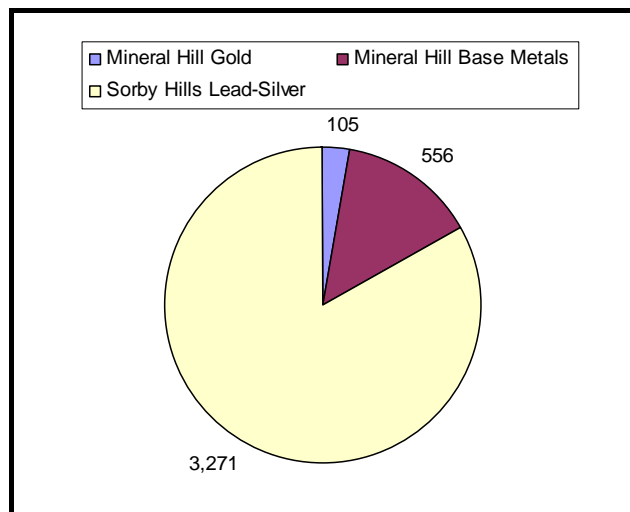
The resource base at Mineral Hill suggests a 2-3 year mine life gold operation, and within that timeframe base metals production will be the key focus: Low capex copper-zinc-silver production from Mineral Hill, and subsequently the company's major project – lead-silver production from the much larger scale Sorby Hills project in WA.

Components of current RCR valuation – by project (A\$m)



Because of the likely near term gold production, about 40% of our current valuation is derived from the gold project...

Resource size based on gross in-ground value (A\$m – using current metal prices)



...but the gold resource is small compared with the base metal resources, comprising only about 2.7% of resource value.

As the base metals projects are further developed, project valuations will grow.

Clearly, the answer is that KBL should be seen a base metals company with some small scale near term gold production potential.

Sector Comparison of Company Valuations

Enterprise Value/Resource Ratios

The table and graph below summarise the Enterprise Value (“EV”) (minus cash), in relation to resource size for comparative Australian production and development stage base metals companies, with an emphasis on companies that are primarily lead or lead-zinc-silver focused.

The resource value has been expressed in terms of tonnes of lead equivalent, utilising current metal prices and exchange rates (see footnote 2 of Data Table).

Data Table for Sector Comparisons

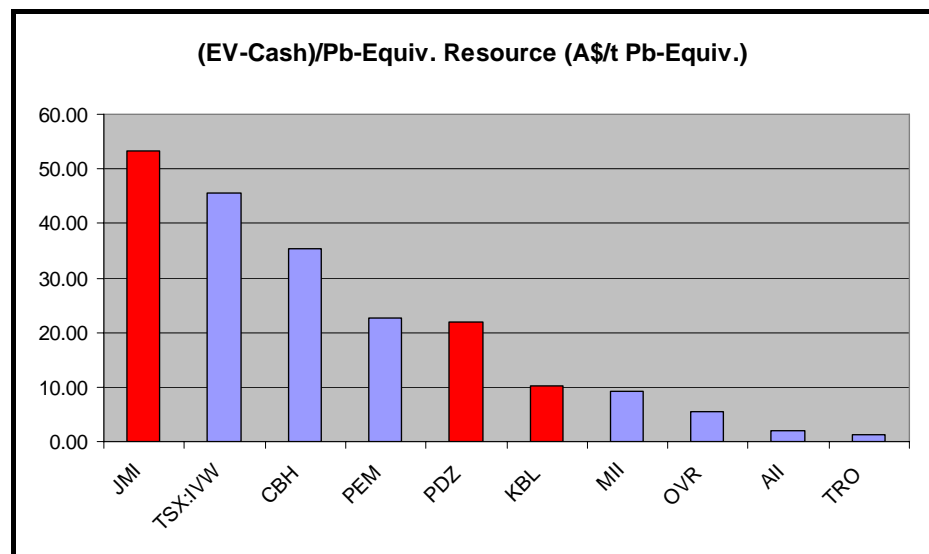
Company	ASX TSX Code	Share price (A\$ or C\$)	Fully paid shares (m)	Cash (A\$m) (C\$m)	Project Name(s)	Australian State, or Country	Resource or Mine Type	Stage	Key Metals	Resource Size (kt Pb-Equiv.)	(EV-Cash) (\$Am)	(EV-Cash)/ Resource (A\$/t Pb Equiv.)
Jabiru Metals Ltd	JMI	0.32	553	30.6	Tuetic Bore, Bentley	WA	u.g.	Operating	Cu/Zn	2,789	148.4	53.20
Ivornia Inc.	TSX:IVW	0.30	189	16.5	Magellan Lead Mine	WA	o.p.	Operating	Pb	1,474	67.1	45.51
CBH Resources Ltd	CBH	0.24	1,271	53.0	Endeavour, Rasp, Panorama	NSW, WA	u.g.	Operating	Zn/Pb	7,663	271.7	35.45
Perilya Limited	PEM	0.40	395	46.0	Broken Hill, Flinders	NSW, SA	u.g.	Operating	Zn/Pb/Ag	4,958	111.8	22.55
Prairie Downs Metals Ltd	PDZ	0.14	73	3.1	Prairie Downs	WA	o.p.	Sc. Study	Zn/Pb	215	6.7	21.91
Kimberley Metals Ltd	KBL	0.17	117	7.5	Sorby Hills, Mineral Hill	WA, NSW	o.p.	FS	Pb/Ag	1,548	16.0	10.32
Meridian Minerals Ltd	MII	0.07	132	0.5	Lennard Shelf	WA	u.g.	Sc. Study	Zn/Pb	1,005	9.2	9.19
Overland Metals Ltd	OVR	0.07	74	1.4	Yukon	Canada	u.g.	Sc. Study	Zn/Pb	691	3.8	5.43
Abra Mining Limited	All	0.13	141	8.9	Abra Lead Project	WA	expl.	DFS	Pb	4,683	9.5	2.02
Tri Origin Ltd	TRO	0.07	102	1.8	Woodlawn Tails, Woodlawn u.g.	NSW	tail, u.g.	FS	Cu/Zn	4,175	5.4	1.29

- Notes: 1. We have used most recent available company financial, resource and share data from company releases. Share prices are as at June 15 2010.
 2. Current metal prices used for Pb-equivalent resource calculations: Pb US\$1,700/t; Zn US\$1,760/t; Cu US\$6,630/t; Ag US\$18.40/oz, Au US\$1,230/oz; A\$/US\$ = 0.85.
 3. Enterprise Value (“EV”) is (undiluted market capitalisation + debt).
 4. PDZ EV discounted by 30% to recognise non base metals assets.

Source: Company Reports, RCR

(EV-Cash): Resource Ratios

KBL's EV/Resource ratio is 10.3 – at the lower end of the scale.



Note: Red bars indicate open pit, actual or proposed operations. Others are underground or tailings (TRO).

Comparative Valuation of KBL

KBL is unique amongst base metals development companies in having a potential near term source of cash flow from gold operations...

...and an advanced large scale open pitable base metals operation with a potentially low cost base...

...which suggest an EV/resource ratio which could be 2 times higher than the current modest A\$10/t Pb-Equiv. resource.

The table shows that the four currently producing companies (JML, IVW, CBH and PEM) are valued at a significant premium to the production hopefuls, which is to be expected. The production companies currently are typically valued in the range A\$25-A\$50/tonne Pb-equiv. resource, compared to A\$2-A\$14/tonne Pb-equiv. resource range for the development companies. This gives an indication of the re-rating potential for the development companies such as KBL, as they move closer to base metals production.

