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26th June 2014

Kibaran Resources Limited (ASX: KNL)

Speculative Buy

Site Visit Update – Undervalued Graphite Explorer

Target Price 61c

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Capital Summary

Ordinary Shares	92.3m
Listed Options	4.5m
Unlisted Options	17.0m
Unlisted Performance Shares*	15.0m
Market Capitalisation (m, undil.)	$14.3
Cash & equivalents 31/3 (m)	$1.3
Share Price (25/6/2014)	$0.155
52 week high/low	$0.62/$0.039

*Related to nickel tenements

Share Price Graph

Directors & Key Management

Simon O'Loughlin	Non-Executive Chairman
Andrew Spinks	Director
John Park	Non-Executive Director
Grant Pierce	Non-Executive Director
Robert Greenslade	Non-Executive Director
Robert Hodby	Company Secretary

Key Points

- The Epanko Graphite Deposit in Tanzania hosts an inferred resource of **14.9Mt @ 10.5% Total Graphitic Carbon (TGC).** RC drilling recently completed and KNL is aiming to **upgrade resource by the end of July.**

- A total of 37 drill holes (2,215m) completed in program, with initial assay results including:
  - **18m at 9.7% TGC** from surface (MHRC032)
  - **32m at 9.3% TGC** from surface (MHRC033), including; **16m at 10.3% TGC**
  - **16m at 10.3% TGC** from surface (MHRC034)
  - **56m at 8.8% TGC** from surface (MHRC035), including; **25m at 10.0% TGC**
  - **78m at 8.0% TGC** from surface (MHRC036), including; **42m at 10.2% TGC**

- The drilling has successfully **doubled the strike length of the resource.** Epanko **remains open** in most directions and is amenable to **open-pit mining (low stripping ratio).**

- **Exploration Target** of between **60-200Mt of graphitic schist, grading between 9-12% TGC** at 100% Kibaran-owned **Merelani Prospect** located 15km east of Richlands' historical graphite mine.

- **MoU with AIM listed Richland Resources to consolidate Merelani graphite assets**.

- Kibaran Resources (KNL) has in place a **binding off-take agreement with a "Major European Graphite Trader" (EGT) for 10ktpa of flake graphite concentrate over a 5 + 5 year period.**

- Over **50% of the final concentrate** in the independent flotation test work consisted of 'jumbo' flake graphite **(+180 microns) at 93% TGC. Acid leach test work is underway to increase final grade to 99%+ TGC.**

Epanko

We attended a site visit from 12th – 14th June to observe the progress at the Mahenge Graphite Project (Epanko Deposit). The report is based on observations on this trip and announcements released on the ASX to date.

Site Visit Notes:

- We travelled to site primarily via bitumen road from the capital city of Dar es Salaam (location of port). The final section of travel was on dirt road, which was undergoing maintenance with the wet season just completed.
- River crossing via barge to Mahenge, which provides access for all vehicles (including heavy haulage). Construction has started on a bridge crossing for vehicle access.
- Drilling program completed during visit, with 37 RC holes drilled for a total of 2,215m. Drilling focused on both the previously identified Western and Eastern Zones at Epanko.
- Assay results to be released in three separate batches. This RC drilling program has stepped out from previous drill intersections and doubled the strike length to over 1km.
- Higher grade mineralisation (+10% TGC) prevalent in the shallow, oxidised section of the hole (see Figure 1) that supports the low strip open pit mining scenario.

Figure 1 – RC samples from recent drilling at Epanko

- KNL aims to have at least 2Mt of JORC 'Indicated' material in the next resource upgrade in July. This will form the base for upcoming feasibility work to be completed.
- Recent drilling results will lead to an increase in the global tonnage (currently 14.9Mt at Epanko).
- Kibaran now having advanced discussions with permitting partners regarding social, environmental and other mine planning items. Population reasonably sparse, but nevertheless there will be a requirement to relocate small-scale farmers in the area.

