

4 August 2014

Dear Shareholder/Noteholder

I feel it is important for me to introduce myself as your new Managing Director and to articulate our strategy to firstly energise the Mineral Hill asset and deliver cash that will underpin the development of the Southern Ore Zone ("SOZ"); and secondly restructure the balance sheet to allow the Sorby Hills project to move forward in its own right without detracting from Mineral Hill.

First and foremost, on behalf of the Board of Directors of KBL Mining Limited ("KBL" or "the Company"), I would like to thank you for your considerable support of the Company during KBL's challenges and difficult periods. Both your Board and I are excited by the Company's prospects across the short, medium and long term.

My primary concern as the Managing Director is (and always will be) the creation of value for our shareholders. It is important that we make our assets work hard for investors and keep costs as low as possible to make profits, despite the high exchange rates and relatively low commodity prices.

In the last quarter KBL made a notional EBITDA of \$3.8 million at Mineral Hill and spent a further \$1.1 million on capital, mostly in development and drilling for the future. The Company is well positioned with low operating costs and:

- > Copper LME stocks are dropping and some of the large future projects have political or major operational issues, especially at current low commodity prices;
- > Gold price is strong and we feel it may strengthen marginally in the future;
- > Lead and Zinc have the strongest future as mines are closing and there are no significant projects planned to replace the lost production.

KBL will continue to extract maximum value from our current ore sources. A recent example of this is the additional flotation circuit installed last quarter at Mineral Hill to extract lead, silver and further gold and copper from the flotation tail, which has been a great success and has resulted in approximately \$2.6 million in gross notional revenue in the last four months.

The much talked about gold and silver circuit ("CIL Plant") is another opportunity for Mineral Hill to unlock value as the plant will not only treat the open-cut oxide sources of ore, but also treat the current flotation tail to improve recovery of the high gold and copper ore sources that have been delineated underground. The final metal we have not pursued is zinc and our team is working on how we can expand the flotation circuit to generate additional revenue from zinc concentrate sales.

KBL's value proposition for shareholders is that the Company is well positioned at Mineral Hill with a strong asset base, infrastructure and an efficient team to move the mine to sustainable profits with a large upside in Sorby Hills, commodity prices and a weakening Australian dollar.

We are proud to announce that KBL has reached a new stage in its development. We are confident that with a combination of a strong new strategy and management, along with the potential of the existing assets, KBL is on a new trajectory to unlock the significant value of its assets.

The Plan 2014/2015

Capital Structure

Currently KBL has a \$12.6 million secured loan ("Loan") from Capri Trading Pty Ltd ("Capri") due for repayment in March 2015 and a further \$11.2 million of convertible notes due for repayment in August 2016. With a view to de-risking the Company moving forward and in preparation for the development of Sorby Hills, we are in the process of addressing both these commitments while concurrently arranging finance for Mineral Hill for ongoing enhancements such as the CIL Plant. Your Board is working with Capri in this process as Capri is also a major shareholder in KBL.

Surface Production – Focus on the Pearse open cut

There is now strong market interest in debt funding the Pearse gold open cut plan. Consequently, KBL is in the process of finalising the design and contractors are expected to be construction ready in the latter part of this year. The Pearse open cut using the CIL Plant, has in recent weeks been optimised and re-evaluated. The modelling has concluded that the positive cash flow generated from the Pearse open-cut will be in the region of \$40 million over the next 18 months. The CIL plant will be reinstalled at a capital cost of \$6.6 million.

Originally Mineral Hill had an old CIL plant which was demolished due to its poor condition and was becoming a safety issue. The structures were removed but the foundations remain in place and their integrity has been checked for the reinstallation of the new CIL Plant. The mining of the Pearse open-cut is conventional in nature, with the deposit ideally located, being only some 800m from the process plant. Currently, we have a local contractor who has the skills and equipment to mine Pearse cost effectively.

Further to this, the flotation tails are planned to be fed through the CIL Plant to capture any free or oxide gold and silver currently being lost to tailings disposal. KBL has delayed the mining of gold rich areas underground so as to maximize recovery with the new CIL Plant.

Potential to further expand the open-cut operations is also being assessed. Pearse North located 300m along strike from the main Pearse deposit is potentially one such opportunity.

Underground Production – Focus on the SOZ area

The key in achieving consistent profits that will provide the platform for a long life Mineral Hill project and enable development of Sorby Hills is the mining of the Pearse open-cut. This is because it removes the constant production pressure from the more complex underground mine.

The new mining plan sees for a period 50% of the ore produced from open-cut sources and the other 50% from high gold-copper sources underground.

As you are aware, some 12 months ago KBL made the decision to refurbish the access drive out to the SOZ lodes. The project consumed capital to reopen, develop and drill the areas to formulate a reliable mine plan. This work is starting to filter through to improved financial performance as demonstrated with the strong last (June 2014) quarter and the delineation of lodes for the future.

In particular the B and D lodes have provided good grade feed for the process plant and drilling to date has delineated the A and G lodes. In around 6 months when the A lode is developed, the A lode has the potential to be a strong source of ore for some years. The drill holes announced in the most recent Quarterly Report were particularly good with one hole intersecting the A lode to give 42.5 metres (true width 18.7m) at 2.5% Cu, 18.7% Pb, 10.3% Zn, 132g/t Ag, & 1.4g/t Au.

Due to these exceptional results, a drill program has been initiated to drill two surface holes to understand and infill in the vicinity of the above intersection. Ongoing drilling will also test the down dip extension of the lode and the northern strike extension on the 60 level and the 100 level.

The Mineral Hill mine is an efficient underground operation that, since its restructure, has reduced costs by 34% with current C1 costs at \$1.68/lb after credits. The mine has a committed local work force and community, supported by the nearby town of Condobolin.

