

6 June 2011  
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MPS has a price target of A\$1.23 per share by end 2012

### Capital structure @ 6 June 2011

ASX Code	KBL
Share Price	A\$0.34
Market Cap (@34cps)	\$63m
Cash	\$12**
Ordinary Shares	185.4m*
Unlisted Options	2.4m

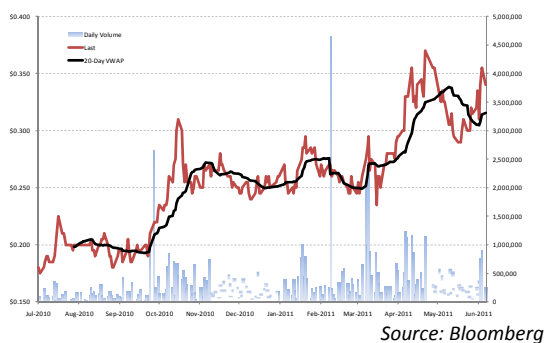
\* Includes 24.4 million shares escrowed until 25 February 2012

\*\* Includes Sorby Hills Joint Venture cash as at 31 March 2011

### Directors & Management

Jim Wall	Exec Chairman
Bob Besley	Exec Director
Rob McDonald	Non Exec Director
John Richards	Non Exec Director
Stephen Lonergan	Exec Director / Coy Sec
Stuart Mathews	Chief Operating Officer

### 12 month share price since IPO



### Key Points

- Reactivation of Mineral Hill Mine (Au-Cu-Ag-Pb) in Lachlan Fold Belt NSW
- Mineral Hill processing plant upgrade to 250,000tpa from Aug 2011
- A\$80mpa gross revenue and >A\$700m gross IGV\*pre-capital and op costs
- Development of 3 carbonate Pb-Ag MVT\*\* deposits at Sorby Hills, in Bonaparte Basin WA
- Over 50mt gross ore in these 3 Pb-Ag Projects
- KBL's total gross contained silver is over 44moz
- Over A\$12m cash on hand to fund projects
- Prominent Chinese lead producer HYG&L holds 11% of KBL
- Management team has excellent development track record

\*IGV - in ground value \*\*MVT - Mississippi Valley Type

Kimberley Metals ('KBL') is developing two suites of assets formerly held by parent CBH Resources ('CBH'). KBL was spun out of CBH in 2008 and listed in 2010. Former CBH Chairman Jim Wall, with over 20 years successful history in mine development, is again creating shareholder value through these two strategic opportunities in **copper, gold, lead, zinc and silver** :-

- 1) the resurrection of the mothballed **Mineral Hill** mine in **NSW** and
- 2) development of 50mt ore project in **three new carbonate-hosted Mississippi Valley Type Pb-Ag resources** in the Bonaparte Basin N of Kununurra WA/NT.

KBL has over A\$12m in cash to complete the reopening of the Mineral Hill operation in July 2011 from the Parkers Hill 1.9% Cu underground mine and, after approvals, the Pearse 6.9g/t Au open cut. The sulphide plant has been refurbished and upgraded to treat up to 250,000tpa and the gold circuit will be refurbished after approvals are in place. Combined cashflows after A\$10m more capex should exceed A\$40mpa and the current NPV is around A\$100m.

KBL's 25% JV partner Henan Yuguang Gold & Lead Co. Ltd ('HYG&L') is China's largest lead producer and has provided A\$5m to fund a DFS on Sorby Hills, which has 18mt near surface Pb-Ag resources. Stage 1 start up in 2013/14 is a proposed 500,000tpa that would produce 24,000tpa Pb and 600koz Ag in concentrates. Stage 2 is planned for late 2015. As a comparison, a similar Kimberley region Pb-Ag-Zn resource was sold by Meridian Minerals to Northwest Nonferrous for \$78m.

Potential is high for additional ore on the Mineral Hill tenements and for upgrades to the resources in the MVT deposits in the Bonaparte Basin.

Table 1 Earnings forecasts

30-Jun	2012	2013	2014	2015	2016
US\$/A\$	1.09	1.10	1.10	1.10	1.10
Gold US\$/oz	1500	1500	1500	1500	1500
Copper US\$/lb	4.08	4.08	4.08	4.08	4.08
Ore milled	175,000	245,000	600,000	750,000	1,250,000
Contained Cu (t)	4,560	4,750	3,420	2,660	1,900
Contained Au (oz)	2,701	22,016	24,120	22,900	13,717
Contained Ag (koz)	219	396	902	1,117	1,885
Contained Pb(t)	1,663	2,280	16,260	23,975	39,450
Contained Zn(t)	1,663	2,280	5,934	10,614	13,250
Gross Revenue A\$m	46	83	120	138	164
Pretax	12	32	37	46	38
NPAT	12	32	26	32	26
EPS	0.07	0.14	0.11	0.14	0.12
CFPS	0.08	0.16	0.18	0.22	0.18
PER X	4.7	2.2	2.7	2.2	2.7
PCFR X	3.7	2.0	1.7	1.4	1.7
Shares	185.4	225	225	225	225

Note: Number of shares based on assumption of a 40m share issue at some stage in 2012/13

Kimberley Metals spun out of CBH in May 2008....

.....listed in Feb 2010

Mineral Hill history of 360,000oz Au and 20,000oz Ag

Sorby Hill has carbonate hosted MVT (Mississippi Valley Type) lead silver deposits

Potential iron ore project

## 1.0 Kimberley Metals - in Profile

Kimberley Metals Ltd ('KBL') was spun out of CBH Resources ('CBH') in May 2008 as an unlisted public company with three assets being Mineral Hill and Sorby Hills (acquired from Triako by CBH in 2006) and the Constance Range iron ore project. KBL was listed on ASX in Feb 2010 after an A\$11.3m IPO.

### Lachlan Fold Belt - Mineral Hill Operation (100% KBL)

**Mineral Hill** was established in 1989 by Triako on gold and copper resources in the Lachlan Fold Belt about 65km N of Condobolin in NSW. Triako mined >2.1mt of ore from five sources and averaging 6.5g/t gold and 1.14% copper. Over 360,000oz Au and over 20,000t Cu were recovered before the mine closed in 2005 during which time metals prices were 70% lower than current. The 250ktpa mill has two separate circuits that allowed gold production via carbon in leach (CIL) and flotation of Cu/Au sulphide ores to produce a copper concentrate.

Mineral Hill has gross ore resources of 2.4mt Cu-Pb-Zn-Ag-Au at the underground Parkers Hill and 0.3mt@6.5g/t Au + 80g/t Ag at Pearse open cut.

Mineral Hill has 17 Mining Leases covering about 5km<sup>2</sup> and the surrounding EL1999 covers more than 40km<sup>2</sup>. Exploration targets have been identified.

KBL has expended about A\$8m in refurbishing and increasing the capacity of the mill and will spend a further A\$3m to complete the development for Parkers Hill and subsequently another A\$4m for the Pearse gold mine.

### Bonaparte Basin Carbonate-hosted Mississippi Pb-Zn-Ag Projects

#### Sorby Hills Project(100% KBL; HYG&L earning 25% by funding A\$5m BFS)

Discovered in the 1970s by Aquitane (a related precursor to Triako) with additional work by MIM in the 1980s, the resource is a Mississippi Valley Type('MVT') 18mt shallow lead-silver-zinc sulphide hosted in carbonates and is located about 50km by road from Kununurra and just outside the Ord River. The project has 5 Mining Leases covering about 35km<sup>2</sup> and containing numerous pods of mineralization extending for more than 8km and about 1km wide. Over 800 drill holes were used in delineating the Inferred Resource of 18mt @5.1% Pb+Zn and 53g/tAg. A PreFeasibility Study by Aquitane/MIM showed good metal recoveries in mining and processing. A 0.5mtpa mine could produce a gross ~24,000tpa Pb in concentrate with 0.6mozpa Ag.

#### Manbarrum Project (51% KBL earning 80%....)

KBL has recently entered into a farm-in with TNG Resources to develop 34mt of low grade MVT resources at Sandy Creek(22.9mt @ 1.8% Zn, 0.5% Pb and 4.6g/tAg) and Djibitgun (9.5mt @20.2g/tAg). The deposits to date are lower grade than Sorby Hills but have good exploration potential.

### Constance Range (KBL 30%)

KBL has an interest in 296mt 53%Fe iron ore in NW Queensland suitable for export and within 160km of an export port. Part of the deposit is within a National Park which restrains development and makes the project uncertain.

Fig 1 Kimberley Metals Projects



Source: Kimberley Metals Ltd

## 2.0 Investment Review

KBL is a very attractive new mining company with ample cash, near term cashflow and potential for medium term asset growth through expansion of resources and through potential future production from new projects.

Management is very experienced and has a proven track record in developing modest scale mining and processing operations in Australia and overseas.

Expectations for at least 8 years at Mineral Hill...  
..and ten years at Sorby Hills

The company has developed a two prong strategy in base and precious metals:-

- 1) the attractive Lachlan Fold Belt in NSW through reopening of the Mineral Hill poly metallic mine and related exploration and
- 2) through acquisition/development of an important MVT carbonate hosted Pb-Zn-Ag province in the Bonaparte Basin north of Kununurra.

Developing MVT carbonate-hosted lead-zinc-silver mines

Mineral Hill offers near term production and cash flow from the reopening of operations through the treatment of existing underground polymetallic Cu-Au-Ag-Zn-Pb sulphide ore resources and open cut gold-silver ore reserves. Longer term potential exists in nearby exploration targets.

Earnings >A\$12mpa in 2012 and >A\$32mpa in 2013

Cashflows are expected to exceed A\$40mpa at current metals prices. Medium term asset growth is likely through development of the resources base of a number of MVP style deposits including the 75% owned Sorby Hills Project from the current 18mt of Indicated and Inferred Resources and from the 34mt in the newly acquired Manbarrum projects. A new 500ktpa mine producing over 24ktpa containing Pb and 0.6mozpa Ag is under consideration.