- The company has established good community relations in the township of Mahenge with support being provided to the local school and jobs being created through the exploration program.
- Good support from the locals for the project to get started with a real drive for mining to push an economic rejuvenation in the region (primarily farmland).
- There are services and infrastructure in the Mahenge township (20mins drive from site), but further road upgrades will be required for simple access to proposed mine site area. There is potential to use local water supply and a high voltage power line only 3km away, but this will need to be addressed during the mine planning phase.
- Further assay results and metallurgical work (including purity testing) will be announced over the next few weeks from Epanko.
- Upgraded JORC resource on the back of all drilling results to be calculated by the end of July.
- Diamond drilling program to be planned/designed pending the assay results and looks likely to start in August 2014.

Exploration

The mineral resource estimate (see Table 1) was carried out by CSA Global Pty Ltd, an independent and internationally recognised mineral industry consultancy group, and was based on data sets compiled through drilling, trenching and other geological activity.

Table 1 – Maiden Inferred Resource at Epanko Graphite Deposit

Mineral Resource Classification	Tonnage (Mt)	Grade (% TGC)	Contained Graphite (t)
Inferred	14.9	10.5*	1,560,000

***Cut-off grade: 8% TGC**

Importantly, the mineral resource estimate represents only a very small footprint of the known Epanko target. Mineralisation remains open in all directions and there is significant potential for further resource growth. The RC drilling program completed 37 holes along both the Western and Eastern Zones (see Figure 2), with strong graphite mineralisation observed within the samples.

Figure 2 – RC drilling at Epanko Deposit

The recently completed resource upgrade drilling has doubled the strike length (see Figure 3) of graphite mineralisation at Epanko to over 1km and all drill holes in the Western Zone encountered large flake graphite mineralisation. The first assays were released to market and showed a continuous grade of ~10% TGC with improved widths from the previous program.