The Future – post 2014/2015

Mineral Hill

Under the new mine plan, the Mineral Hill operations are forecast to make a significant cash surplus, at current metal prices. The plan will take the pressure off the underground production to allow time to delineate further underground and surface resources. Underground mining requires time and money to drill, develop and setup areas for efficient mining. To date, KBL has not had the time or funds to get ahead of the production requirement to keep the process plant at maximum throughputs.

Key steps post 2014/2015 include:

1. KBL is defining the size of the A lode which comprises high grade lead, zinc, silver, gold mineralization. The SOZ has an existing lead zinc resource comprising 699kt @ 2.6% Pb, 2.8% Zn and 24g/t Ag (reported at a cut-off grade of 4% Pb + Zn) (as released on 1 November 2011)
2. The top of the G lode, which is a copper-gold lode, was accessed by the SOZ decline and will continue to be opened over the next few months
3. Further open-cut resources are available, that need infill drilling. These have the potential to provide additional feed for the gold plant

Sorby Hills

Currently, Mineral Hill is the only cash-making asset for KBL. It has a process plant and an extensive underground operation situated in the highly prospective Cobar Basin. However, the Sorby Hills project located in the top end of WA has gained its environmental approvals and, although KBL is minimising funds spent on the Sorby project while Mineral Hill progress is being accelerated, we are concurrently preparing the project for feasibility.

Briefly, the project is a straight forward deposit with a flat to gently dipping ore body that has a low strip ratio and the majority of the pre-strip waste material is expected to be free dig and suitable for civil works. The plan sees conventional open-cut mining activities along with standard flotation processes adopted, to produce a lead and silver rich concentrate for export at the nearby port of Wyndham. The Phase one plan is for mining approximately 600,000 tonnes per annum with a 6-year mine life.

Once KBL's immediate financial commitment has been addressed together with the funding of the CIL Plant and the Pearse project is moving forward, we will turn our full attention to financing Sorby Hills. The time line for the development of Sorby will be aggressive, as it is technically uncomplicated.

Conclusion

To support the new strategy, the management of KBL will be undergoing a process of refresh and renewal in the global markets to consolidate, support and expand the Company's market perceptions both in Australia and globally.

KBL has the people, assets and circumstances to build the Company into a major Australian producer. I am proud to have been invited to forge this path forward and am excited by the opportunities that have presented themselves.

Mineral Hill has three major ore zones, a well defined high grade open-cut, well understood and matured reserves and significant exploration upside potential. Sorby Hills is uncomplicated and has the potential to be a world class producer. My job is to now unlock the value within these projects.

Thank you for the opportunity.

Kind Regards



Brian Wesson
Managing Director

About KBL Mining Limited

KBL Mining Limited is an Australian resource company listed on the ASX (KBL and KBLGA) with a focus on producing precious and base metals. KBL's main assets include the Mineral Hill copper-gold-silver-lead-zinc mine near Condobolin in New South Wales and Sorby Hills lead-silver-zinc project in Western Australia. The Company has been operating the refurbished processing plant at Mineral Hill since October 2011 to produce copper concentrates. Sorby Hills (KBL holds 75% with Henan Yuguang Gold & Lead Co. Ltd (HYG&L) holding 25%) is one of the world's largest near surface undeveloped silver-lead deposits, close to port infrastructure and a short distance from Asian markets. The project received environmental approval on 2 April 2014 and the Joint Venturers are now progressing the Project to development.

More information can be found on KBL's website at www.kblmining.com.au.

Competent Persons Statement

The information in this report that relates to Exploration Results and Exploration Targets, Mineral Resources and Ore Reserves based on information compiled by Anthony Johnston, MSc (Hons), who is a Member of the Australasian Institute of Mining and Metallurgy and is a full-time employee of the Company. Anthony Johnston has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr Johnston consents to the inclusion in the announcement of the matters based on his information in the form and context that the information appears.

Forward Looking Statements

These materials include forward looking statements. Often, but not always, forward looking statements can generally be identified by the use of forward looking words such as "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "continue", and "guidance", or other similar words and may include, without limitation, statements regarding plans, strategies and objectives of management, anticipated production or construction commencement dates and expected costs or production outputs.

Forward looking statements inherently involve known and unknown risks, uncertainties and other factors that may cause the company's actual results, performance and achievements to differ materially from any future results, performance or achievements. Relevant factors may include, but are not limited to, changes in commodity prices, foreign exchange fluctuations and general economic conditions, increased costs and demand for production inputs, the speculative nature of exploration and project development, including the risks of obtaining necessary licenses and permits and diminishing quantities or grades of reserves, political and social risks, changes to the regulatory framework within which the company operates or may in the future operate, environmental conditions including extreme weather conditions, recruitment and retention of personnel, industrial relations issues and litigation.

Forward looking statements are based on the company and its management's good faith assumptions relating to the financial, market, regulatory and other relevant environments that will exist and affect the company's business and operations in the future. The company does not give any assurance that the assumptions on which forward looking statements are based will prove to be correct, or that the company's business or operations will not be affected in any material manner by these or other factors not foreseen or foreseeable by the company or management or beyond the company's control.

Although the company attempts and has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in forward looking statements, there may be other factors that could cause actual results, performance, achievements or events not to be as anticipated, estimated or intended, and many events are beyond the reasonable control of the company. Accordingly, readers are cautioned not to place undue reliance on forward looking statements. Forward looking statements in these materials speak only at the date of issue. Subject to any continuing obligations under applicable law or any relevant stock exchange listing rules, in providing this information the company does not undertake any obligation to publicly update or revise any of the forward looking statements or to advise of any change in events, conditions or circumstances on which any such statement is based.