Commodity prices to rise further as demand exceeds limited future supply

MPS has estimated FY12 NPAT earnings of A\$12m (A\$0.07ps) with A\$32m (A\$0.14ps) in FY13 from Mineral Hill with Sorby Hills potentially adding substantially to earnings in FY15. MPS has a target of A\$1.23 by end 2012.

Total in-ground resources >A\$4bn

Current and anticipated commodity prices are likely to provide upside earnings leverage for production and KBL has resources containing at least 44moz of silver on top of almost 1mt of lead. Combined inground values of KBL's resources before mining dilution, recoveries and capital, financing and operating costs is ~ A\$4bn compared to the current market cap of just A\$63m on 6 June 2011.

Former CBH Chairman Jim Wall has a fine asset base, A\$12m cash and a proven management team to make Kimberley Metals a first class junior mining company with longer term growth prospects. A series of milestones on the two projects is expected over the next year as resources are increased.

***MPS sees a growing revenue base reaching over A\$150mpa from polymetallic products by FY16 as new projects are brought on stream***

**Table 2 Projected Production Summary (KBL's share of gross contained metal)**

30-Jun	2012	2013	2014	2015	2016
Copper (t)	4560	4750	3420	2660	1900
Gold (oz)	2701	22016	24120	22900	13717
Silver (koz)	219	396	902	1117	1885
Lead (t)	1663	2280	5130	9500	9500
Zinc (t)	1663	2280	3135	5225	5700
Gross Revenue (A\$m)	46	83	120	138	164

Source : MPS data - derived from Kimberley Metals

**Table 3 Financial History**

30-Jun	2009	2010	2011e
Assets (\$m)	26.1	34.4	50.0
Capex (\$m)	1.6	2.3	9.0
Cash (\$m)	0.8	7.8	14.0
Shares (m)	60.4	117.5	185.4
Cash/Share	\$ 0.010	\$ 0.066	\$ 0.100

Source: Kimberley Metals Ltd

KBL has focussed on the two major projects with the Constance Range Iron Ore Project as a lower priority opportunity that is currently affected by National Parks and the Queensland State Government Wild Rivers Legislation.

#### Appraised value over A\$225m (A\$1.23/share)

MPS has reviewed KBL's projects and has taken reasonable steps to show that the key operating factors in each project are sufficiently robust to develop financial assessments that are primarily dependent on KBL's management's ability to deliver the projects according to a business plan.

Each of the three main projects (Parkers Hill, Pearse Open Cut and Sorby Hills) has sufficient mineralisation at high enough grades to ensure profitable operation.

None of the projects is likely to become long life operations in excess of ten years, but each has the potential to provide attractive returns based on conservative resource to reserve conversion (generally less than 75%) and each has the potential to provide additional resources that could add significant life and profitability to KBL.

The mix of polymetallic commodities provides challenges in operations and saleable products but it also provides advantages in that copper-lead-zinc-silver-gold products are well known in the market place not only to product buyers but also to the experienced technicians required to run the mines and mills.

#### Operational contributions to EBIT and after tax NPVs are shown for each project

MPS has taken an NPV approach to the development of these projects using current price levels for products and currency. However, MPS believes that current and projected Non-OECD demand for raw materials against a backdrop of insufficient supply will result in much higher commodity prices and a higher A\$.

At the target value of A\$225m KBL would be trading at 8.6x FY2015 EPS and 5.6X operating cashflow

**Consequently MPS expects that the NPVs will be achieved (and probably be exceeded) so that the target valuation of A\$225m should be seen as a base subject to management's ability to deliver the projects in the time frames.**

The Valuation Matrix concept outlined below indicates a projected A\$225m market cap on successful completion of project commissioning.

Table 4 Valuation Matrix

Valuation Matrix	30-Jun	A\$m				2016	Book Value		Appraised Value			
		2012	2013	2014	2015		A\$m	A\$/sh	A\$m	A\$/sh		
Parkers Hill		14	14	11	15	7	14	0.08	38	0.20		
Pearse		0	23	26	24	0	3	0.02	42	0.23		
Exploration Lachlan		-1	-1	-1	-1	-1	2	0.01	6	0.03		
Sorby Hills (75%)		0	0	5	10	29	14	0.08	104	0.56		
Sandy Ck		0	-1	-1	3	6	1	0.01	15	0.08		
Djibitgun		0	-1	-1	2	4	1	0.01	10	0.05		
Exploration Bonaparte		0	-1	-1	-1	-1	0.1	0.00	2	0.01		
Admin		-2	-2	-3	-3	-3	-1	-0.01	-4	-0.02		
Cash/Interest		1	1	2	-4	-4	15	0.08	15	0.08		
Pretax		12	32	37	46	38	49.1	0.26	228	1.23		
Tax		0	0	-11	-14	-11	0	0.00	0	0.00		
Net A\$m		12	32	26	32	26	49.1	0.26	<b>228</b>	1.23		
Cashflow A\$m		15	35	40	49	41						
EPS		0.07	0.14	0.11	0.14	0.12			2013	2014	2015	
CFPS		0.08	0.16	0.18	0.22	0.18			8.6	10.7	8.6	
									PCFR x	7.8	6.9	5.6
Shares		185.4	225	225	225	225						

Source: MPS estimates and forecasts derived from Kimberley Metals data

## **2.1 Risk Analysis**

Kimberley Metals is a new company with mining development assets that have had significant assessment and production histories. The management team is also very experienced in this style of mining and has successfully reopened and reconfigured mining operations with a long term histories.

### **2.1.1 Project Risks**

#### **Licensing issues**

The Mineral Hill Project is the reopening of a mothballed mine with mineralization that became uneconomic to operate during the mid 1900s due to commodity price lows.

Permits are in place for mining, milling and placing mill tailings in an appropriate dam. The Mining Lease was issued in 1988 and has been renewed to cover the proposed operations at Parkers Hill.

The underground mining operations have been approved.

The Pearse Open Cut is awaiting NSW Govt approvals which are expected before end 2011.

The Sorby Hills Project has a Mining Licence which was issued in 1985 and renewed for 21 years from February 2010.

#### **Commodity Risks**

The prices of industrial and precious metals are currently at elevated levels and may not remain high as the world economy is still subject to financial and Acts of Nature risks.

MPS believes that current high commodity prices more accurately reflect the intrinsic values of the metals in terms of uses, especially in more technologically sophisticated applications, and also in terms of their relative rarity and the risks and difficulties in finding and economically recovering metals from their ores. This elevation may be perceived by some to be high but MPS believes that much higher prices are in store over the next several years.

The key to this understanding is the global shift to renewed secular demand growth as Non-OECD countries now consume more metals than the OECD countries do. This secular growth share now overwhelms the paradigm of the 30 years of cyclical demand over 1970-2000.

Future pricing of metals will not be at the marginal cost of production but at the marginal utility of the product! Traditional 'reversion to the mean' investment philosophies will not apply.

The price of these metal commodities will affect the price of the shares in KBL.

#### **Currency Risks**

Commodity Prices are typically priced in US\$ and may have their values affected by movements in the US\$ against its main trading partners. The US\$ has been trading weaker against some of its trading partners for over a decade and the fiscal position of the US Government is still weak. Lower US\$ levels are likely although financial and geopolitical events can influence currency levels.

The A\$ has been very strong against most currencies and has recently made 30 year highs against the US\$. The current resources boom with major investments likely in coal, iron ore and LNG are likely to force the A\$ higher.

Kimberley's projects can be affected by a high A\$/US\$ if a compensating rise in the prices of the products does not take place.

### **Environmental Risks**

Increasing focus on mining operations by environmental groups may result in increased restrictions on operations. The net effect of these restrictions can be to stop a project or increase operating costs.

The Australian Mining Industry has operated successfully within rules and regulations of various governments and their regulatory bodies so experienced managers are aware of the rights and obligations set out in the granting of a Mining Licence.

The proposed ALP Federal Carbon Dioxide Tax may affect the operation of any of Kimberley's projects.

### **Sovereign Risks**

The Australian Constitution recognizes the ownership of minerals is mostly held by the Crown and administered by the State Governments. The Constitution preserves the right of the State to tax production (through royalty mechanisms) but current legislation prevents States from taxing profit. The Commonwealth may tax profits as it sees fit but it can not discriminate between the States by applying different rates of tax on persons or corporate entities and it cannot tax production. (.i.e apply royalties).

The proposed Mining Super Profits Tax seeks to increase the rate of tax on mining operations on certain coal and iron ore mines. This is not yet law.

The tax could also be applied to other minerals and thereby affect the value of a project and the value of the project's sponsor's share price.

### **Resource Risks**

Minerals Resources are established by professional assessment of the contained minerals in a geological body. The determination of these resources is dependent upon the financial environment as well as the grade and extent of the mineralization.

Current high prices have permitted the development of projects that in the past would not have been economic. A fall in those prices could result in the down grading of resources and failure of a project.

### **Financing Risks**

New projects can only be developed if sufficient capital can be found to fund the assessment and construction of the capital items.

The effects of the GFC has been to reduce the availability of both equity and debt for mining projects. However, the mining sector has been starved of capital now for over twenty years so that relatively few new projects have been financed and commodity prices are higher reflecting the shortages.

MPS expects that new players entering the industry will be providing sufficient capital for Kimberley Metals to complete its projects if the economic viability can be shown.