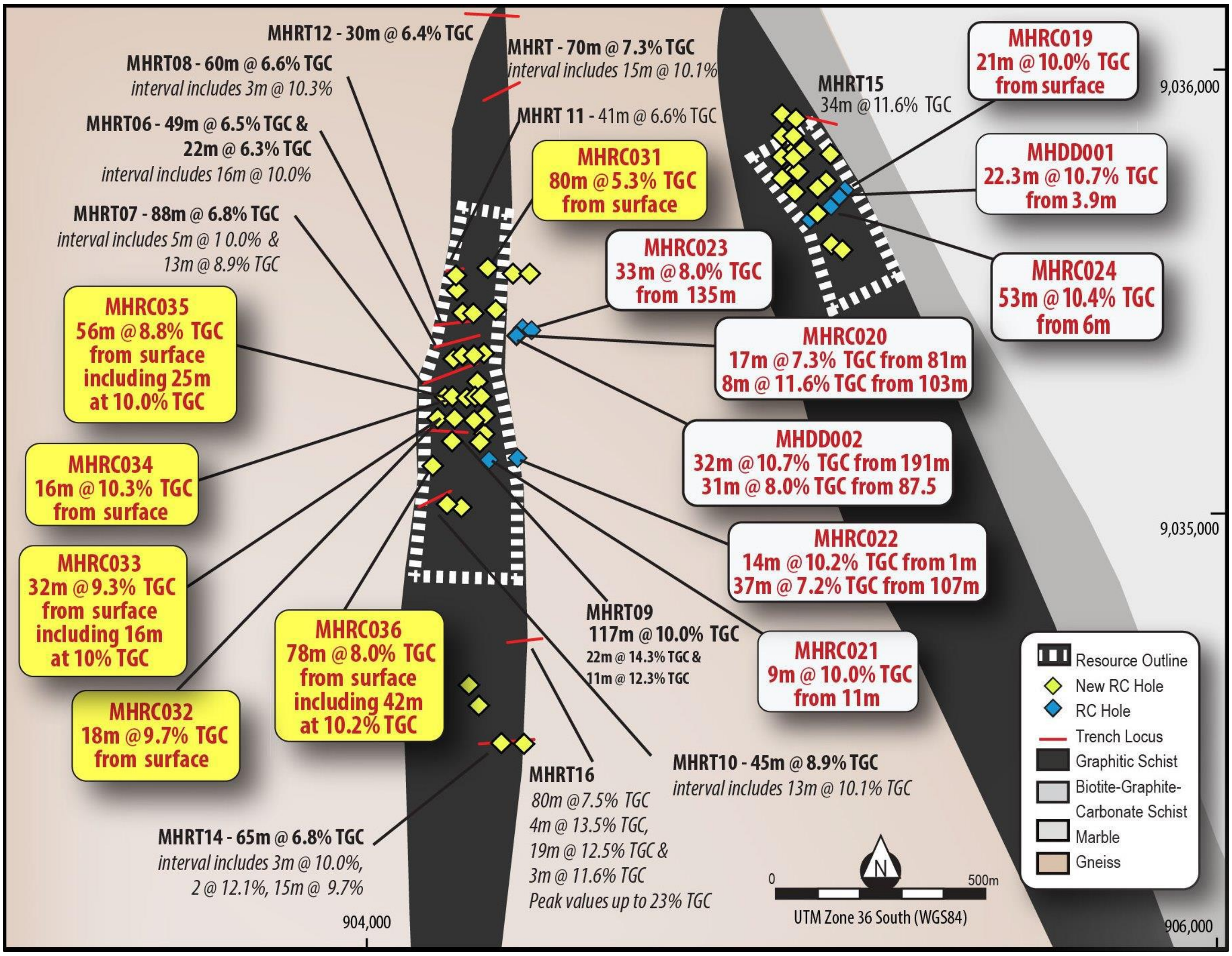

Figure 3 – Epanko Deposit showing the area of the mineral resource footprint (and latest drilling).

The high grade mineralisation is from surface and sections of the Epanko Deposit are notably thicker than previously thought (one intersection of 42m @ 10.2% TGC), which bodes well for the updated resource in July.

Once an updated resource is released, Kibaran will look to begin another round of diamond drilling (estimate ~1,500m) at Epanko to provide core samples to the laboratory and optimise/finalise metallurgical work.

Metallurgy

The independent metallurgical work completed by the European Graphite Trader (EGT) included a two-stage liberation process to separate the graphite. The flow sheet (see Figure 4) comprises rougher flotation, two liberation stages, cleaner flotation, dewatering, drying and screening prior to bagging for export.

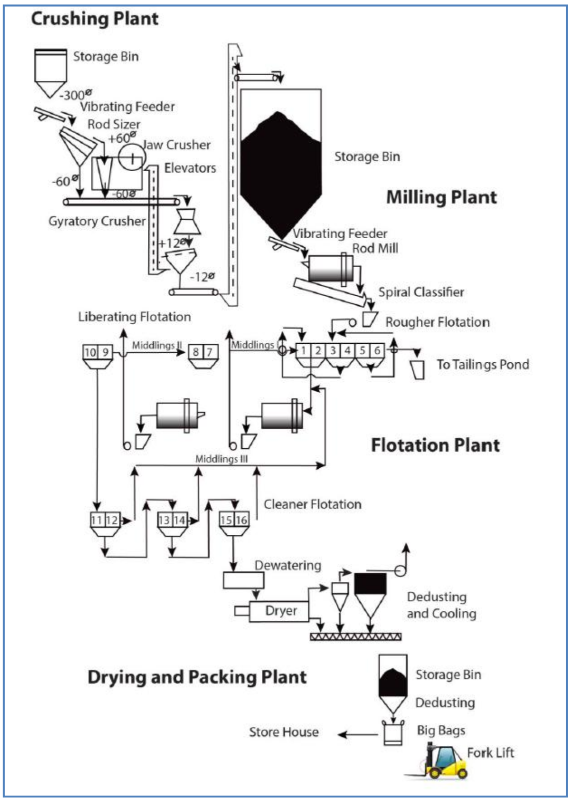

Figure 4 – Suggested Flow Sheet from the EGT.