KBL is currently valued by the market at A\$10.30/tonne Pb-equiv. resource. We consider that KBL looks relatively undervalued, for the following key reasons:

1. KBL's major asset (Sorby Hills) is likely to be an open pit operation with cash operating costs of the order of A\$60-A\$70/t, significantly lower than the A\$80-A\$110/t typical range expected for peer company base metals underground operations. Potential open-pitable resources should attract a valuation premium. Perilya (ASX:PEM), one of the most efficient base metals operations, is currently reporting cash operating costs of around A\$90-A\$100/t at its Broken Hill underground operations. CBH's Endeavour underground mine has current operating costs of ~A\$100/t.
2. Ivernia (TSX:IVW) is the only company on the list above that is predominantly a lead-producing open cut operation (IVW's Magellan Metals operations), and it is noted that IVW's current valuation is A\$46.60/t Pb-Equiv. – almost five times that of KBL's.
3. KBL has a major additional benefit (relative to other development companies) of a proposed low capex quick start-up, high grade gold operation, which is expected to generate cash flow to fund base metals development capital. This development capital can be applied to enhance and underpin the value of the group's base metals resources with less demand on the shareholders to provide additional equity funding to achieve production.
4. KBL's base metals projects are well advanced in resource definition, mining plans and metallurgy.
5. Recent corporate transactions, including the proposed Henan Yuguang investment in KBL, have been priced at a significant premium to KBL's current valuation. This is further discussed below.

Recent Corporate Transactions – Valuation Implications

Recent corporate transactions support a higher KBL valuation.

We have looked at four recently announced proposed corporate transactions which provide further insight into the value corporate entities put on current lead/zinc/silver resources when it comes to acquiring direct interests in them.

1. Henan Yuguang proposed farm-in to earn 25% of KBL's Sorby Hills Project and purchase of 15% of KBL.

This proposed transaction for Henan Yuguang to take up a 25% interest in KBL's flagship base metals project for a spend of A\$20m, and to purchase a 15% stake in KBL at A\$0.25/share provides a direct valuation implication for KBL's Sorby Hills Project and KBL shares.

We have looked at four recent lead/zinc project transactions including the proposed Henan Yuguang transaction with KBL.

2. Toho Zinc's takeover of CBH Resources Limited (ASX:CBH).

Toho Zinc (KBL's current largest shareholder) is proposing to acquire the balance of CBH shares it does not already own for a cash consideration of A\$0.24/share. The proposed takeover has been recommended by the board of CBH in the absence of a superior offer.

3. TNG Limited (ASX:TNG) proposed sale of Manbarrum Zinc-Lead-Silver Project.

TNG Limited (TNG) has entered into a Sale Agreement with a Chinese group, Teng Fei Mining Limited, for the sale of its Manbarrum Project in the Kimberley (only ~50km from Sorby Hills) for an upfront and deferred cash payment of US\$8.5m plus a 2% NSR to TNG.

4. Prairie Downs Metals Limited (ASX:PDZ) joint venture proposal with Ivernia Inc (TSX:IVW).

Prairie Downs Metals Limited (PDZ) has signed a Heads of Agreement with Ivernia (IVW). IVW will secure an option to acquire a 60% interest in PDZ's Prairie Downs base metals project by spending a minimum of A\$3m in exploration in the next 12 months. The option can then be exercised by paying PDZ A\$10m in cash or shares. Based only on the exploration farm-in expenditure of A\$3m to secure the option, this values the current project at A\$5m.

Recent Corporate Transactions - Valuation Implications

Transaction	Transaction Value (100% project basis) (A\$m)	Resource Size kt Pb-Equiv.	Ave. Gross Resource Value (US\$/t)	Transaction Value (A\$/t Pb Equiv.)	Implied KBL Share Price (A\$)
Henan Yuguang - Sorby Hills Farm-In	20.0	1,229	124	16.3	0.27
Henan Yuguang - KBL share purchase	5.2	n.a.	n.a.	n.a.	0.25
CBH Toho Zinc Takeover	283.5	7,663	210	37.0	0.61
TNG sale of Manbarrum Project	10.0	606	42	16.5	0.27
PDZ Prairie Downs IVW farm-in*	5.0	215	123	23.2	0.38

* Only based on initial A\$3m expenditure spend required - excludes potential future A\$10m option payment.

These transactions support a valuation of at least A\$0.25/share for KBL.

Commentary on Corporate Transactions

The proposed Henan Yuguang Sorby Hills 25% farm-in, and accompanying proposed share purchase of a 15% stake in KBL, is a major statement as to the value of Sorby Hills and the potential to develop this project. Henan Yuguang is farming into Sorby Hills at an effective valuation of A\$16.30/tonne Pb-Equiv., which is a 58% premium to the current value of A\$10.30/tonne Pb-Equiv. at which KBL is trading. If this valuation were applied to KBL's global resource (the bulk of which is Sorby Hills), a KBL share price of A\$0.27/share is implied.

Henan Yuguang's proposed Sorby Hills farm-in indicates A\$0.27/share for KBL...

...while Henan Yuguang clearly sees value in purchasing KBL shares at A\$0.25.

Toho Zinc's takeover of CBH demonstrates the long term value of advanced base metals assets – over 3 times KBL's current resource rating.

A Chinese group is proposing to purchase from TNG what we consider a much lesser base metals asset than Sorby Hills, at a significant premium to KBL's current valuation.

Ivernia's proposed farm-in to PDZ's Prairie Downs project, which is currently a much smaller resource, compared to Sorby Hills, but with similar unit metal values, conservatively implies a KBL share price around A\$0.38.

Corporate transactions are reflecting the value of base metals projects that is not reflected in current share prices.

Henan Yuguang is also proposing to take up a 15% stake in KBL at a new share issue price of A\$0.25/share. This is 47% above the current share price of KBL and implies a significant underpinning of the KBL share price at a similar level to the farm-in valuation.

The proposed Toho Zinc takeover of CBH Resources provides a benchmark valuation for significant base metals production assets (CBH's Endeavour Mine) and resources (CBH's Rasp Mine and Panorama Project). The resource valuation of A\$37.00/tonne Pb-Equiv. would imply a share price for KBL of A\$0.61/share, which is a target for a re-rating of KBL over the next 2-3 years, as the Mineral Hill base metals operations commence and the Sorby Hills Project proceeds towards development.

The proposed TNG sale of its Manbarrum zinc/lead/silver project is particularly relevant to KBL due to the proximity of this project to KBL's Sorby Hills Project. This transaction (not including the 2% NSR) is valued at the same level as the Henan Yuguang Sorby Hills farm-in, i.e. A\$16.50/t Pb-Equiv. That notwithstanding, the Manbarrum resource (24.4mt @ 2.26% Zn+Pb, 1.0% Zn cut-off), is of significantly lower grade than Sorby Hills, with a gross in-ground metal value of only US\$42/t compared to US\$131/t for Sorby Hills (based on current metal prices). In addition, the Manbarrum resource is significantly deeper than Sorby Hills. The Manbarrum Project does contain a higher grade zone (12.6mt @ 2.96% Zn+Pb, 2.5% cut-off), which has an in-ground gross value of US\$55/t, but using this higher grade resource base implies a significantly higher transaction value of A\$24.60/t Pb-Equiv. resource, with a significantly lower US\$/t resource value than that of Sorby Hills.

The conclusion we derive from the proposed TNG Manbarrum sale is that this level of valuation is very positive for KBL, given the premium price being paid (in terms of A\$/t Pb-Equiv. resource) for a significantly lower grade resource relative to Sorby Hills.

In relation to the PDZ/IVW proposed joint venture at Prairie Dows, this project in the Eastern Pilbara region of Western Australia is a significantly smaller current resource than Sorby Hills (about one-sixth of the size in terms of contained metal value). The metal value per tonne is similar, and it is also a potentially open-pittable resource. It has reached scoping study level.