### 3.0 Projects Review

#### 3.1 Mineral Hill

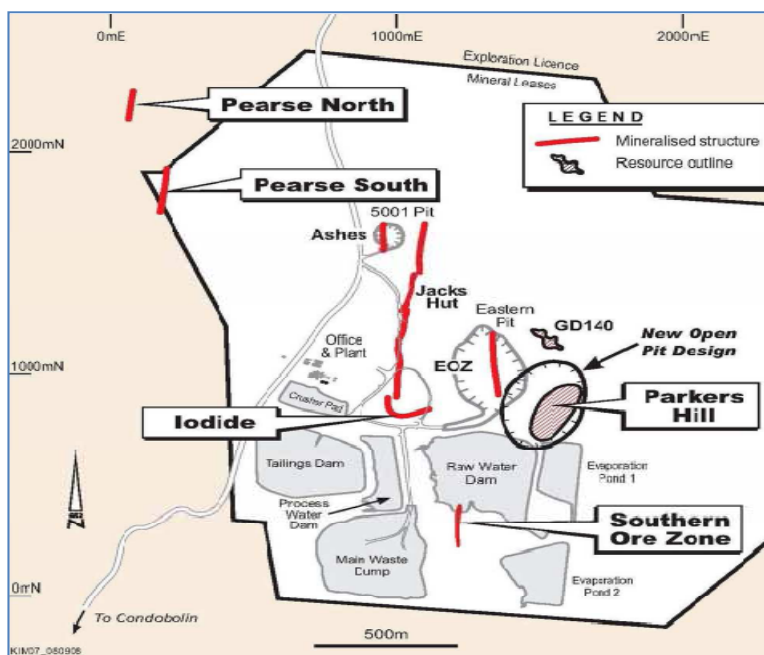
Mineral Hill has 17 Mining Leases within a much larger exploration permit EL1999 that covers 49km<sup>2</sup> in mostly acid volcanics of the in the Mineral Hill Volcanics Group.

The region is well mineralised and is in the northern portion of the Lachlan Fold Belt.

A resource of 2.4mt of polymetallic ore at **Parkers Hill** should provide around 200,000tpa for at least 8 years. A further small resource of high grade gold and silver at **Pearse South** should provide a very profitable income source.

On-lease potential for additional mineralisation is attractive and regional exploration outside the MLs but within EPL 1999 is very good with new mineralisation already identified at Pearse North.

Fig 2 Mineral Hill Project



Source: Kimberley Metals Limited

Modern mining operations commenced at Mineral Hill in 1989. KBL has:

- Existing mining leases
- Mineral resource of copper–lead–zinc–gold–silver

Dual track development at Mineral Hill with sequential development of the Parkers Hill underground copper mine then the Pearse open pit gold/silver mine

Parkers Hill expected to have at least 8 year life

KBL has defined a Probable Mining Reserve of 0.493mt @ 2.17% Cu, 0.85% Pb, 1.06% Zn, 29.4g/t Ag, 0.43g/t Au and a separate 0.343mt @ 1.27% Cu, 1.91% Pb, 1.89% Zn & 49.2g/t Ag

#### 3.1.1 Mineral Hill Mineralisation

The **Parkers Hill** mineralized zones occurs as a series of northerly trending stacked sulphide lenses dipping about 55° west within broader low grades and quartz veins.

The current overall resource is 2.4mt at Parkers Hill and 0.3mt at Pearse South. On lease exploration potential at Southern Ore Zone is attractive.

KBL is expecting about 65% resource to reserve conversion to give at least 8 year life.

The Parkers Hill deposit has a copper-rich western zone accompanied by lead-zinc-silver mineralisation making up 1.2mt @ 1.9% Cu, 1.2%Pb,1.2%Zn and 35g/t Ag. The western side has a high grade Cu pod of 0.55mt @ 2.9% Cu, 1.7% Pb, 1.7%Zn and 61g/t Ag. To the east is Pb-Zn rich ore. The upper zones of the mineralisation are also Pb-Zn rich with an oxidised portion representing a 1.1mt open-cutttable resource with 61g/t Ag and 3.3% Pb with a high grade zone of 145,000t @ 4.9% Pb and 212g/t Ag.

The small **Pearse** gold deposit is well supported by high grade gold intersections with high silver. This open cut deposit should provide very strong cashflow.

Table 5 Mineral Hill Resources

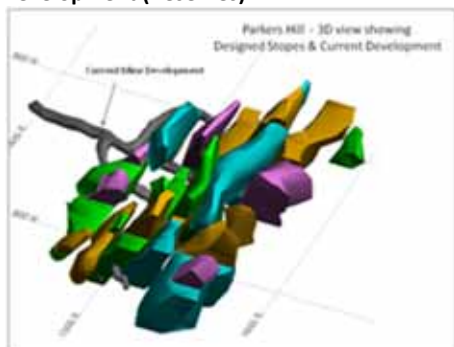
Project	Ore Grades						Contained Metal	
	M Tonnes	Ag g/t	Au g/t	Cu%	Pb%	Zn%	Ag (M oz)	Au (M oz)
Pearse	0.298	80	6.5				0.9	0.062
Parkers Hill Oxide	1.1	61		0.6	3.3	0.4	2.1	
Parkers Hill Sulphide *	1.3	35		1.9	1.2	1.2	1.5	
<b>Total</b>	<b>2.698</b>						<b>4.5</b>	<b>0.062</b>

\*Indicated and Inferred Resources

Source: Kimberley Metals Limited

KBL aims to initially mine the high grade copper zone

Fig 3: Schematic of Design Stopes and Development (Reserves)



Source: Kimberley Metals Limited

At the Pearse deposits KBL has now delineated almost 300,000t as an Indicated and Measured Resource

10 May 2011 KBL announced that the Environmental Impact Statement for the Pearse Silver-Gold open cut project had been completed and lodged. Regulatory Approvals are expected Sept-Oct 2011

### 3.1.2 Mine Development at Parkers Hill

All pre-mining approvals are in place and the first development ore from Parkers Hill is expected in June and first stoped ore should be available by end Sept Qtr.

Previous operator Triako carried out substantial development at Parkers Hill and had extended a decline below the Parkers Hill Open Cut down to 250m vertical depth. KBL has added to development and will soon be ready to begin mining underground ore from stopes already developed on four levels (225, 210, 190 and 180).

KBL has indicated that it will initially mine the high grade copper zone that should produce up to 490,000t at mill head grades of 2.1% Cu and 30g/t Ag but low Pb-Zn. KBL has identified a further 340,000t of high grade Pb-Zn ore with 1.5% Cu and 150g/t Ag to provide another two years ore. From his previous mine experience at the CBH-owned Endeavour mine, the then CBH Chairman Jim Wall introduced a paste plant to enable cemented tailings to refill stope voids and allow high pillar recovery. KBL is likely to use a modified mobile paste unit to achieve the high ore recovery.

Exploration potential for further underground ore is high, particularly in the Southern Ore Zone. Oxide ore would be treated later in the Parkers Hill mine life.

**By selective mining and from exploration data KBL should be able to maintain a flow of around 200,000tpa from Parker's Hill and Southern Ore Zone for > 8 years.**

Table 6 MPS estimate for ore and contained metal from Parkers Hill

	30-Jun	2012	2013	2014	2015	2016
Ore Mined (kt)		175,000	200,000	200,000	200,000	200,000
Ore Milled (kt)		175,000	200,000	200,000	200,000	200,000
Copper (t)		4,560	4,750	3,420	2,660	0
Gold (oz)		2,701	3,086	3,086	3,086	0
Silver (koz)		219	234	215	213	213
Lead (t)		1,663	2,280	5,130	9,500	9,500
Zinc (t)		1,663	2,280	3,135	5,225	5,700

Mining costs are estimated at A\$75-80/t using long hole open stoping.

Source: Kimberly Metals Limited

Table 7 MPS estimate for ore and gross contained metal from Pearse

	30-Jun	2012	2013	2014	2015	2016
Ore Mined (kt)	-	90,000	100,000	100,000	100,000	100,000
Ore Milled (kt)	-	45,000	50,000	50,000	50,000	50,000
Gold (oz)	-	18,930	21,033	19,814	13,717	
Silver (koz)	-	162	180	180	182	

### 3.1.3 Pearse Gold Project

The Pearse deposits are located about 1.5km NW of the Mineral Hill Plant with the main resource established with existing MLs. The deposits are epithermal style and are located within sheared and altered tuffs overlying the Mineral Hill Volcanics.

The Pearse gold project was first identified by Triako. KBL has now delineated ~300,000t as an Indicated and Measured Resource with 6.7g/t Au (60koz contained Au) and 80g/t Ag (2moz contained Ag). Additional ore potential exists down plunge. Drill intersections have exhibited visible gold and included 37.8m @10.8g/t, 52.6m @ 10.4g/t, 44m @ 9.4g/t, 20m @ 10.4g/t, 40.6m @ 8.4g/t and 27m @7.4g/t .

A mining reserve of 235,000t@6.9g/t Au and 73g/t Ag, mostly primary ore, has been established from this resource.

Exploration by KBL has also identified the **Perse North** mineralisation with ore potential suggested by 19m @ 4.6g/t, 5m @ 10.8g/t and 17m @ 4.6g/t. KBL expects that pre mining permitting and the issue of a new ML at Pearse will be achieved in the Dec Qtr of 2011. Metallurgical testwork has identified that the oxidised and transition ore can be treated in the CIL circuit with the primary sulphides treated in flotation and CIL circuits.

To enable Pearse production concurrently with Parkers Hill, the crushing/grinding circuit will be upgraded possibly with the addition of a heavy media separator to enable an additional 100,000tpa from Pearse.

The Pearse Open cut has a prestrip overburden of around 700,000t and an expected strip ratio of 9:1 giving estimated mining costs of A\$40/t (~1gAu) ore to the mill making it a very low cost mine. Ore will be mostly ripped but some blasting is likely.

The Pearse open pit deposits are expected to provide ore in excess of the 300,000t resources so far delineated.



**Fig 4, 5 & 6 The Mineral Hill Plant and Mine Site**



*Source: Kimberley Metals Limited*

**KBL has invested ~A\$8m in refurbishing and increasing the capacity of the mill at Mineral Hill**

- 200,000 tpa facility at Mineral Hill in full refurbishment to 250,000 tpa capacity
- Offices & mine infrastructure in place
- Flotation circuits renewed

**3.1.3 The Mineral Hill Processing Plant**

About A\$7.9m will have been spent by July 2011 refurbishing and upgrading the plant from 200,00tpa to 250,00tpa. New offices and facilities have been constructed.