The results of this test work showed that the flotation concentrate averaged 93% Fixed Carbon (with a 96% total recovery) and more importantly; yielded large flake graphite. Results also indicated that ~74% of the recovered product was >106 µm in size (see Table 2).

The key to these results is having a balance between total graphite recovery, concentrate grade and flake size. The Epanko concentrate is showing positive numbers in all these categories and a premium price for their graphite concentrate should be received.

Table 2 – Flotation results per Size Fraction

Size	Portion of size fraction (%)	Fixed Carbon (TGC) (%)
> 500 µm	8.4	97.6
> 300 µm	13.2	95.4
> 180 µm	28.6	93.8
> 106 µm	23.6	93.6
> 75 µm	10.4	91.0
< 75 µm	15.8	87.5
Average	100	93.0

Micron (µm) and Millimetre (mm). 1mm = 1000µm and fixed carbon content

Based on the results of the test work, the EGT has reported that:

- The portion of very large size flake is considered a significant advantage, as at present there is a shortage of this product in the graphite market
- The flake graphite is clean and with no visible natural mineral impurities
- The flake graphite is suitable for ‘expanded’ graphite
- High recoveries are expected
- The product is considered saleable and has already attracted interest from end users

Independent metallurgical test work is also being done to test concentrate grade using a chemical upgrading (acid) to achieve 99%+ TGC. Graphite concentrate produced in the Epanko flotation test work will be used in this program. The purity testing will illustrate what is required to achieve these ultra-pure grades for use in various end-uses. The key to the purity testing is to have a graphite concentrate with minimal beneficiation intensity. In other words; larger flake and higher concentrate grade usually equates to a saving on the additional beneficiation at the back end (usually done by a trader or end-user).

Binding Off-take Agreement

Kibaran Resources has signed a binding off-take agreement with a major European Graphite Trader (EGT), after the suitability of the graphite qualities at Epanko were confirmed. Under the terms of the agreement, the EGT guarantees the purchase of 10,000 tonnes of saleable graphite concentrate per year from Kibaran. This is for an initial period of five years with the option to renew for a further five years on a market based pricing mechanism.

The EGT has been sourcing graphite supplies largely from China, and due to stable supply concerns moving forward, has been investigating potential new sources of natural large flake graphite. In a worldwide review of graphite projects, the EGT identified Kibaran's Epanko deposit in Tanzania as a project that can deliver concentrate specifications. The agreement provides Kibaran with a significant partner in the graphite industry to jointly market and sell graphite with the security of an overriding off-take guarantee from the EGT. It provides Kibaran with a significant advantage in getting a foothold in the tightly controlled graphite market.

The off-take agreement that KNL has secured is a significant milestone for the company. The Epanko Deposit has undergone significant due diligence work by the EGT. The process involved a detailed analysis of the metallurgical properties of the graphite and the suitability of the final concentrate to various technical applications.

The pricing of graphite sales is related to flake size and concentrate grade. The key attributes of Epanko graphite are its distribution and quality, including:

- Large and very large flake sizes – favourable distribution with 73.8% in the +106 micron fraction and 21.6% in the +300 micron fraction (which is the highest value flake graphite)
- Very low percentage of fines, which is the low value graphite (26.2% in the -106 micron)
- 'Expansion' capacity – the graphite is considered suitable for the 'expanded' graphite market

Merelani

The Merelani Mine is currently owned under a net profit share arrangement in a 50:50 JV between TanzaniteOne Mining Limited (100% owned subsidiary of Richland Resources) and STAMICO (Tanzanian State Mining Company) and produces tanzanites; while the treated graphite ore is discharged in the tailings.

The operator of the mine, Richland Resources Ltd, is listed on the AIM market in London, and specialises in the mining of coloured gemstones.

Graphite production at the Merelani Graphite Mine commenced 1995 and produced ~6.8kt of graphite concentrate. Graphite sales were through Harbison-Walker Refractories Company located in the USA and were via an off-take agreement. Mineralisation was initially identified to be sufficient for a 40-year operation at a mining rate of 15,000 tonnes per annum of high-grade flake graphite of 97-98% purity.