Based (conservatively) only on IVW's required exploration spend to acquire the 60% farm-in option (and ignoring the future A\$10m option payment which would only be exercised on a significantly expanded resource), the table above indicates an exploration spend of A\$3.0m implies a 100% project value valuation of A\$23/tonne contained Pb-Equiv. Applying this valuation multiple to KBL's current resource would imply a KBL share price of A\$0.38/share.

Conclusion

It appears that recent corporate transactions are reflecting significant value in lead/zinc/silver resources that the share market is not recognising. We consider that corporate transactions where metals companies are putting their money *"where their collective mouths are"*, are the underpinning determinants of project value. This adds weight to our argument that the share market is significantly under-valuing base metals companies such as KBL.

Directors and Senior Management

KBL's executive team is experienced in base metals operations and project development.

KBL has assembled a strong team with an emphasis on project development. Base metals mining and treatment is a specialised area where prior experience is important.

Jim Wall – Executive Chairman: Over 30 years' senior executive management experience. Was Managing Director of Savage Resources during that company's transformation from a junior into a mid-cap producer. Jim has extensive experience in previous base metals operations (Aztec Mining and Nicron Resources). More recently, Jim was Executive Chairman of CBH Resources during the period it acquired and operated the Endeavour base metals mine in NSW, prior to taking on the role with its spin-off, KBL.

Bob Besley – Executive Director: Formerly Managing Director of KBL's 'parent' CBH Resources. Over 40 years' minerals industry experience including period as General Manager of Australmin Holdings during the period of development of a mineral sands and gold project.

Robert MacDonald – Non executive Director: Head of Minera Group – specialist mining advisory services group. Extensive experience in investment banking.

John Richards – Non Executive Director: 25 years' experience in the international minerals industry in executive and investment banking roles.

Stuart Mathews – Chief Operating Officer: Stuart was recruited recently to bolster the company's operational management as it progresses towards production at Mineral Hill. He has previous project management experience – most recently in bringing Couer d'Alene's Palmerejo gold/silver mine in Mexico into production (forecast 2010 production is 7.9moz Ag and 109,000oz Au). He also played a key role in developing Barrick Australia's Lake Cowal Mine in NSW.

Of particular significance is the recent appointment of COO Stuart Mathews, very experienced in bringing major projects into production.

The Henan Yuguang Strategic Cooperation Agreement

It was announced on 19 April 2010 that Kimberley Metals is intending to enter into Strategic Cooperation Agreement (“SCA”) with a Chinese company Henan Yuguang Lead & Gold Co. Ltd (“Henan Yuguang”).

Henan Yuguang – a true big brother to KBL

Henan Yuguang is a major lead and silver company of global significance. It operates smelters and refineries in China, and is the largest producer of refined lead and silver metal in China – its output in 2009 was 305,000t lead, 79,000 oz gold and 19moz of silver. It is listed on the Shanghai Stock Exchange, and according to a recent KBL release, it generated revenues of ~A\$1,000m in 2009 and is currently capitalised at around A\$700m.

In that regard, Henan Yuguang appears to be a strong and very significant development partner to KBL.

Details of the SCA

If the SCA proceeds, KBL will receive approximately A\$10m cash from Henan Yuguang as follows:

Henan Yuguang will provide approximately A\$5.2m cash to KBL by taking a share placement of ~20.8m shares at an issue price of A\$0.25/share (a premium of 25% to the January 2010 IPO price and 47% to the current price of A0.17/share). The placement will result in Henan Yuguang holding a 15% stake in KBL.

Sorby Hills JV: The second component of the intended SCA is the formation of a joint venture for the Sorby Hills project (currently 100% KBL) whereby Henan Yuguang will earn 25% of the project by contributing A\$5m project funding which is expected to fund the planned BFS for the project over the next two years.

Henan Yuguang will subsequently have the right to increase its Sorby Hills project interest beyond 25% if it assists KBL in securing project financing for the Sorby Hills project. The precise detail as to the mechanism for this has not yet been defined, but it will presumably be subject to KBL shareholder approval

The above transactions are subject to shareholder and regulatory (e.g. FIRB) approval, and are likely to be consummated by the end of July 2010.

RCR Comment

This looks like an excellent deal for KBL and its shareholders – giving its somewhat overlooked flagship Sorby Hills base metals project a big boost in credibility and perceived viability, increased market visibility and reduced project development risk. Henan Yuguang will provide key development capital and potential future project funding support for Sorby Hills, while ensuring KBL maintains control over its key project.

Henan Yuguang is a major Chinese lead/silver production company that sees value in investing in KBL at A\$0.25, and directly in the Sorby Hills project.

Henan Yuguang will invest A\$5.2m for a 15% stake in KBL at A\$0.25/share...

...and farm-in to the Sorby Hills Project by spending A\$5m to earn 25%...

...and use its financial strength to potentially play a role in project financing Sorby Hills.

This deal de-risks KBL and highlights the value of Sorby Hills, which has not been recognised to date.

Company History

CBH formed KBL as a vehicle for its less advanced base metals projects, as CBH focused on its production and near-production base metals assets.

KBL was established when its former parent (CBH Resources Limited – ASX:CBH) implemented a strategy in 2008 to focus on its three major operating and development assets – the operating Endeavour zinc/lead/silver mine near Cobar in NSW, redevelopment of the proposed Rasp zinc/lead/silver mine at Broken Hill, and the advanced Panorama copper/zinc project in the Pilbara (WA).

The KBL assets were valued at A\$23.9m (A\$0.20/ KBL share)

After the takeover of Triako Resources Limited in 2006, CBH found itself with an extensive project portfolio that required rationalisation and narrowing of focus towards the three core assets.

The new KBL shares were distributed to CBH shareholders in 2008

In May 2008, CBH's transferred its interests in three pre-development assets, Mineral Hill, Sorby Hills and Constance Range, as well as A\$1m in cash, into the unlisted 'spin off' vehicle Kimberley Metals Limited. The market value of these assets was assessed at A\$23.88m.

Jim Wall and Bob Besley left CBH to focus on KBL.

The consideration for the CBH assets provided by KBL to CBH was mainly satisfied by an issue of new shares in KBL to CBH, with a total value of A\$18.5m. The balance of A\$5.4m was a debt payable by KBL to CBH, tied to any future decision to mine the Mineral Hill deposit and subsequent payment of royalties to CBH from Mineral Hill revenues.

In 2008 and 2009 KBL focused on exploration of its Mineral Hill project...

The new shares in KBL issued to CBH were distributed to CBH's shareholders, which resulted in CBH acquiring a pre-listing shareholder base in excess of 13,000 shareholders. KBL's new Board was led by Executive Chairman, Jim Wall and Executive Director, Bob Besley, who were previously joint CEO's of CBH.

...and through an IPO at A\$0.20/share raised A\$11.3m and was listed on the ASX in February 2010.

During the balance of 2008 and during 2009 KBL undertook further drilling on the Mineral Hill Project. This was partly funded through a total A\$1m investment in KBL by a private Japanese investment group, Jinji Australia Pty Ltd.

In November 2009 KBL issued a Prospectus (and a second Replacement Prospectus) for a combined rights issue to existing shareholders and a public share offer to raise up to A\$15m, through the issue of up to 75 million new shares at an issue price of A\$0.20 per share.

The Henan Yuguang proposal was announced in April 2010.

The share offer raised A\$11.3m (net A\$10.4m after issue costs), and KBL was duly listed on the ASX on 25 February 2010. Since listing KBL's focus has been on continued resource drilling at the Mineral Hill project.