Primary crushing capacity is well in excess of 500,000tpa (24/7 basis) with secondary crushing having similar capacity. The plant will operate 24 hours a day, 7 days a week on a four panel shift roster. The circuits are capacity restrained at grinding where split into two grinding ball mills of 150,000tpa and 100,000tpa are fed by two fine ore bins.

The flotation circuit has had 20 new cells installed and upgraded pumps.

Site fixed costs are estimated at A\$4mpa and variable costs at A\$25/t for the CIL circuit and A\$45/t for the flotation circuit to give processing costs of A\$30 and A\$50/t.

This project is underway with first ore expected to be processed in September Qtr 2011. The mill has two circuits for treatment of sulphides through normal flotation circuits to produce an initial copper-gold concentrate from Parkers Hill. Later lead-zinc ore from the Parkers Hill underground and also the high grade Pb-Ag silver oxide ore would be treated in the flotation circuit to produce a bulk lead-zinc concentrate.

The mill upgrade is likely to allow treatment of 200,000tpa from Parkers Hill in the first year with ore fed in from the higher grade Cu zone.

After the permitting is in place for Pearse, a new and upgraded CIP circuit will be installed and ore from the open cut is likely to be ready for June Qtr 2012.

KBL is also considering a heavy media unit at the front of the plant to increase the initial ore mined and treated but to limit the tonnage sent through the grinding and flotation sections to the current capacity of the mill.

This course of action will increase ore tonnes and hence reduce unit ore costs for mining for a reduction in metal recovery but it would also result in a higher head grade into the grinding section to again reduce operating costs per tonne of recovered metal for a significant net cost benefit.

**Table 8 Overall metal production and revenue forecast for Minerals Hill**

	30-Jun	2012	2013	2014	2015	2016
<b>Copper (t)</b>		4560	4750	3420	2660	1900
<b>Gold (oz)</b>		2701	22016	24120	22900	13717
<b>Silver (koz)</b>		219	396	902	1117	1885
<b>Lead (t)</b>		1663	2280	5130	9500	9500
<b>Zinc (t)</b>		1663	2280	3135	5225	5700
<b>Gross Revenue (A\$m)</b>		46	83	120	138	164

*Source: Kimberley Metals Limited*

**Table 9 Mineral Hill P&L account**

<b>Mineral Hill</b>		2012		2013		2014		2015		2012		2014		2015		2016	
Gross figures	Dec	June	Dec	June	Dec	June	Dec	June	Dec	June	Dec	June	Dec	June	Dec	June	Dec
US\$/A\$	1.08	1.09	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.09	1.10	1.10	1.10	1.10	1.10	1.10
Gold US\$/oz	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Silver US\$/oz	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
Copper US\$/t	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Copper US\$/lb	4.08	4.08	4.08	4.08	4.08	4.08	4.08	4.08	4.08	4.08	4.08	4.08	4.08	4.08	4.08	4.08	4.08
Zinc US\$/t	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Zinc US\$/lb	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Lead US\$/t	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Lead US\$/lb	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
Ore mined (t)	75,000	100,000	140,000	150,000	150,000	150,000	150,000	150,000	150,000	175,000	290,000	300,000	300,000	300,000	300,000	300,000	300,000
Ore milled (t)	75,000	100,000	120,000	125,000	125,000	125,000	125,000	125,000	125,000	175,000	245,000	250,000	250,000	250,000	250,000	250,000	250,000
<b>Metal Production (t)</b>																	
<b>Parkers Hill</b>																	
Copper	1,995	2,565	2,470	2,280	1,900	1,520	1,425	1,235	4,560	4,750	3,420	2,660	1,900	9,500	9,500	9,500	9,500
Lead	713	950	1,045	1,235	1,330	3,800	4,750	4,750	1,663	2,280	5,130	9,500	9,500	9,500	9,500	9,500	9,500
Zinc	713	950	1,045	1,235	1,235	1,900	2,375	2,850	1,663	2,280	3,135	5,225	5,700	5,700	5,700	5,700	5,700
Gold	1,157	1,543	1,543	1,543	1,543	1,543	1,543	1,543	2,701	3,086	3,086	3,086	0	3,086	3,086	3,086	3,086
Silver	94,036	125,382	121,202	112,844	108,664	106,575	106,575	106,575	219,418	234,046	215,239	213,149	213,149	213,149	213,149	213,149	213,149
<b>Pearse (oz)</b>																	
Gold	0	0	8,413	10,517	10,517	10,517	9,907	9,907	-	18,930	21,033	19,814	13,717	13,717	13,717	13,717	13,717
Silver	0	0	72,014	90,018	90,018	90,018	90,018	90,018	-	162,032	180,035	180,035	182,286	182,286	182,286	182,286	182,286
<b>Total payable metal</b>																	
Copper (t)	1,995	2,565	2,470	2,280	1,900	1,520	1,425	1,235	4,560	4,750	3,420	2,660	1,900	9,500	9,500	9,500	9,500
Lead (t)	713	950	1,045	1,235	1,330	3,800	4,750	4,750	1,663	2,280	5,130	9,500	9,500	9,500	9,500	9,500	9,500
Zinc (t)	713	950	1,045	1,235	1,235	1,900	2,375	2,850	1,663	2,280	3,135	5,225	5,700	5,700	5,700	5,700	5,700
Gold (oz)	1,157	1,543	9,956	12,060	12,060	12,060	11,450	11,450	2,701	22,016	24,120	22,900	13,717	22,900	22,900	22,900	22,900
Silver (oz)	94,036	125,382	193,217	202,861	198,682	196,592	196,592	196,592	219,418	396,078	395,274	393,184	395,435	395,435	395,435	395,435	395,435
<b>Gross Revenue (US\$m)</b>																	
Copper	18	23	22	21	17	14	13	11	41	43	31	24	17	17	17	17	17
Lead	0	0	0	3	3	8	10	10	0	3	11	21	21	21	21	21	21
Zinc	0	0	0	2	2	4	5	5	0	2	6	10	11	11	11	11	11
Gold	2	2	15	18	18	18	17	17	4	33	36	34	20	20	20	20	20
Silver	3	4	7	8	7	7	7	7	8	15	15	14	15	15	15	15	15
Total TC RCs	-1	-1	-1	-2	-2	-2	-2	-3	-4	-4	-4	-5	-5	-5	-5	-5	-5
Total (US\$m)	22	28	43	49	46	49	49	48	50	92	94	98	79	79	79	79	79
<b>Revenue (A\$m)</b>	<b>20</b>	<b>26</b>	<b>39</b>	<b>44</b>	<b>42</b>	<b>44</b>	<b>45</b>	<b>44</b>	<b>46</b>	<b>83</b>	<b>86</b>	<b>89</b>	<b>71</b>	<b>71</b>	<b>71</b>	<b>71</b>	<b>71</b>
<b>Costs</b>																	
Copper Lead																	
Zinc	13	17	18	18	19	19	19	20	30	36	38	39	39	39	39	39	39
Gold/silver	0	0	3	3	3	3	3	4	0	6	7	7	8	8	8	8	8
<b>Total costs</b>	<b>13</b>	<b>17</b>	<b>20</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>23</b>	<b>23</b>	<b>30</b>	<b>42</b>	<b>44</b>	<b>46</b>	<b>47</b>	<b>47</b>	<b>47</b>	<b>47</b>	<b>47</b>
<b>Operating Surplus</b>																	
	<b>7</b>	<b>9</b>	<b>18</b>	<b>23</b>	<b>19</b>	<b>22</b>	<b>22</b>	<b>21</b>	<b>16</b>	<b>41</b>	<b>41</b>	<b>43</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>
<b>Dep &amp; Amort</b>																	
Parkers Hill	1	1	1	1	1	1	1	1	2	2	2	2	1	1	1	1	1
Pearses	0	0	1	1	1	1	1	1	0	2	2	2	2	2	2	2	2
<b>Total</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Pretax	6	8	17	21	18	20	20	19	14	37	37	39	22	22	22	22	22
Tax	0	0	0	-2	-5	-6	-6	-6	0	-2	-11	-12	-7	-7	-7	-7	-7
<b>NPAT</b>	<b>6</b>	<b>8</b>	<b>17</b>	<b>18</b>	<b>12</b>	<b>14</b>	<b>14</b>	<b>13</b>	<b>14</b>	<b>35</b>	<b>26</b>	<b>28</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>
Cashflow	7	9	18	25	25	28	28	27	16	43	52	55	31	31	31	31	31

Source: MPS assessment from published KBL data

### 3.1.4 Exploration Potential

KBL has 49km<sup>2</sup> covered by EL 1999 and has expectations of finding additional mineralization within the tenement.

A new senior geologist was appointed to devise a programme and on 10 May 2011 KBL announced progress made in their data compilation, interpretation and development of their long term strategy and budget for Mineral Hill.

#### Active exploration data

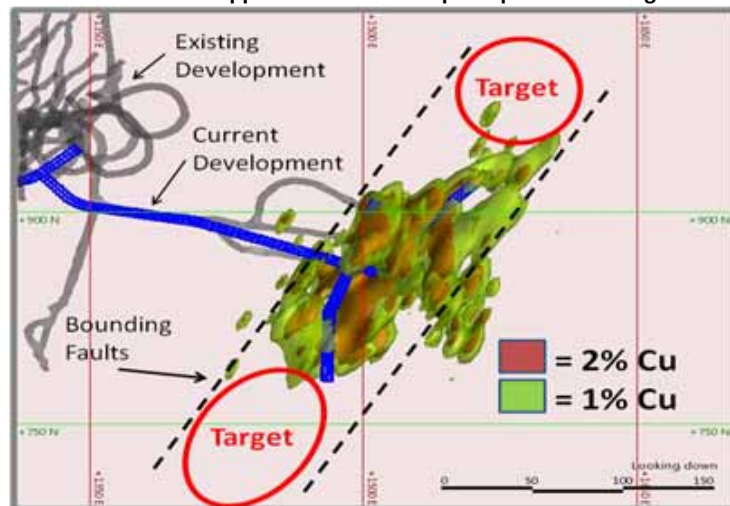
The exploration programme is:

- 2,000m diamond drill program (metallurgical + structure)
  - Parkers Hill (460m, 3 holes)
  - Southern Ore Zone (1,130m, 3 holes)
  - Pearse (280m, 2 holes)
- Parkers Hill
  - New Geology Model being developed to lead to an updated Resource Model in order to identify new in-mine exploration targets
- Southern Ore Zone
  - New Geological Model being developed to lead to a Resource Model and identification of In-mine exploration targets

#### New resource estimates for Southern Ore Zone expected in Sept Qtr 2011

These actions are likely to result in an overall improvement of the size and understanding of the mineralization in the region.