The mine encountered financial problems in 1997 due to a significant drop in the graphite price and the last shipment of remaining stockpiled ore was made in February 1998. The last shipment of remaining stockpiled concentrate was in 1998, and included a percentage of 99% carbon that was produced through natural attrition and not chemical treatment; a desirable characteristic as chemical treatment adds significantly to operating and capital costs.

A non-binding MoU was signed between Kibaran and Richland Resources Limited with a view to forming a joint venture to consolidate Merelani graphite assets back in February. This has been superseded by a written acceptance from Richland of Kibaran's proposed terms for sole graphite rights at the historic Merelani graphite mine and the companies are now finalising the binding agreement with a strategic objective to recommence graphite production in the medium-term.

The current Merelani-Arusha tenements that are 100% owned by KNL consists of seven tenements and covers 973.4 km^2 in an area 55km south-east of Arusha, Tanzania. The project area is considered highly prospective for graphite mineralisation, owing to its favourable geological settings. The exploration target on the tenements is 60-200Mt of graphitic schist, grading between 9.0-12.0% TGC. Kibaran is planning to send a geological team to Merelani for mapping purposes with the aim of completing 3,000-4,000m of RC drilling on all tenements (see Figure 5) before the wet season begins in March.

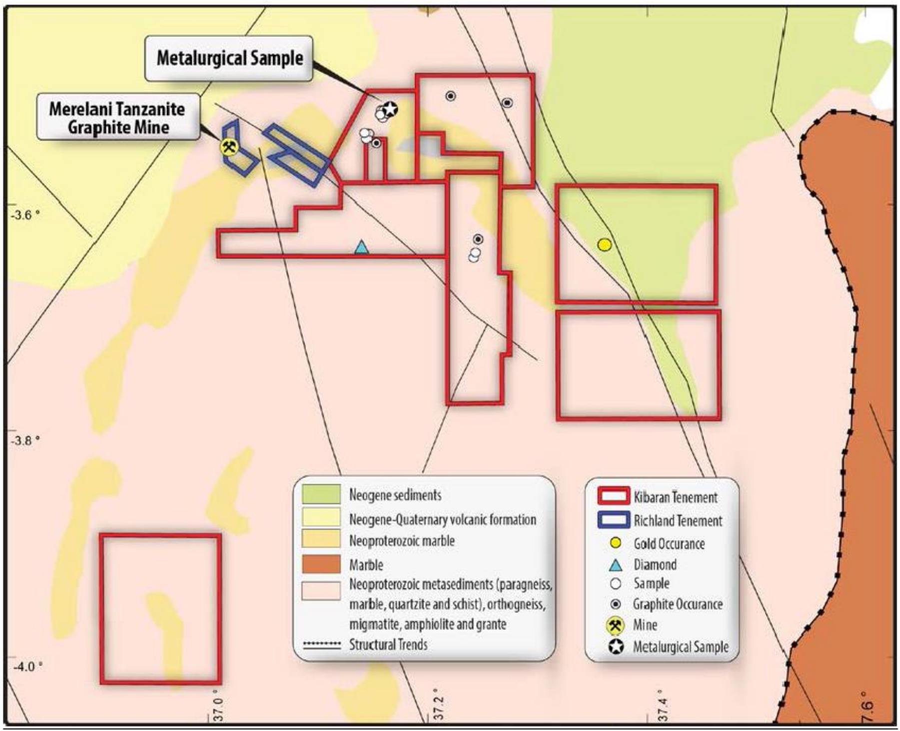

Figure 5 – Merelani Graphite Project Location

As a comparable with another historical mine; Valence Industries (VXL) has re-started production and graphite sales in 1H 2014 from the Uley Graphite Mine in South Australia (albeit on a very small scale and working through limited existing stockpiles). Both mines were shut down in the 1990's due to sharp declines in the graphite price.