In April 2010 KBL announced a proposed Strategic Cooperation Agreement with China's largest lead producer, which is detailed elsewhere in this Report.

Mineral Hill Mine (NSW) (100%)

The Mineral Hill mine is located in the northern part of the Lachlan Fold Belt in central-western New South Wales, approximately 60km from the town of Condobolin. KBL's tenement holdings in this area total 49 km² – 17 granted mining leases and one exploration licence.

Triako was operating Mineral Hill from 1989 to 2005 as a base metals mining and processing operation.

The Mineral Hill mine and tenements were acquired by CBH Resources Limited in its takeover of Triako Resources Limited ("Triako") in 2006. Triako built the existing 200ktpa concentrator in 1989 and operated the mine as a copper/gold operation (producing copper concentrates containing gold and also gold bullion) from 1989 to 2005, when Triako ceased operations due to low metal prices at the time and a lack of high grade underground reserves. The plant has been on care and maintenance since 2005.

Existing 200ktpa plant has dual circuits to treat both gold and base metals ore bodies.

The Mineral Hill processing plant has dual circuits - a flotation circuit and a carbon-in-leach ("CIL") circuit, which enabled Triako to produce separate copper/gold concentrates (flotation circuit) and gold bullion (CIL circuit). The processing plant provides a quick route to production – initially gold/silver, then base metals.

The Mineral Hill 200ktpa dual circuit processing plant

The plant can be readily re-commissioned for gold and silver production.

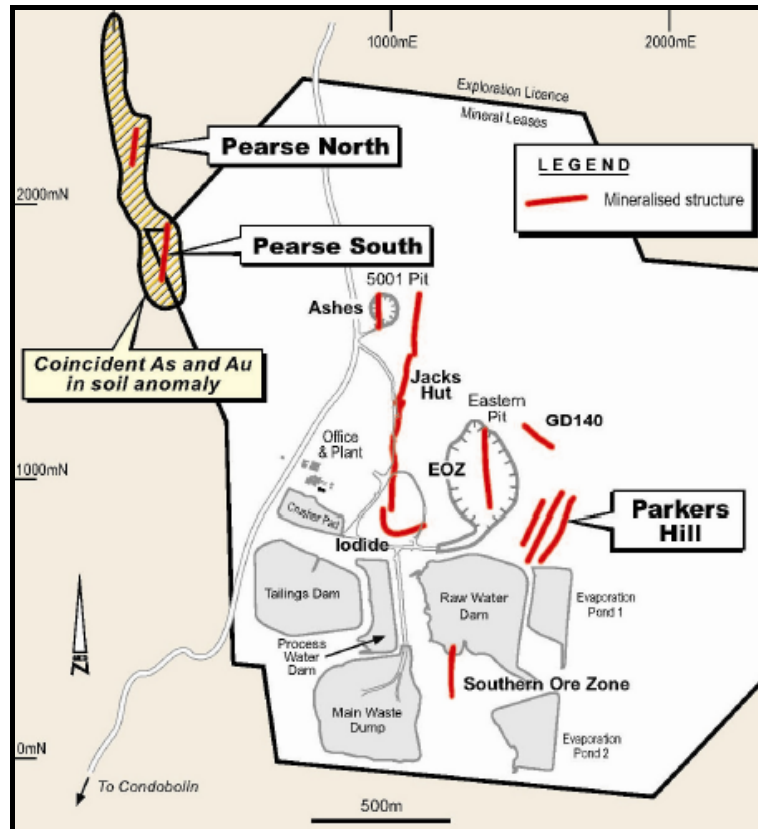


Source: Kimberley Metals Ltd

Two ore bodies being considered for commercial development – Pearse (gold/silver) and Parkers Hill (copper/lead/zinc/silver).

Map showing Pearse South gold resource and Parkers Hill base metals resource, within vicinity of existing Mineral Hill 200ktpa concentrator

The newly discovered Pearse South and Pearse North gold/silver ore bodies are in close proximity to the Mineral Hill treatment plant.



Source: Kimberley Metals Ltd

Pearse South Gold Resource

The recently discovered Pearse South gold/silver resource is located only 1km north of existing Mineral Hill plant. Triako had previously only conducted limited exploration in this area. In 2009 KBL conducted pre IPO drilling (1,600m RC program on 25m centres) which resulted in the discovery of the Pearse South gold/silver lode structure within an 800m north-south trending gold and arsenic soil anomaly. At that stage KBL confirmed an inferred resource of 281kt grading 7.3g/t Au and 83g/t Ag containing 66koz Au and 750koz Ag.

The recently discovered Pearse South Gold Resource (6.5g/t Au) is very high grade for a shallow open pitable gold resource.

The relatively high grade gold/silver mineralisation is within 100m of the surface (the bulk of it is no deeper than 70m) and appears to be readily mineable by open cut methods. The mineralisation is open down dip and down plunge – which suggests that there is likely to be further gold mineralisation in this structure.

Since listing in February KBL has conducted an infill and step-out drilling campaign (4,000m RC, 2,100m DDH) to upgrade the resource (drilling on 12.5m centres) and to provide core samples for further metallurgical testing. The infill drilling intercepted further high grade gold and silver mineralisation including a 'headline' intercept of 23.0m @ 21.1g/t Au and 80.0g/t Ag.

Pearse South upgraded gold/silver resource

Total Measured and Indicated resource 62koz Au (74koz Au-Equiv. after allowing for Ag credits).

~80% of the resource is now in the measured category.

Code for reporting mineral resources - Australian: JORC									
Gold & Silver	Classification	Project Equity	Ore kt	Au g/t	Ag g/t	c/off Au g/t	Au koz	Ag koz	Au Eqty koz
Reserves									
No reserves established to date									
Total			0.0	0.0	0.0	0.0	0	0	0.0
Resources									
Pearse South - Oxide	Meas. + Indicated	100%	54.0	5.8	16.0	1.0	10	28	10
Pearse South - Sulphide	Meas. + Indicated	100%	243.0	6.6	94.0	2.0	52	734	52
Total Resources			298.0	6.5	80.0	0.3	62	762	62

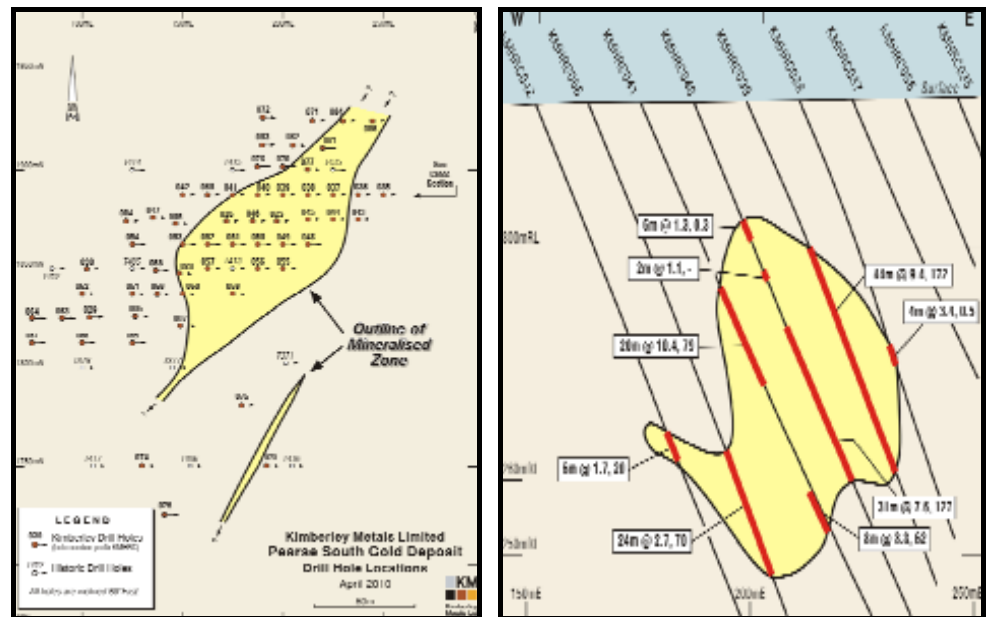
Source: Kimberley Metals Ltd – March 2010 Quarterly Activities Report

The upgrading of the previous Inferred JORC resource has resulted in approximately 80% of the contained gold and silver now being in the Measured Resource category. This suggests a high rate of conversion of resources to mineable reserves.