Fig 7: Plan of Parkers Hill Copper Resource with upside production targets



Source: Kimberley Metals Limited

### 3.1.5 Iron Duke (EL 6064) (100% KBL)

KBL has commenced work on the Iron Duke tenement located about 50kms from Mineral Hill.

KBL has completed a soil geochemical sampling program and aims to commence diamond drilling at Iron Duke so as to assess the open cut potential for ore feed for the Mineral Hill plant and to explore the extent of the mineralisation open down dip and along strike.

### 3.2 Mississippi Valley Type ('MVT') Lead-Zinc Deposits

Lead-zinc deposits in Australia are usually thought of as the traditional Broken Hill or Mt Isa style metamorphosed sedex deposits or as the igneous/volcanogenic types such as Woodlawn, Endeavour (Elura) and Rosebery.

Major Mississippi Valley Type mines are found in North America, Canada, Ireland and Poland

However, elsewhere in the world, a different style is prevalent and it is the carbonate-hosted deposits that are most common. They are based on chemically deposited lead and zinc sulphides in dolomitic carbonate (magnesium rich limestones) platforms on the edges of sedimentary basins and are not directly related to igneous activity.

The low temperature hydrothermal mineralising fluids will often precipitate zinc and lead in the presence of hydrocarbons. Individual deposits are generally less than 20mt in size and are usually found in clusters. Such deposit clusters can extend over many hundreds of square km and collectively make up as much as 100mt. Ore bodies are usually flat lying and typically less than 10 m thick. Zinc is usually predominant over lead and often iron in the form of pyrite is very low. This low iron results in very high grade and well sought after concentrates that support very profitable mines.

These deposits are prevalent in North America with the Lead Belt of the Missouri – Mississippi Valley well known and the mining districts can cover over 1000km<sup>2</sup> and have a 200 year mining history. St Joe Lead (now Doe Run Company) is the largest US producer. Other important MVT mines include the major Polaris mine in Canada, Lisheen and Tara in Ireland and the old Silesian mines in Poland. Almost all are underground mines.

**Table 10 Major MVT Mines of recent times**

Mine	mt	Zn%	Pb%	Combined
Tara	91	7.6%	1.4%	9.0%
Lisheen	27	11.5%	1.9%	13.4%
Polaris	21	12.0%	3.5%	15.5%

Source: Boliden Limited

Lennard Shelf deposits are mostly modest grade

In Australia the Lennard Shelf mines Cadjebut, Pillara (Blendvale and Goongewa) in the Emmanuel ranges in WA's Canning Basin are best known and the results from the Mundie Plains deposits of UXA Resources west of Broken Hill are encouraging for another new MVT region.

**Table 11 Lennard Shelf Mines (Emmanuel Range -total initial resources)**

Lennard Shelf	mt	Pb	Metal (t)	Zn	Metal (t)	Pb + Zn
Pillara	41	3.20%	1,312,000	7.90%	3,239,000	11.10%
Cadjebut	5.2	3.63%	188,760	0.33%	17,160	3.96%
Goongewa	2.6	3.63%	94,380	0.33%	8,580	3.96%

Source: BHP Data

The Kapok Project of Meridian Minerals (recently sold for A\$78m) has a similar collection of smaller pods. Grades are higher but all mines are underground.

**Table 12 Emmanuel Range (Kapok) Project**

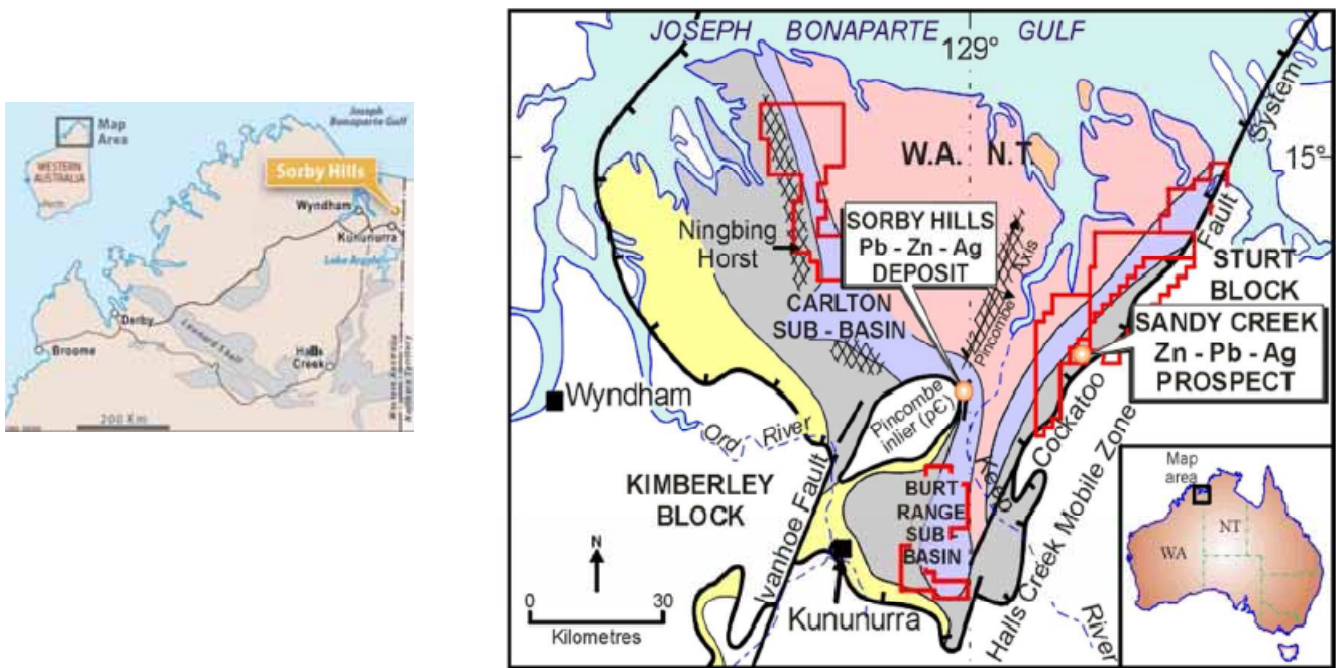
Resource	mt	Pb	Tonnes	Zn	Tonnes	Pb + Zn	Ag g/t	Ag moz
Napier Range	0.59	8.50%	50,150	8.00%	47,200	16.50%	75	1.4
Fossil Downs	2.15	9.50%	204,250	2.10%	45,150	11.60%	50	3.5
Cadjebut Splay	1.6	8.30%	132,800	2.00%	32,000	10.30%	16	0.8
Kutarta	2.34	0.50%	11,700	7.20%	168,480	7.70%	39	2.9
Kapok	0.89	5.60%	49,840	8.60%	76,540	14.20%	0	0.0
Kapok East	0.62	9.30%	57,660	7.60%	47,120	16.90%	0	0.0
Kapok West	4.4	4.60%	202,400	3.50%	154,000	8.10%	11	1.5
Palijippa	2.62	1.20%	31,440	5.40%	141,480	6.60%	34	2.8
Gap Creek	2.52	6.20%	156,240	3.40%	85,680	9.60%	10	0.8
<b>Total</b>	<b>17.73</b>	<b>5.06%</b>	<b>896,480</b>	<b>4.50%</b>	<b>797,650</b>	<b>9.56%</b>	<b>24</b>	<b>13.7</b>

Source: Meridian Minerals Limited

### 3.2.1 Bonaparte Basin MVT Deposits

KBL has recognized the regional importance of the Bonaparte Basin north of Kununurra near the Joseph Bonaparte Gulf on the WA/NT border.

Fig 8 & 9 Bonaparte Basin Carbonate Shelf



Source: Kimberley Metals Limited

KBL has taken a strategic regional interest in the MVT deposits in the Bonaparte Basin.

Its initial holding in Sorby Hills is the base for a major commitment to MVT deposits in the carbonates there. JV partner HYG&L has acquired 25% by funding a A\$5m Bankable Feasibility Study.

In March 2011 KBL announced a farm-in arrangement with TNG Resources to earn an initial 51% then up to 80% of the Manbarrum silver-zinc projects in the Northern Territory.

#### Fine history of high quality lead and zinc concentrates

The carbonate shelf environment is widespread in North West of WA with the Bonaparte and the Canning Basins supporting widespread limestone shelves and MVT deposits. BHP mined the 44mt (combined 11% Zn+Pb) underground Blendville (renamed Pillara by Western Metals) and the smaller Cadjebut and Goongewa mines from 1987 into the 1990s. BHP later sold them to Western Metals in 1994 and Teck-Cominco and Xstrata acquired them after Western Metals' demise in 2003. Pillara was reopened in 2007 but was shut down again in the GFC in 2008. Meridian Minerals acquired the assets in 2009 and prepared a BFS for the reopening of Kapok and related mines as well as the separate development of the Gap Creek project in a six year mine life +A\$220m project to mill 750,000tpa of combined 15% Pb+ Zn with minor Ag.