See Table 3 for some general mine statistics from historical production:

Table 3 – Comparison between Merelani (Kibaran MoU) and Uley (Valence)

	Merelani	Uley
Country	Tanzania	Australia
Historical Production	6,776t	Not Stated
Last Period of Operation	1995 - 1998	1986 - 1993
Historic Production Profile	15ktpa (proposed before shut down in 1998)	14ktpa (1990's)
Production (flotation)	97-98% Flake Graphite	90-94% Flake Graphite
Proposed Production	Not Stated	50-60ktpa
Resource	"Sufficient reserves were initially identified for a 40 year operation at a production rate of 15,000t p.a" – Richland Resources technical report	6.4Mt @ 7.1% TGC (JORC Inferred/Indicated)

Valuation Summary

Kibaran Resources has been committed to graphite exploration since acquiring their Tanzanian tenements in May 2012. In that time, the company has outlined a maiden resource at the Epanko Deposit (14.9Mt @ 10.5% Total Graphitic Carbon) and completed a scoping study (July 2013) that showed a low cost operation could be developed (total Capex estimated at $39m).

A breakdown of the capital cost provided by independent consultant Intermine Engineering includes:

- Mining $2,000,000
- Process plant $24,000,000
- Infrastructure $4,000,000
- EPCM $5,000,000
- Contingency $4,000,000

Total A$39,000,000

Although operating costs have not been summarised in the scoping study, we have used the following figures as a guide to total cash costs (based on a graphite production profile of 20ktpa):

- Mining = US$15/t ROM
- Processing = US$20/t ROM
- Administration = US$5/t ROM
- Freight + Marketing = US$80/t concentrate

Total Cash Cost CIF = ~US$440/t concentrate

We have also assumed an average value for Kibaran's concentrate at **US$1,250/t** (based on flake size distribution and current market pricing).

- Mine Life: 10 years
- Discount Rate: 10%
- Long term currency assumption AUDUSD: $0.85
- Corporate Tax Rate: 30%
- Royalties: 3%

NPV: ~A$75m (IRR: 30%)

At this NPV, Kibaran would have an attributed value of ~72c/share (based on a 50/50 Debt-Equity funding arrangement). Using a 15% discount to NPV we have assumed a price target of 61c/share.

The initial assays from the RC drilling have further de-risked the resource at Epanko and will be confirmed with the outlining of a JORC 'Indicated' resource to be completed by July 2014. The 10ktpa binding off-take agreement remains in place for Epanko and KNL is actively seeking another agreement to meet the minimum production profile (20ktpa).

Kibaran is in the process now of finalising the binding agreement with a strategic objective to recommence graphite production in the medium-term. Although it is not part of the current valuation at this stage, the Merelani Prospect will certainly form part of a resource base and observations of the ore show a course flake graphite material that should be simple to liberate.

The nearby mine owned by Richland Resources at Merelani (currently produces tanzanites from which KNL is acquiring graphite rights) has a history of graphite production and may provide a KNL with a fast-track development.

In-depth technical details on the existing resources that are being acquired will be released once agreement terms have been signed off, but there is no doubt there will be interest from off-take partners. Kibaran could produce 40-60ktpa from two operations (Epanko and Merelani) and expand production as further contracts are sourced in the graphite market.

We consider the production profile (just accounting for the Epanko Deposit) of **20ktpa to be conservative** and there is potential to expand on this moving forward (pending further off-take sale agreements). This will not only increase mine revenue, but will further reduce unit operating costs (and hence see uplift in the NPV).

Graphite Market Commentary

Fine fraction (+106 microns) graphite is in large supply from a number of sources and stronger growth is predicted for the larger flake market. The concern for this graphite market is primarily due to China's dominance on the supply and the reduction in high grade, large flake graphite production in the market.

This has seen prices increase over the past few years and growth in demand has forced market participants to secure additional sources of supply (outside of China).

The new technology space (electronics, EV batteries, grid storage etc.) demands a high quality product and this is in short supply with a number of Chinese mines closing down in recent years. This is critical, as China's graphite concentrate quality has suffered due to the current in-country graphite production primarily coming from much deeper/harder rock; which requires additional crushing at detriment to the quality of the final concentrate (smaller flake size). Notwithstanding the overall graphite market is expected to grow substantially over the next 5-10 years, with all streams of graphite expected to be used in various industrial applications.