The graphics below show a plan of the Pearse South resource (with drill hole location) after the recent resource drilling undertaken, and an East-West cross section through the central section of the deposit.

Pearse South resource drilling

Highest gold grades are near surface – indicates strong cash flow generation in year one.



Source: Kimberley Metals Ltd

Interestingly, the highest grades are in the shallower section of resource – initial mining in year one could be treating higher-grade ore, although we have not assumed this in our modelling. This is very positive for cash flow generation from this resource. Mineralisation is open down dip and down plunge. Further exploration drilling is likely to define additional gold mineralisation.

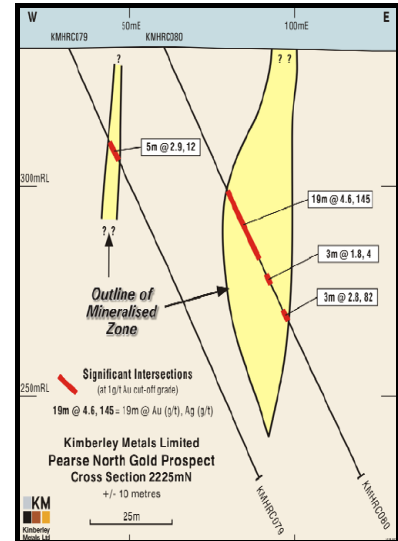
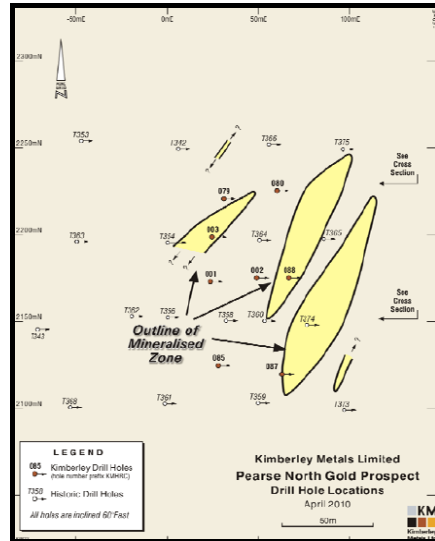
Pearse North Target

Further mineralised zones have been identified nearby at Pearse North.

The limited RC drilling to date at the Pearse North target has identified further gold/silver mineralisation in the form of a series of steeply dipping lenses. The mineralised zones are not deep – most significant intercepts have been above 70m vertical depth. An intercept of 19m @ 4.6 g/t Au and 145 g/t Ag from 39m has been reported.

Pearse North targets

There is demonstrated potential to define additional shallow open pittable gold/silver resources at Pearse North.



Source: Kimberley Metals Ltd

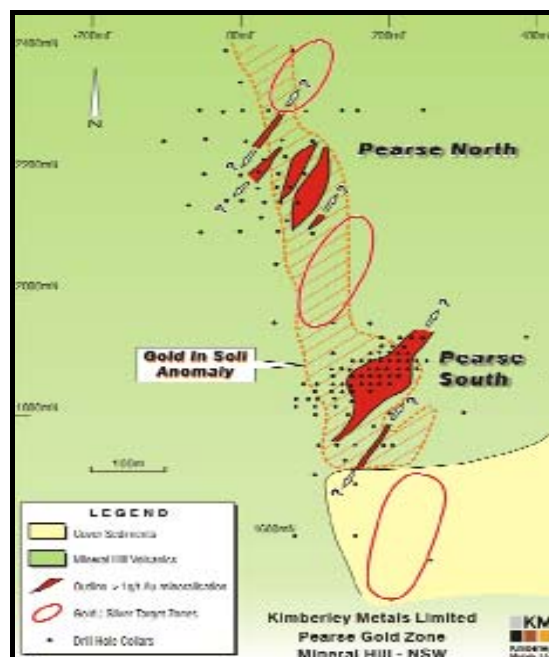
This drilling indicates that there is potential to define additional relatively shallow gold/silver resources at Pearse North, amenable to open cut mining. KBL is following up on this potential with further resource definition drilling being undertaken at Pearse North in the current (June 2010) quarter. We would anticipate an initial JORC resource statement for Pearse North in the September 2010 quarter.

Additional Pearse Gold/Silver Target Zones

The Pearse South and Pearse North mineralised zones are located on an 800m long gold in soil anomaly that has not yet been fully tested. As shown on the map below, three other undrilled target zones have been identified by KBL for further drilling. We anticipate that KBL will undertake initial drilling programs on these further targets in the next 12 months with a view to extending the high grade mineralisation in the Pearse structure

Pearse gold in soil anomaly showing three further undrilled target zones

In the next 12 months KBL will undertake drilling on three additional gold/silver targets on the Pearse trend adjacent to Pearse North and Pearse South.



Mineral Hill Production Gold/Silver Strategy

Production should start within 12 months – minimum 2 year life (likely to be extended).

Capex of only ~A\$4.5m required to restart the plant.

Ore treatment likely to be at 200ktpa – relatively soft ore.

Production will be ~30kozpa Au (~35kozpa Au-Equiv. with Ag credits).

Cash costs are projected to be below US\$420/oz.

We have conservatively assumed LOM 340kt ore treated to produce 71koz gold equivalent...

...and total gross LOM cashflow of AS\$36m from just A\$4.5m capex.

KBL is aiming to commence gold and silver production from the Pearse South ore body within approximately 12 months, i.e. during the June quarter of 2011. This will involve an open cut mining operation to around 70m depth at Pearse South, which would recover ~80% of the current resource, followed by a short decline from the pit base to recover the remainder.

We believe that the Mineral Hill concentrator could be re-commissioned for around A\$4.5m capex, with the circuit configured initially for treatment of the high grade Pearse South gold resource.

The projected ore treatment rate will be ~200ktpa based on the indication that the ore is relatively soft. The bulk of the ore (sulphide ore) will be treated through the CIL circuit (to remove ~50% of the gold) then through the flotation circuit at the Mineral Hill plant, to produce a gold/silver concentrate, which would be on-sold to a concentrate processor. The lesser oxide component of the ore could be treated through the CIL circuit to produce gold/silver bullion.

RCR production projections for Pearse South

ASSUMPTIONS						
	2009F	2010F	2011F	2012F	2014F	2013F
A\$/US\$	0.75	0.88	0.83	0.80	0.80	0.80
Gold Price (US\$/oz)	886	1,089	1,079	1,022	976	932
Silver Price (US\$/oz)	12.87	16.08	11.80	11.33	11.62	11.90

PRODUCTION STATISTICS						
Mineral Hill Gold Project						
	100%					
Year ended 30 June:	2009a	2010F	2011F	2012F	2013F	2014F
Ore Treated (mt)	0.0	0.0	10.0	180.0	150.0	0.0
Gold Head Grade (%)	na	na	6.5	6.5	6.5	6.5
Recovery (%)	na	na	95%	95%	95%	95%
Total Gold Produced (koz) *	0.0	0.0	1.8	32.7	27.3	0.0
Total Silver Produced (koz) *	0.0	0.0	18.2	327.3	272.8	0.1
Total Gold Equivalent (koz) **	0.0	0.0	2.1	37.7	31.5	0.0
Cash Costs (US\$/oz) ^	na	na	368.25	416.47	417.86	0.00

* Total saleable gold and silver contained in concentrates for sulphide ore treatment.