The recently completed BFS gives some helpful comparative numbers that support KBL's projects. This project was recently sold by Meridian to shareholder Northwest Non Ferrous of China for A\$78m – an attractive price for the seller and a willing buyer.

KBL has Mining Leases (M80/196, M80 197, M80/285, M80/286 and M80/287) in place with 20 years life and has project scoping of a staged development of the C,D and E pods in M80/197 in a 500ktpa Stage I followed by the I, Alpha and Beta pods in an expanded 1.2mtpa Stage II in M80/196.

KBL expects a project mine life of over 10 years.

### 3.2.2 Sorby Hills Mineralisation

#### Sorby Hills:

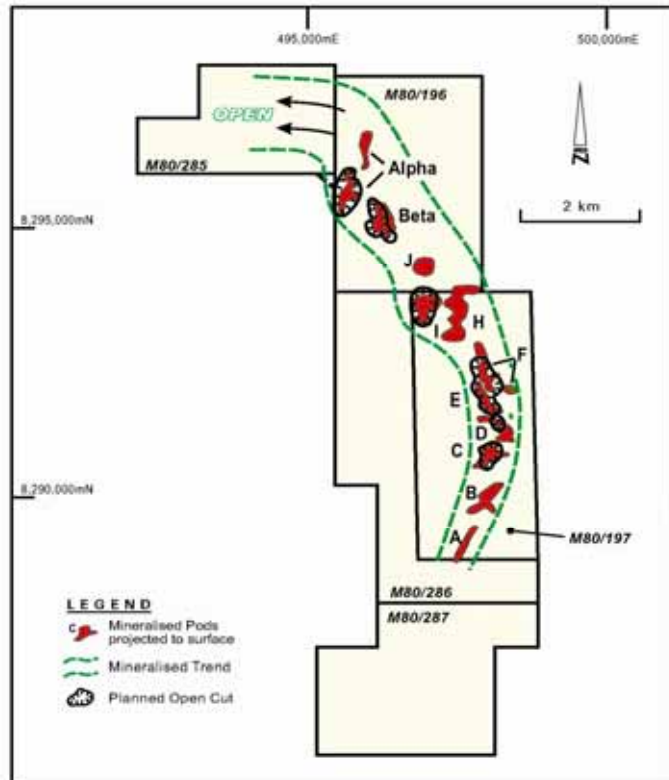
- Sorby Hills MLs renewed for 21 years (Feb 2010)
- Extensive infrastructure adjacent to the tenements
- Large silver-lead-zinc mineral resources defined

The Sorby Hills Lead-Silver project is a Mississippi Valley Type deposit. The mineralization for Stage One is generally less than 20m from surface and is up to 15m thick. Current maximum pit depth is up to 70m depth. The current resource of 17.7mt @ 4.4%Pb and 0.7% Zn with 53g/t Ag at a 2.5%Pb (~A\$70/t cost structure) cutoff has a gross in ground value of over A\$3bn and at 1.5%Pb cut off ( ~A\$40/t) the volume is over 28mt and A\$4bn in ground value.

The deposits occur as with most MVT mineralisation in a series of connected pods that extend over 8 km.

The most advanced portions of the deposits are the pods in M80/197 where the C pod has 44% as Indicated Resource and D, E and F pods show good signs of connectivity.

Fig 10: Ore Pods at Sorby Hills



Source: Kimberley Metals Limited

8,300m of drilling during 2010 extended the mineralization and upgraded opportunity of improving continuity between existing ore pods. Some outstanding intersections including 9m @ 16% Pb and 131g/t Ag and 16.8m @ 7.0%Pb and 74g/t Ag were recorded.

Table 13 Sorby Hills Resources Table

Sorby Hills Resources				Contained Metal			
Oxide resources	Mt	%Pb	%Zn	g/t Ag	Lead (t)	Zinc (t)	Silver (moz)
Inferred	0.68	3.7%	0.2%	28	25160	1360	0.6
Indicated	0.23	3.6%	0.2%	40	8280	460	0.3
<b>Total</b>	<b>0.91</b>	<b>3.7%</b>	<b>0.2%</b>	<b>31</b>	<b>33440</b>	<b>1820</b>	<b>0.9</b>
<b>Primary lead mineralisation</b>							
Inferred	12.83	4.9%	0.5%	56	628670	64150	23.1
Indicated	2.61	4.7%	0.4%	65	122670	10440	5.5
<b>Total</b>	<b>15.44</b>	<b>4.9%</b>	<b>0.5%</b>	<b>58</b>	<b>751340</b>	<b>74590</b>	<b>28.6</b>
<b>Total Lead Resources</b>	<b>16.35</b>	<b>4.8%</b>	<b>0.5%</b>	<b>56</b>	<b>784780</b>	<b>76410</b>	<b>29.5</b>
<b>Primary zinc mineralisation</b>							
Inferred	1.08	0.3%	3.9%	30	3240	42012	1.0
Indicated	0.24	1.5%	4.3%	39	3600	10320	0.3
<b>Total Zinc Resources</b>	<b>1.32</b>	<b>0.5%</b>	<b>4.0%</b>	<b>32</b>	<b>6840</b>	<b>52332</b>	<b>1.3</b>
<b>Total Resources</b>	<b>17.67</b>	<b>4.5%</b>	<b>0.7%</b>	<b>54</b>	<b>791620</b>	<b>128742</b>	<b>30.8</b>

Source: Kimberley Metals Limited

Mineralised ore pods over 8km strike length

KBL plans six shallow pits over a 5km strike.

KBL has almost 18mt of resources with potential of higher figures through merging of some of the pods and extension of the mineralisation along strike to the north west.

Conversion of resources to reserves is expected to be as high as 75-80% giving as much as 14mt to give the 10+ years life at 1.5mtpa.

Within these resources the C, D and E Pods have over 5mt of 3.76% combined PB and Zn with 43g/t Ag.

**Table 14 Stage One Resources**

Resources	mt	Lead	Metal (t)	Zinc	Metal (t)	Silver	Metal (moz)
<b>D &amp; E Pod</b>	3.73	3.63%	135,399	0.33%	12,309	52	6.3
<b>C Pod</b>	1.99	2.96%	58,904	0.42%	8,358	25	1.6
<b>Total</b>	<b>5.72</b>	<b>3.40%</b>	<b>194,303</b>	<b>0.36%</b>	<b>20,667</b>	<b>43</b>	<b>7.9</b>

*Source: Kimberley Metals Limited*

So far KBL has been able to convert a high proportion of Inferred Resources to Indicated status and the high grades intersected in drilling suggests that a certain amount of 'nugget effect' applies in these deposits. KBL expects that mine grades could be much higher than resource grade particularly with a higher cutoff grade.

KBL aims to accelerate Sorby Hills to Feasibility, building on the 1980 study by Aquitane. As of May 2011 initial infill resource definition drilling was completed late 2010 with further drilling in 2011/12 and a new resource model including 16% increase in tonnage was completed.

Environmental studies have commenced & key personnel appointed.

**Definitive Feasibility targeted for end 2012 completion**

**A new resource estimate for Sorby Hills C, D, E & I Pods has been completed**

**2011 Resource:**

- 17.7Mt @ 4.4%Pb
- 0.7%Zn
- 53g/t Ag (Indicated & Inferred)

### 3.2.3 Sorby Hills Project Development

The Sorby Hills Project is based on the sequential development of several of the currently identified ore pods. KBL has identified that C, D and E Pods in ML/197 as having good potential for connectivity and D Pod has outstanding high grade intersections including the 9m @ 16.0%Pb and 131g/t Ag and 14m@ 10.0%Pb and 83g/t Ag. D Pod could provide higher grade ore in the early life of the mine.

The ore pods are near to surface and most have pit floors less than 70m below surface.

These would be developed in a 500,000tpa operation in Stage One for FY 2014.

Development of Stage Two would be based on deposits in ML80/196 and incorporate I Pod and Alpha and Beta Pods for FY2016.

The combined project would be 1.5mtpa producing over 60,000tpa Lead, 7000t Zinc and 2.7mozpa Silver generating revenues of over A\$170mpa at today's A\$ prices.

**Table 15 MPS Estimates for Sorby Hills Metal Production Stage I+2**

Projected Production Summary (gross contained metal)									
	30-Jun	2012	2013	2014	2015	2016	2017	2018	2019
<b>Lead (t)</b>		0	0	17500	25000	45000	63000	63000	63000
<b>Zinc (t)</b>		0	0	1073	1485	5000	7000	7000	7000
<b>Silver (koz)</b>		0	0	675	964	1929	2701	2701	2701
<b>Gross Revenue (A\$m)</b>		0	0	46	65	124	174	174	174

*Source: Kimberley Metals Limited*

Sorby Hills is not a high grade ore body but it will be a low cost operation based on shallow low strip ratio

### 3.2.4 Mine Development at Sorby Hills

The Sorby Hills Project is not a high grade ore body but it will be a low cost operation due to low stripping ratios (generally less than 8:1) and low capital costs. The project would use mobile plant including moveable processing facilities and would benefit from established infrastructure.

Capital costs are expected to be around A\$100m with existing infrastructure obviating the need for a camp and remote power supplies. The low strip ratio will keep mine development costs down as well.

The advantages of the Sorby Hills Project against the Emmanuel Range Project on the Lennard Shelf can be seen through the significantly lower capital costs associated with open cut mining, more readily available infrastructure from the important regional centre of Kununurra and substantially closer to the port at Wyndham. Data from a recently completed BFS by Meridian Minerals (11 May 2011) provides an excellent up to date costing package comparison for KBL.