Recently a report was released by analyst Dr. Jon Hykawy, who was previously Head of Global Research with Byron Capital Markets; specialising in the economics of critical materials such as lithium, vanadium, fluorspar, graphite and the rare earths. Jon is now President of Stormcrow, which is a Toronto-based business consultancy and independent research firm.

The report further supports the idea that large flake mineralisation demand will continue to grow and supply to diminish from the main supplier China. This was particularly evident in his pricing predictions through to 2020 (see Table 4).

Table 4 – Graphite Pricing Predictions (source: Stormcrow)

Projections	2013	2014	2017	2020
Jumbo	$ 1,577	$ 1,726	$ 1,555	$ 6,175
Large	$ 1,178	$ 1,192	$ 684	$ 1,165
Medium	$ 1,025	$ 991	$ 521	$ 517
Small	$ 855	$ 874	$ 476	$ 493
Very Fine	$ 505	$ 524	$ 342	$ 359

The table provided by Stormcrow shows that the mineralisation that Kibaran has intersected at Epanko (and reported at the Merelani tenements) will substitute what will otherwise be a shortfall in the market with the forecasted demand profile for large flake graphite.

ASX-Listed Graphite Comparables

Table 5 – Flake Graphite Company Valuations

<table>
<tr><th>Company</th><th>Kibaran</th><th>Sovereign</th><th>Valence</th><th>Lamboo</th><th>Triton</th><th>Syrah</th></tr>
<tr><td>Code</td><td>KNL</td><td>SVM</td><td>VXL</td><td>LMB</td><td>TON</td><td>SYR</td></tr>
<tr><td>Market Cap ($m) - as at 25/6</td><td>14</td><td>29[1]</td><td>68</td><td>94[2]</td><td>96</td><td>634</td></tr>
<tr><td>Country</td><td>Tanzania</td><td>Malawi</td><td>Australia</td><td>Australia</td><td>Mozambique</td><td>Mozambique</td></tr>
<tr><td>Deposit</td><td>Epanko</td><td>Duwi</td><td>Uley</td><td>McIntosh</td><td>Balama North</td><td>Balama</td></tr>
<tr><td>Historical Production</td><td></td><td></td><td>Yes</td><td></td><td></td><td></td></tr>
<tr><td>Off-take Agreement - Binding</td><td>YES</td><td></td><td></td><td>YES</td><td></td><td></td></tr>
<tr><td>Off-take Agreement - MOU</td><td></td><td></td><td></td><td></td><td></td><td>YES</td></tr>
<tr><td>Proposed Production (t/yr)</td><td>20,000</td><td></td><td>14,000</td><td>50,000</td><td></td><td>225,000</td></tr>
<tr><td>Resource Classification</td><td>Inferred</td><td></td><td>Indicated</td><td>Indicated</td><td>Inferred</td><td>Indicated</td></tr>
<tr><td>Status (Completed)</td><td>Scoping Study</td><td>Exploration</td><td>Historic Production</td><td>Exploration</td><td>Exploration</td><td>Scoping Study</td></tr>
<tr><td>Tonnes (Mt)</td><td>14.9</td><td></td><td>6.4</td><td>7.1</td><td>103</td><td>1150</td></tr>
<tr><td>Grade (%TGC)</td><td>10.5</td><td></td><td>7.1</td><td>4.7</td><td>5.5</td><td>10.2</td></tr>
<tr><td>Flake Size Distribution[3]</td><td colspan="6"></td></tr>
<tr><td>> 300 micron</td><td>22%</td><td>37%</td><td rowspan="4">60%</td><td>12%</td><td>0%</td><td>24%</td></tr>
<tr><td>> 150 micron</td><td>29%</td><td>27%</td><td>17%</td><td>1%</td><td>33%</td></tr>
<tr><td>> 106 micron</td><td>23%</td><td rowspan="2">16%</td><td>9%</td><td rowspan="2">18%</td><td>26%</td></tr>
<tr><td>> 75 micron</td><td>10%</td><td>9%</td><td rowspan="2">17%</td></tr>
<tr><td>< 75 micron</td><td>16%</td><td>20%</td><td>40%</td><td>53%</td><td>81%</td></tr>
<tr><td>Concentrate Grade (flotation)</td><td>93.0% TGC</td><td>91.8% TGC</td><td>90-94% TGC (historic)</td><td>80.6% TGC</td><td>94.5% TGC</td><td>97.1% TGC</td></tr>
</table>