** Gold Equivalent is based on current spot price ratio: (Au US\$1,220/oz; Ag US\$18.40/oz)

^ Cash costs include concentrate treatment and transport costs, excludes royalties.

In our projections we have assumed the current Measured and Indicated Resource is converted to a mineable reserve, plus a modest additional 40kt of mineable resource is established from the possible Pearse South extensions, Pearse North mineralisation and other targets exploration potential. This implies a total of 340kt of ore treated to produce a total of 62koz of gold (71koz Au equivalent with Ag credits) over a period of just under two years.

The modelling indicated forecast gross cashflow of A\$36m after cash costs will be generated. These assumptions could well be conservative based on the exploration potential to find more gold.

Parkers Hill Polymetallic Deposit

Extensive previous drilling by Triako has defined a significant base metals/silver ore body to approximately 130m depth. This resource is east of the previously mined Eastern Ore Zone (see map page 14).

Parkers Hill Polymetallic resource – including the 0.7mt high grade zones

Well defined Parkers Hill Polymetallic resource, low capital to develop, can be treated after gold ore treatment...

...meaning a further potential 4-5 years of base metals production.

The high grade component is 710kt.

Parkers Hill is envisaged as a low capex. underground operation – extensive mine development has already been undertaken.

Code for reporting mineral resources - Australian: JORC

Ore Type	Classification	Project Equity	Ore Mt	Cu %	Pb %	Zn %	Ag g/t
Parkers Hill Global Resource							
Sulphide	Measured + Indicated	100%	1.90	1.3	1.2	1.4	30
Oxide	Measured + Indicated	100%	3.30	0.6	0.2		61
Total Global			5.20	0.9	0.6	0.5	49.7

Parkers Hill High Grade Resource *

Sulphide	Measured + Indicated	100%	0.55	2.9	1.7	1.7	61
Oxide	Measured + Indicated	100%	0.16	1.2	4.7		208
Total High Grade			0.71	2.5	2.4	1.3	94.1

Note: More than 90% of quoted resources are in the Indicated category

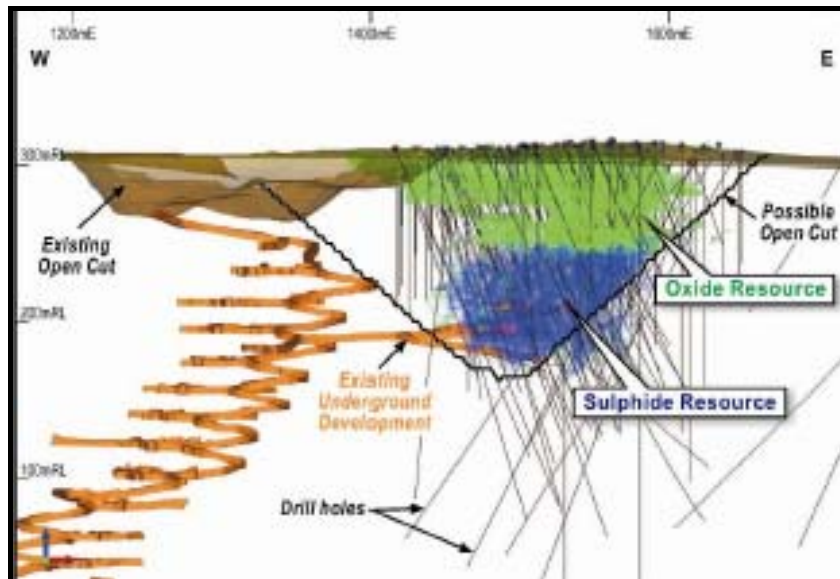
Cut-off grades are based on >2% combined base metals and/or >100g/t silver

* High grade resources are a component of global resources

Source: Kimberley Metals Ltd – March 2010 Quarterly Activities Report

Extensive existing underground development in the previously mined Eastern Ore Zone will support further exploration and potential future production in the southern extensions of the existing workings with minimal development capital expenditure.

The shallower oxide component of the resource is lead/silver dominant, while the deeper primary ore (sulphide) is copper/zinc dominant in terms of contained metal value.



Source: Kimberley Metals Ltd

Parkers Hill underground operation will be low cost and not highly capital intensive – extensive mine development has already been completed. KBL has undertaken scoping studies on a re-start of this operation. The metallurgy is well known from previous operations.

Parkers Hill polymetallic ore treatment could commence in 2H13 after gold/silver production ceases.

Entire 3mt Parkers Hill resource could potentially be incorporated into a single open pit operation?

Feasibility study to be completed in next 12 months.

A start up of the Parkers Hill base metals operation with ore treatment through the existing Mineral Hill plant (at ~150ktpa) could take place after the completion of the Pearse South gold silver operations, utilising the same mill. Based on current Pearse South resources and schedules, this would be in 2H13, but could be later if further gold/silver ore resources and reserves are established at Pearse South or Pearse North.

The most likely production strategy is the initial development of a small open cut operation to access high grade oxide zone (160kt) then re-establishment of underground operations to access the existing high grade sulphide resource (550kt). This would give a 4-5 year mine life and cash flow, without any further increase in resource size.

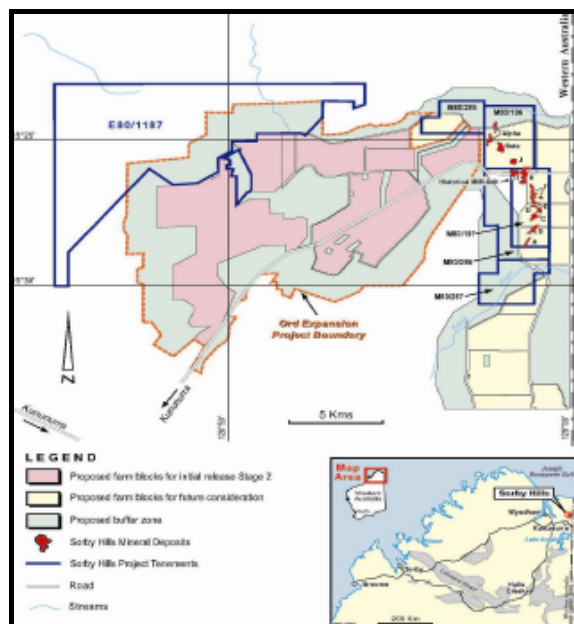
There is the possibility of developing a large open cut operation (to~150m depth – as indicated on the cross section graphic above) to take in the full 5mt resource – this would involve an upgrade of the concentrator to ~400ktpa. This would probably require sustained metal prices above current levels.

KBL is currently conducting further metallurgical testwork and is expected to undertake a feasibility study on this brownfields development in the next 12 months.

Sorby Hills Lead-Silver Project (WA) (100%)

The Sorby Hills Project is located in the northeast Kimberley region of Western Australia, approximately 50km by road from the regional centre of Kununurra, and 170km from the export port of Wyndham.

Sorby Hills tenements location map



Source: Kimberley Metals Ltd

Sorby Hills Pb-Ag project is KBL's flagship asset.

Henan Yuguang has been attracted by 1.2mt Pb-Equiv., gross in-ground value of A\$2.5 billion.