**Table 16 Capital cost comparison - Emmanuel Range (Kapok) and Sorby Hills**

Capex comparison	A\$m	
	Kapok	Sorby Hills
Plant	60	40
Camp	10	0
Power	20	5
Tailings	10	10
<b>Total</b>	<b>100</b>	<b>55</b>
Mine development	59	15
EPCM	18	5
Concentrate handling	5	5
Contingency	24	10
BFS Costs	13	10
<b>Total</b>	<b>219</b>	<b>100</b>
<b>Annual ore treated ktpa</b>	<b>750</b>	<b>500</b>
<b>Cap cost /annual tonne (\$/t)</b>	<b>292</b>	<b>200</b>
<b>Total tonnes (life of mine -kt)</b>	<b>4500</b>	<b>5000</b>
<b>Cap cost /total tonnes (\$/t)</b>	<b>49</b>	<b>20</b>

Source: Meridian Minerals MPS estimates form KBL data

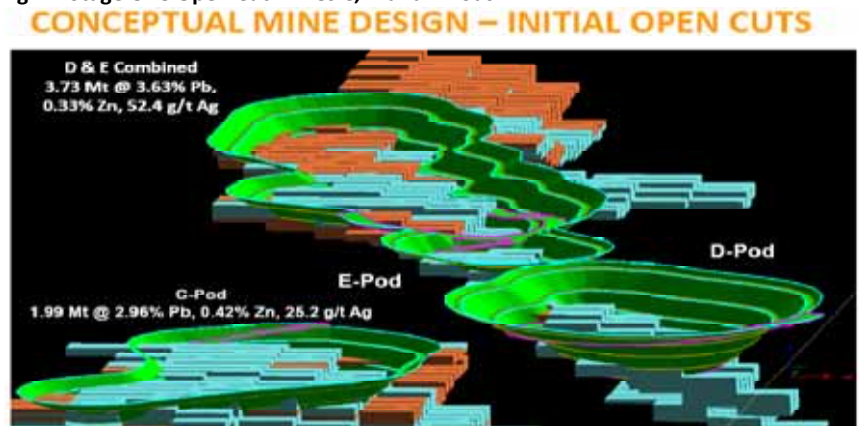
The Emmanuel Range Project for 750ktpa from 500m underground does use some established mine and decline development but it has a larger fixed plant and high mine underground development costs. Its remote location also requires the establishment of a camp and power generating capacity. At Sorby Hills, costs per annual tonne of ore are 30% less at A\$200/t (basis Stage One only) and 60% lower at just A\$20/t over the Stage I 10 year mine life (prior to additional capex).

The Sorby Hills open cut project contrasts greatly with the Lennard Shelf underground mines by having far lower capital and operating costs based on shallow low strip ratio.



KBL plans to develop C, D, E pods in Stage One to treat 500,000tpa, followed by I, Alpha and Beta to bring the total to 1.2Mtpa.

**Fig 11 Stage One Open Cut Mines C, D and E Pods**



Source: Kimberley Metals Limited

As noted D pod could provide some very high grades in the early years of the project's life.

**Table 17 Comparative Operating Costs**

	Kapok		Sorby Hills
	US\$/lb	US\$/t	US\$/t
<b>Revenue/t</b>	1.04	380	143
<b>Mining</b>	0.40	146	28
<b>Milling</b>	0.09	33	32
<b>Transport &amp; shipping</b>	0.08	29	10
<b>Treatment charges</b>	0.20	73	24
<b>Royalties</b>	0.06	22	3
<b>Total</b>	0.83	302	97
<b>Operating surplus</b>	0.21	78	46
<b>Margin %</b>	20%	20%	32%

Source: Kimberley Metals Limited

### 3.2.5 Sorby Hills Project JV Agreement

KBL has entered into a JV Agreement with China's largest lead producer, Henan Yuguang Gold & Lead ('HYG&L') to review the Sorby Hills Project towards completing a BFS. HYG&L has provided A\$5m to acquire a farm-in interest of 25% of Sorby Hills silver-lead deposit and a took a A\$5m share issue at \$0.25cps for a 15% interest in Kimberley Metals (now diluted to 11%).

The A\$5m funds have been escrowed to the development of the BFS.

**Table 18 Sorby Hills P & L Account**

	2011	2012	2013		2014		2015		2012	2013	2014	2015	2016
	Dec	June	Dec	June	Dec	June	Dec	June					
US\$/A\$	1.08	1.09	1.1	1.1	1.1	1.1	1.1	1.1	1.09	1.1	1.1	1.1	1.1
Zinc US\$/t	2200	2200	2200	2200	2200	2200	2200	2200	2200	2200	2200	2200	2200
Zinc US\$/lb	1	1	1	1	1	1	1	1	1	1	1	1	1
Lead US\$/t	2500	2500	2500	2500	2500	2500	2500	2500	2500	2500	2500	2500	2500
Lead US\$/lb	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
Silver US\$/oz	40	40	40	40	40	40	40	40	40	40	40	40	40
Silver US\$/kg	1280	1280	1280	1280	1280	1280	1280	1280	1280	1280	1280	1280	1280
<b>Ore mined</b>	0	0	0	0	100000	250000	250000	250000	0	0	350000	500000	1000000
<b>Ore Grades</b>													
Pb %	0.00%	0.00%	0.00%	0.00%	5.00%	5.00%	5.00%	5.00%	0.00%	0.00%	5.00%	5.00%	4.50%
Zn %	0.00%	0.00%	0.00%	0.00%	0.30%	0.30%	0.30%	0.30%	0.00%	0.00%	0.30%	0.30%	0.50%
Ag g/t	0	0	0	0	60	60	60	60	0	0	60	60	60
<b>Contained metal</b>													
Lead (t)	0	0	0	0	5000	12500	12500	12500	0	0	17500	25000	45000
Zinc (t)	0	0	0	0	330	743	743	743	0	0	1073	1485	5000
Silver (koz)	0	0	0	0	193	482	482	482	0	0	675	964	1929
<b>Recoveries</b>													
Lead	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
Zinc	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
Silver	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
<b>Saleable Metals</b>													
Lead (t)	0	0	0	0	4750	11875	11875	11875	0	0	16625	23750	42750
Zinc (t)	0	0	0	0	314	705	705	705	0	0	1019	1411	4750
Silver (koz)	0	0	0	0	125	313	313	313	0	0	439	627	1254
<b>Concentrates (t)</b>	0	0	0	0	7308	18269	18269	18269	0	0	25577	36538	65769
Contained Lead	0	0	0	0	4750	11875	11875	11875	0	0	16625	23750	42750
Contained Zinc	0	0	0	0	314	705	705	705	0	0	1019	1411	4750
Contained Silver	0	0	0	0	125	313	313	313	0	0	439	627	1254
Grade Pb %	0	0	0	0	65%	65%	65%	65%	0%	0%	65%	65%	65%
<b>Revenues (US\$m)</b>													
Lead	0	0	0	0	11.6	29.1	29.1	29.1	0	0	40.7	58.2	104.7
Zinc	0	0	0	0	0.7	1.5	1.5	1.5	0	0	2.2	3	10.1
Silver	0	0	0	0	2.9	7.2	7.2	7.2	0	0	10	14.3	28.7
TC US\$110/t cons	0	0	0	0	-0.8	-2	-2	-2	0	0	-2.8	-4	-7.2
<b>Net Revenue (US\$m)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14.4</b>	<b>35.8</b>	<b>35.8</b>	<b>35.8</b>	<b>0</b>	<b>0</b>	<b>50.1</b>	<b>71.5</b>	<b>136.3</b>
(A\$m)	0	0	0	0	13.1	32.5	32.5	32.5	0	0	45.6	65	123.9
<b>Costs (A\$m)</b>													
Mining	0	0	0	0	4	7	7	7	0	0	11	14	24
Milling	0	0	0	0	4	8	8	8	0	0	12	16	30
Transport	0	0	0	0	1	2.5	2.5	2.5	0	0	3.5	5	8
Royalties	0	0	0	0	0.3	0.7	0.7	0.7	0	0	1	1.4	2.7
Admin	0	0	0	0	1.5	1.5	1.5	1.5	0	0	3	3	5
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10.8</b>	<b>19.7</b>	<b>19.7</b>	<b>19.7</b>	<b>0</b>	<b>0</b>	<b>30.5</b>	<b>39.4</b>	<b>69.7</b>
<b>Operating surplus</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2.3</b>	<b>12.8</b>	<b>12.8</b>	<b>12.8</b>	<b>0</b>	<b>0</b>	<b>15.1</b>	<b>25.6</b>	<b>54.2</b>
Dep & Amort	0	0	0	0	3	6	6	6	0	0	9	12	15
EBIT	0	0	0	0	-0.7	6.8	6.8	6.8	0	0	6.1	13.6	39.2
Interest	0	0	0	0	0	-3	-3	-3	0	0	-3	-6	-6
Pretax	0	0	0	0	-0.7	3.8	3.8	3.8	0	0	3.1	7.6	33.2
Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-0.7</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>0</b>	<b>0</b>	<b>3.1</b>	<b>7.6</b>	<b>33.2</b>
<b>Cashflow</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2.3</b>	<b>12.8</b>	<b>12.8</b>	<b>12.8</b>	<b>0</b>	<b>0</b>	<b>15.1</b>	<b>25.6</b>	<b>54.2</b>
Capex	-5	-10	-20	-50	-20	-10	-10	-10	-15	-70	-30	-20	-30
<b>Net Cashflow</b>	<b>-5</b>	<b>-10</b>	<b>-20</b>	<b>-50</b>	<b>-17.7</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>	<b>-15</b>	<b>-70</b>	<b>-14.9</b>	<b>5.6</b>	<b>24.2</b>

Source: MPS assessment from published KBL data

### 3.2.5 Exploration Potential

#### Indicated and Inferred Resources:

- Sandy Creek: (24 Mt @ 1.8% Zn, 0.5% Pb, 4.6 g/t Ag
- Djibitgan: (9.5 Mt @ 20 g/t Ag, 0.6% Zn

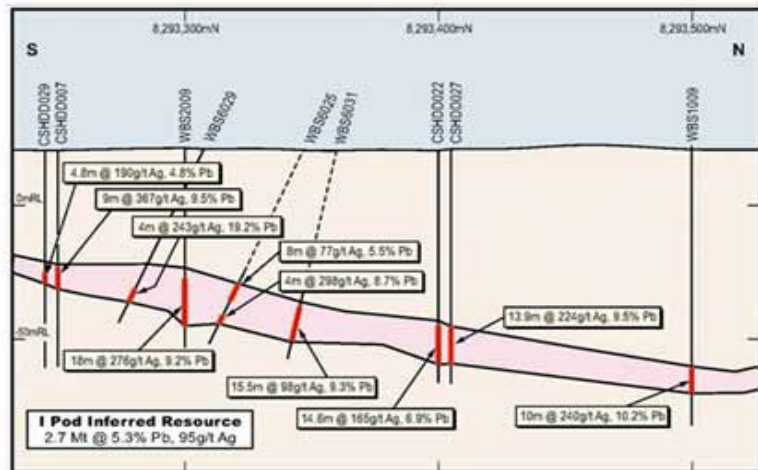
#### JV Terms:

- Initial \$500,000 cash
- \$2 million expenditure and \$2 million cash payment prior to 30 December 2013 to earn a 51% interest

The ore pods at Sorby Hills show a strong response to date to Induced Polarization (IP) surveys to augment the drilling programme. Results show good signals as the sulphides in carbonates have a strong signature along the fractures and faulting where the sulphides find preferential deposition.