[1] Excludes 17.5m performance shares

[2] Excludes 22.5m performance rights

[3] After flotation beneficiation (no acid treatment)

Risks

We consider the main risks to be:

- Exploration/Resource Risk – The resource is still yet to be properly defined (currently inferred and further drilling required to reach a JORC Indicated level). Positive results are not guaranteed with further exploration and may influence ore body characteristics (ie; lower in-situ grade).

- Metallurgy Risk – Beneficiation is a key aspect and samples from across the strike of the ore zone need to be properly tested. This will determine the average quality of the graphite concentrate that could be produced on a commercial scale (taking into account crushing sizes, complexity of beneficiation circuit and final concentrate grade).

- Infrastructure Risk – Both Epanko and Merelani will require a certain level of infrastructure to accommodate for new mining operations which will include; extending power lines, sourcing water supplies (for use in the mine) and constructing sufficient tailings storage areas. All these aspects will need to be addressed during the permitting phase.

- Permitting Risks – The Epanko Deposit has a number of hurdles to meet before progressing with a full-scale mining operation. Environmental, social and regulatory requirements need to be addressed. Kibaran Resources has indicated in a recent announcement that this process has begun. Tanzania has an established mining code and many majors currently produce minerals in the country, which bodes well for a start-up operation.

- Marketing/Pricing Risk – The graphite market average prices (for various grades of graphite) are determined through long-term contracts. Being an industrial/strategic mineral, this will always be the case, so an average price for the concentrate can only be indicative (opaque market).

- Sovereign Risk – Tanzania has been politically stable for a number of years and mining has been the major economic driver for the country over the past few decades. Law changes and political instability are a risk in any African country and this must be understood when operating in these jurisdictions. The government can alter mining/business regulations and companies will have to be flexible to change going forward (examples include government ownership of assets or a different tax regime).

Recommendation

RC Drilling has now been completed at Epanko to increase the confidence and convert a portion of the resource tonnes at Epanko into a JORC 'Indicated' category. Once the resource upgrade is completed in July, further engineering studies can be completed and a final design will be submitted for approval to the Tanzanian government.

The graphite material at Kibaran's Epanko Deposit is high quality (with regards to contrite grade and flake size) and that potential has been recognised by EGT. The 10ktpa binding off-take agreement is a major step towards development at the Epanko Deposit. Kibaran will continue to work closely with its off-take partner from both a technical and financial perspective.

The Merelani Prospect presents an enormous opportunity to Kibaran and really is a second production front that should attract some interest from market participants. The historic production is well documented and the material produced was of a very high quality. Due to economic reasons, the graphite production was shut down in 1998, but with the shift in the graphite market, the mine now is in a good position to take advantage of this. Further details on the Merelani graphite specifications will be released to the market after finalisation of the deal with Richland/STAMICO.

In the event that this deal is completed, Kibaran will look to aggressively progress Merelani, with very little work required to firm up resource and confirm metallurgical properties. This will almost certainly be a second production front for KNL in due course.

On a comparable level, KNL presents tremendous value. Based on the current resource, recent drilling intersections), extensive independent metallurgical work that has been completed to date, a potential new acquisition (Merelani) and the 10ktpa off-take agreement that underpins the project (with further potential deals to be done); we maintain our **Speculative Buy** rating on Kibaran Resources (KNL).

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Date Prepared: **June 2014**
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