This is the project with the greatest potential and the likely longer term "company-maker". The scale of this project (1.23mt Pb-Equiv. with an in-ground value of A\$2.5 billion based on resources outlined to date), and the relatively high lead and silver grades, are what has attracted

Henan Yuguang, China's biggest refined lead producer, to seek a joint venture interest in this project.

Sorby Hills is predominantly a lead resource with silver and zinc by product credits. It is a classic Mississippi Valley Type near-surface carbonate-hosted lead resource.

Sorby Hills was discovered nearly 40 years ago.

The Sorby Hills deposit has been known about for nearly 40 years. It was discovered in 1971 by Aquitaine Australia Minerals Limited ("Aquitaine"). It was extensively drilled by the previous operators in the 1970's - over 800 holes were drilled, typically over 50m spacings. The resource risk is considered low due to the extensive past drilling.

Extensively drilled and metallurgy proven through previous PFS work in the 1970's and 80's.

Aquitaine and its then joint venture partner, MIM (now Xstrata), undertook extensive project evaluations and metallurgical testwork leading to a pre feasibility study ("PFS") being completed in 1980. The project was subsequently dropped by MIM after metal prices plunged in the late 1980's.

The metallurgy was been extensively tested in PFS. This confirmed that the metallurgy is simple and high recoveries can be achieved with conventional sulphide flotation processing. The PFS work concluded that a 65% lead concentrate with metallurgical recoveries of 90% for lead and 87% for silver could be produced with a fairly coarse grind of 80% passing 75 microns. The work index was reportedly quite low at 7.5. Therefore, overall, it appears that the metallurgy presents little challenge to KBL.

The most recent exploration drilling was undertaken by KBL's parent CBH in 2008. This 29 hole program resulted in a revised Inferred Resource statement for Sorby Hills.

Sorby Hills lead-silver Inferred Resource

16.9mt Inferred resource at 4.6% Pb and 56g/t Ag.

Code for reporting mineral resources - Australian: JORC

Ore Type	Classification	Project Equity	Ore Mt	Pb %	Zn %	Ag g/t
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Sorby Hills

Sulphide	Inferred	100%	16.90	4.6	0.7	56
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Cut-off grade is 2.5% Zn

Source: Kimberley Metals Ltd

Amenable to low cost, shallow open pit mining.

Importantly, the resource is amenable to open pit mining (unlike most current proposed lead/zinc/silver development projects in Australia, which will require underground mining). The resource is contained in six separate mineralised pods that would be mined sequentially in six discrete relatively shallow (maximum depth ~100m) open pits. LOM strip ratio is ~6:1. The approximately 30m of overburden is free digging.

Mining leases are granted.

Also of significance is the fact that the resource is contained in granted mining leases ("ML's"). The ML's were recently renewed by the West Australian Government.

Six shallow open pits are proposed for Sorby Hills over a ~5km strike length

The mine plan is for six shallow pits.

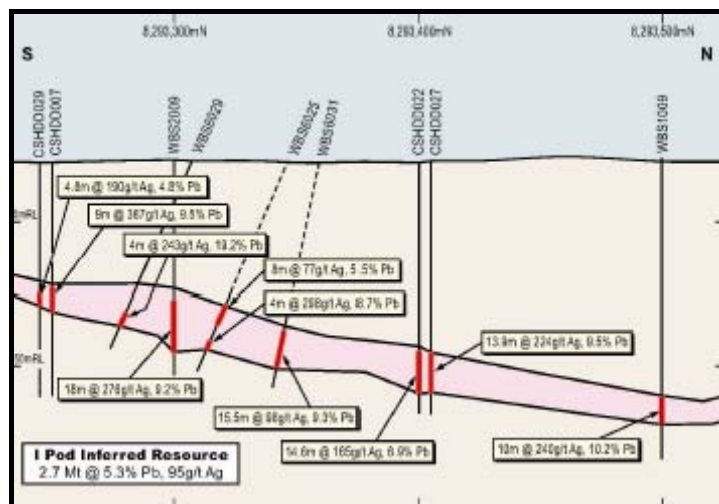


Source: Kimberley Metals Ltd

Initial mine production is likely to focus on higher grade 'I' pod, with an Inferred Resource 2.7mt @ 5.3%Pb, 95g/t Ag. The diagram below indicates the depth and typical width of this mineralisation.

Cross section of "I" Pod mineralisation

Higher grade I Pod (5.3% Pb, 95g/t Ag) is likely to be the initial mining focus.



Source: Kimberley Metals Ltd

Two Challenges for Sorby Hills

High groundwater ingress rates challenged previous operators.

High water table ingress rates were encountered in previous exploration work. Significant groundwater inflows effectively frustrated a previous attempt by Aquitaine and MIM to develop a decline into the area of the I pod. This is an additional technical and operating cost/capital cost challenge for the Sorby Hills project, however, KBL management has expressed confidence that this issue can be overcome – it is a pumping

Groundwater pumping could add up to A\$10/t to costs?

capacity issue, which is likely to decrease over time as water ingress rates decrease. Initial required water pumping rates could be up to 50,000m³/day, so an effective dewatering system will have an impact on the overall capital and operating costs of developing a mine at Sorby Hills. A ballpark indication is that dewatering to that level could increase operating costs by up to ~A\$10/tonne of ore, which would be a significant cost demand that would counter Sorby Hills project attributes of relatively shallow open pittable resource, free digging overburden and simple metallurgy.

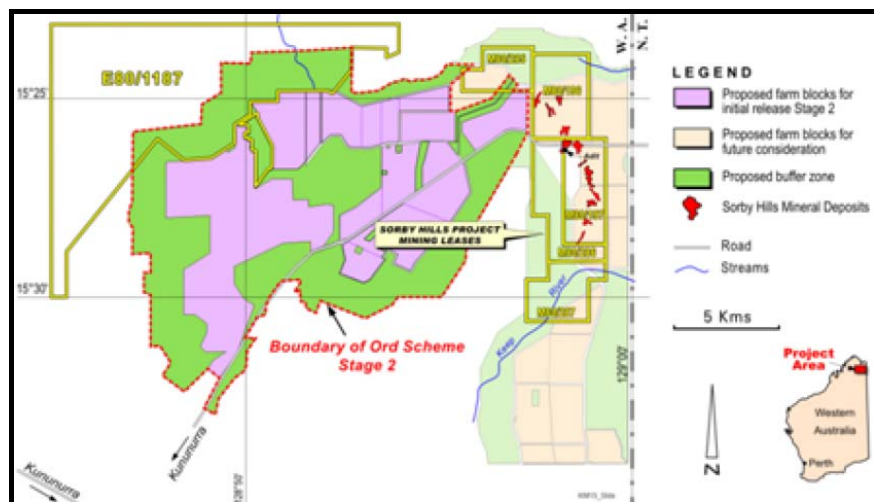
Environmental issues will need to be managed.

The second 'unique' challenge for Sorby Hills is environmental. Lead mineral production has been controversial in WA since the Magellan Metals lead pollution incident at the Esperance export port. However, lead concentrate transport from Magellan's mine has now been resolved with improved procedures with export through Fremantle port, and production has been resumed.

KBL will need to manage environmental issues carefully due to the proximity of the project to the proposed Ord River Irrigation Scheme expansion, which is a major irrigation project designed to open up new areas of black soil commercial agricultural land in the Kimberleys. As shown on the map below, the boundary of the Ord River Scheme Stage 2 (now being implemented) abuts the KBL Sorby Hills tenement boundaries.

Location of Sorby Hills tenements relative to Ord River Expansion Scheme Stage 2

The Sorby Hills tenements are adjacent to the proposed Ord River Irrigation Scheme Stage 2 expansion.