KBL has so far been able to show greater continuity of mineralization between C, D and E Pods and more recent drilling has not only resulted in the 16% increase in overall resources but also given some very high grades including the previously mentioned 9m @ 16.0%Pb and 131g/t Ag and 14m @ 10.0%Pb and 83g/t Ag.

Fig 9 Long Section of I Pod Resource for Sorby Hills Stage Two



Source: Kimberley Metals Limited

### 3.3 Manbarrum Project

In early 2011 KBL entered into a Farm-in and Joint Venture Agreement with TNG Limited (ASX Code TNG) to enable the Company and Henan Yuguang Gold & Lead Co., Ltd to earn up to an 80% interest in TNG's Manbarrum Ag-Pb-Zn project, approximately 40 km east of the Sorby Hills Project.

Manbarrum in the regional carbonate formation of the Bonaparte Basin hosts extensive Mississippi Valley Type (MVT) Pb-Zn-Ag mineralization.

TNG has spent more than \$15 million on exploration at Manbarrum in the last 4 years.

Manbarrum is a 30km long zinc-lead-silver mineralised trend containing Indicated and Inferred Resources at Sandy Creek (24 Mt @ 1.8% Zn, 0.5% Pb, 4.6 g/t Ag) and Inferred Resources at Djibitgan (9.5 Mt @ 20 g/t Ag, 0.6% Zn).

### 3.4 Constance Range, Qld (KBL 30% option to earn 50%)

Constance Range is located 200km by road from Burketown on the Gulf of Caprentaria and 45km west of Minmetal's Century Zinc mine. The project consists of a large exploration tenement covering 1952 km<sup>2</sup> where KBL holds a 30% joint venture interest. The Constance Range iron deposits are part of a regional iron formation in northwest Queensland. Exploration title is held over a 25 km strike length of the bedded ironstone sequence that is approximately 180m thick and contains three main ironstone units, each ~20m thick.

BHP first explored the area from 1956 to 1963 and delineated 15 iron deposits over a strike length of 100 km.

KBL has undertaken no development activities at Constance Range in 2011. KBL intends at some stage to carry out a further assessment of the deposit, including drilling, metallurgy and other technical studies, with the aim of defining mining reserves. The project is a low priority at present.

## 4.0 Commodity Outlook

MPS believes the global commodity markets are in a long term bull market that began with the bottoming of the oil prices, coal prices and several important metals such as nickel, aluminium and platinum in the Dec Qtr of 1998. Prices rose on balance until the highs in 2007/08 that preceded the major GFC sell off in Dec Half 2008.

China currently consumes about 40% of each of global lead and zinc produced

Many commodities have recovered and have exceeded their 2007/08 highs and MPS believes they should achieve significantly higher levels over the next decade.

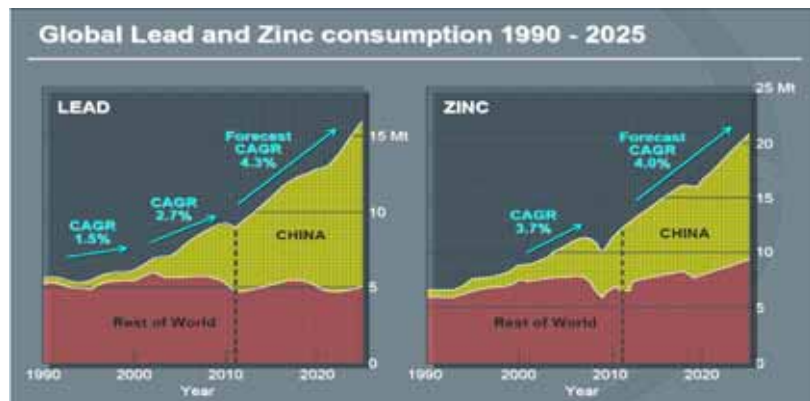
The key drivers are:

- The secular demand growth from Non-OECD countries
- Limited supply response through high capacity utilisation rates in many mining operations and a lack of major new capacity
- The debasement of the currencies of many OECD countries

The impressive growth in global steel production is an excellent proxy for demand for industrial metals.

China currently consumes about 40% of each of lead and zinc and is likely to exceed 50% by 2015. This secular growth will completely overwhelm the cyclical activity in OECD consumption data.

Fig 11 Global Lead and Zinc Consumption History and Forecasts



Source: Meridian Metals May 2011

Of even greater significance is the lack of planned new capacity for many resources. The lack of exploration activity and more significantly the lack of exploration success to date in identifying large new metals deposits will mean that metals should be in short supply for many years.

Fig 12 Future Lead and Zinc Mine Capacity Issues



Source: Meridian Metals May 2011

## **5.0 Board and Management**

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### **Jim Wall, Executive Chairman, B Eng (UWA)**

Mr Wall has been Managing Director of Nicron Resources Limited, Executive Director of Aztec Mining Company Limited and Managing Director of Savage Resources Limited, during which time its market capitalisation on ASX increased by 40 times to over \$600 million. He is a fellow of the Australian Institute of Mining and Metallurgy and is the former Executive Chairman of CBH Resources Limited, retiring in March 2009. He is currently a non-executive director of Ferras Limited, and has previously been a director of other listed companies, such as Emperor Mines Limited and BMA Gold Limited.

### **Bob Besley, Executive Director, BSc (Hons) (U. Adelaide)**

Mr Besley has more than 40 years International experience in the minerals industry. He spent 13 years with Unocal, seven of those as Manager of Minerals for Australia and the Pacific. Mr Besley was General Manager of Australmin Holdings Limited when that company developed a minerals sands project in eastern Australia and a gold mine in Western Australia. Mr Besley was formerly the Managing Director of CBH Resources Limited. Until recently he was the Deputy Chairman of the NSW Minerals Council. He is a member of the Australasian Institute of Mining and Metallurgy.

### **John Richards, Non-Executive Director. B Econ (Hons) (U Qld).**

Mr Richards has 25 years experience in the international minerals industry in a variety of executive and investment banking roles. He worked with the Normandy Mining group of companies, including as Group Executive of Strategy and Business Development, He was Head of Standard Bank's Mining and Metals Advisory business in the Asia-Pacific region. He has been Managing Director of Buka Minerals Limited, an ASX-listed resources investment company and then an Executive Director of Scarborough Minerals plc. He now works as a consultant in mining corporate finance.

### **Robert McDonald, Non-Executive Director, B Comm (UWA), MBA (Hons) (IMD).**

Mr McDonald is the principal of The Minera Group, a specialist mining advisory group headquartered in Australia but active in most mining regions of the world. Mr McDonald has some 35 years experience in the mining sector firstly in various roles within the Rio Tinto Group and prior to launching Minera, in investment banking as Managing Director of N.M.Rothschild and Sons and as Director and Principal of Resource Finance Corporation. He is a director of Sedgman Ltd and Intrepid Mines Limited. He is a member of the Australian Institute of Mining and Metallurgy.

### **Stephen J Lonergan, Executive Director/Company Secretary, LLB (Hons), LLM.**

Mr Lonergan is a commercial lawyer based in Sydney with more than 30 years experience in the Australian and international mining industry. He has been General Counsel of Pancontinental Mining Group, a partner at Baker & McKenzie Sydney, General Counsel and Company Secretary of Savage Resources Limited and General Counsel and Company Secretary of CBH Resources Limited. Directorships of other listed companies in the last 3 years: Paradigm Metals Limited and Finders Resources Limited.

### **Stuart Matthews, Chief Operating Officer, MSc (Geology)**

Mr Mathews has 23 years of geology, mining, and project development experience both in Australia and internationally including project development through to production at the large Palmarejo Silver and Gold Mine in Mexico and the Cowal Gold Mine in NSW, Australia. Stuart Mathews was previously a Vice President at Coeur D'Alene Mines Corporation. His prior experience includes management roles at gold and base metals mines in Western Australia, New South Wales, Queensland and New Zealand.

**Michael Hanlon**, General Manager for the Mineral Hill Mine from 21 Feb 2011 has taken responsibility for all mine operations and process plant refurbishment work. Mr Hanlon brings in excess of 20 years of senior management and technical experience in WA and NSW and recently was the resident manager at the Tritton Copper Mine for Straits Resources Limited.

**Ed Newman**, Project Manager Sorby Hills. Mr. Newman has over 33 years experience in the mining and exploration industry. He has held positions as chemist and manager of an analytical services laboratory as well as being involved in feasibility studies, design, construction and commissioning of several mining and processing operations in Australia and Papua New Guinea.

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- The author of this report holds shares in Kimberley Metals Ltd.
- The author of this report will also earn commissions or share in profits that may arise as a result of any capital raisings in this company.

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