Source: Kimberley Metals Ltd

The State Government has nevertheless expressed support for the project.

However, it is very important to recognise that the WA Government has expressed support for the Sorby Hills project, and has demonstrated that support recently through the approval of the mining leases renewals. It is likely that the Government's interest in having this project proceed is linked to regional employment outcomes. The WA Government has committed ~A\$400m to the Ord Stage 2 development, with a key outcome being an increase in employment opportunities for the local indigenous communities. A future Sorby Hills operation would play a lead role in developing employment opportunities.

Dust control challenges are present with all such projects.

We consider that the environmental issues are not necessarily 'blocking' issues with appropriate operational management procedures, particularly dust control and groundwater containment, which would be a requirement with any lead mining operation. Stockpiling of black soil

overburden and rehabilitation of the mined areas to agricultural land will be required.

Sorby Hills ore is mostly low solubility galena.

Environmental issues are ameliorated by the fact that the majority of the resource (~95%) is sulphide mineralisation (predominantly galena) which exhibits very low solubility. However, a small percentage is oxidised (cerrusite) which is a soluble lead mineral.

Sorby Hills Development Strategy

KBL's immediate focus is resource upgrade drilling and groundwater studies.

In the next six months, KBL is planning to undertake further groundwater studies and infill drilling to upgrade the resource status. The groundwater studies will provide further data on groundwater ingress flow rates. Resource drilling will be undertaken on ~12.5m spacing to upgrade the resource to Measured and Indicated.

With Henan Yuguang's A\$5m JV injection, a BFS could be completed by the end of 2012...

KBL is planning to then complete a bankable feasibility study ("BFS") on an initial ~500ktpa operation, ramping to 1mtpa after 2-3 years.

...potential production by 2H14.

The proposed entry of Henan Yuguang into this project through a 25% farm-in will provide A\$5m of direct project funding which is expected to fully fund the BFS. We anticipate that the BFS will be completed in the second half of 2012. On that basis, and with Henan Yuguang playing a role in project financing, it is possible that the Sorby Hills Project could commence production in the second half of 2014.

Constance Range Iron Ore Project (QLD) (30%, option to 50%)

Little value is placed on the Constance Range iron ore resource, due to its situation relative to a national park, and modest grades.

This project (200km from Burketown on the Gulf of Carpentaria) encompasses iron ore resources that were discovered by BHP in the late 1950's and early 1960's. BHP subsequently shifted its focus to the Pilbara (WA) where higher grade direct shipping ore deposits were developed.

At present KBL's iron ore assets are considered to be marginal assets. Although a substantial Inferred Resource has been established (~236mt at grades of around 53% Fe), this resource would require upgrading to ~60% Fe for commercial viability. BHP undertook testwork on roasting and wet magnetic concentration to achieve this. There is potential for a higher grade (56-58%Fe) direct shipping resource amounting to 20-40mt. However, a significant proportion of the resource (and the bulk of the higher grade zone) lies within a 1 kilometre buffer zone of a National Park. KBL has noted that this resource is unlikely to be considered for development without Queensland Government support in the form of national park buffer zone exemptions.

YEAR END: 30 June

ASSUMPTIONS	2010F	2011F	2012F	2013F
A\$/US\$	0.88	0.83	0.80	0.80
Gold Price (US\$/oz)	1,089	1,079	1,022	976
Silver Price (US\$/oz)	16.08	11.80	11.33	11.62

EQUITY PRODUCTION

Mineral Hill Production (koz Ag)	0.0	1.8	32.7	27.3
Mineral Hill Production (koz Au)	0.0	18.2	327.3	272.8
Gold-Equiv. Production (koz Au)	0.0	2.1	37.7	31.5

PROFIT AND LOSS (A\$m)

Revenues	0.2	2.8	43.1	35.2
Operating costs	0.0	-1.1	-21.8	-18.2
Depreciation/amortization	0.0	0.0	0.0	0.0
Exploration Expensed	0.0	0.0	0.0	0.0
Corporate	-1.7	-2.0	-2.0	-2.0
Other (incl. Royalties)	0.0	-0.1	-1.9	-1.5
EBIT	-1.5	-0.4	17.5	13.5
Interest	0.1	0.2	0.1	0.1
Operating profit/loss	-1.6	-0.6	17.3	13.5
Tax	0.0	0.0	-4.4	-4.1
Minorities	0.0	0.0	0.0	0.0
Net profit/loss	-1.6	-0.6	12.9	9.4
Net abnormal/extraordinaries	0.0	0.0	0.0	0.0
Net profit/loss (reported)	-1.6	-0.6	12.9	9.4

BALANCE SHEET (A\$m)

Cash and deposits	7.5	6.3	21.5	26.8
Total current assets	7.5	6.3	21.5	26.8
PP&E	0.9	5.4	6.1	6.7
Exploration & Dev't	25.8	31.5	33.5	35.0
Total non-current assets	27.5	37.8	40.6	42.7
Total assets	35.1	44.1	62.0	69.5
Total current liabilities	0.0	0.6	2.7	0.1
Reclamation reserves	0.6	0.6	0.6	0.6
Long term debt	3.6	2.6	1.3	0.6
Total non-current liabilities	7.8	5.8	3.2	1.9
Total liabilities	7.9	6.4	5.9	2.0
Equity	27.2	37.7	56.1	67.5
Total debt	3.6	2.6	1.3	0.6
Net debt	-3.9	-3.7	-20.2	-26.2
Average shares (fully diluted) (m)	123.7	144.5	144.5	144.5

FLOW OF FUNDS (A\$m)

EBITDA	-1.5	-0.4	17.5	13.5
Cash flow from operating activities				
Operating surplus	0.0	1.3	20.7	15.7
Corporate	-1.7	-2.0	-2.0	-2.0
Net borrowing cost	-0.3	-0.7	-0.8	-1.4
Net tax paid	0.0	0.0	-3.4	-4.9
Net exploration paid	-1.3	-2.0	-2.0	-1.5
Other non cash items	1.5	3.4	3.2	1.6
Net cash from operating activities	-1.8	0.0	15.8	7.5
Cash flow from investing activities				
Capital expenditure	0.0	-4.5	-0.8	-0.6
Asset Sales & Other	-1.3	-2.0	-2.0	-1.5
Net cash from investing activities	-1.3	-6.5	-2.8	-2.1
Cash flow from financing activities				
Net proceeds from issue of shares	16.5	5.2	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Net proceeds from borrowings	-2.0	0.0	0.0	0.0
Net cash from financing activities	14.5	5.2	0.0	0.0
Net change in cash	11.5	-1.3	13.0	5.4

FINANCIAL RATIOS	Year			
	2010F	2011F	2012F	2013F
Net debt/equity (%)	-33%	-31%	-167%	-217%
Net debt/ net debt + equity (%)	-48%	-44%	249%	186%
Current ratio (x)	173.4	10.8	36.8	46.0
EBIT/interest (x)	-24.0	-1.5	138.1	266.9
Debt/operating cashflow (%)	na	7707%	8%	8%
Exploration/total overhead (%)	0%	0%	0%	0%
EV/EBITDA (x)	-8.8	-36.9	0.8	1.0
Market cap/net cash (x)	3.1	3.3	0.6	0.5
Market cap/book (x)	0.4	0.3	0.2	0.2

FINANCIAL SENSITIVITIES

% Change in EPS for a 10% increase in:

AUD/USD		-26%	-15%
Gold price		25%	21%

Note: forecasts assume that the proposed Henan Yuguang transaction proceeds. Only initial gold/silver production from the Mineral Hill Gold Project has been modelled. Base metals projects are less advanced.

Disclosure and Disclaimer

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