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17 December 2015

Company Announcements Office
Australian Securities Exchange
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Letter to Shareholders and Noteholders

Attached is a copy of a letter which is being dispatched today to all shareholders and noteholders.

A handwritten signature in black ink, appearing to read 'Ivo Polovineo'.

Ivo Polovineo
Company Secretary

17 December 2015

Dear Shareholder/Noteholder,

As we close out the year, we are pleased to report to you that that we have completed the process of successfully restructuring the balance sheet and reenergising Mineral Hill.

Restructuring the Balance Sheet

In March 2015 we secured financiers to restructure the balance sheet with a view to removing unsustainable debt, as well as upgrading and refreshing the Mineral Hill asset through capital improvements and development. This followed a period in November 2014 where our previous financiers made various false claims in and out of court. We won the court case, paid back the debt in April 2015 and welcomed our new financiers - Quintana Minerals Corporation Group. Quintana Resources Holdings LP invested USD 23 million. The funds they invested paid back the existing debt and allowed for the upgrades and development at Mineral Hill.

Mineral Hill

Over the last 8 months not only have we accessed new capital and completed the restructuring of the balance sheet, we have also been focused on energizing Mineral Hill.

Upgrades have included:

- ✓ Installation, commissioning and use of a new CIL plant to treat sulphide tailings and oxide ore – producing gold and silver dorè
- ✓ Installation of a flotation cleaner circuit
- ✓ Upgrade of the reagent handling system to improve processes and provide reagents to the new CIL circuit
- ✓ Installation of a new thickener to allow for the treatment of copper, lead and zinc concurrently
- ✓ Installation of new flotation cells doubling capacity and allowing for significant efficiency upgrades which have been the key to strong gold recoveries
- ✓ Upgrade of the tailings dam
- ✓ Significant underground development

We have completed significant underground development of 1,843 metres, a record in KBL's and Mineral Hill's history. The Southern Ore Zone ('SOZ') decline has reached its deepest level to access the G lode and B and C lodes. The G lode access has been developed on strike on the 60 and 25 levels.

The complex underground geology led to issues with grade despite reaching record tonnage production levels. So as to improve our knowledge for a successful restart of underground production in the future, we are now only developing underground and have paused

production. Before returning to underground production we will carry out a significant diamond drilling program to substantially improve the definition of the resource and improve the reliability and precision on the underground mine plan.

To enable cashflow to continue during the focus on underground development we changed our original mine plan and moved to the Pearse Open Cut 3 months earlier than originally planned. The fast track of the Pearse development saw the movement of some 600,000 BCM of waste – over two thirds of the total waste to be moved. We have now been mining ore from the open pit for 3 months averaging 6.5 g/t gold with 2 oz/t silver, this is consistent with the measured reserve model. This change in mine plan highlights a key benefit of Mineral Hill's diverse mineral endowment.

The Pearse open cut ore body is generating significant cash flow which can be used to continue aggressive underground development including a close spaced drilling program with a view to developing a very robust mine plan. KBL has an excellent underground ore body being shallow and continuous, however it needs the time and funds to carry out appropriate drilling to understand the geology. The medium to long term future of the mine are the underground orebodies.

The transition to open pit mining along with the significant upgrades in process has resulted in KBL being positioned as a low cost producer with the flexibility to mine a range of metals and the ability to maintain a low cost base across its resource base including the return to underground production.

Conclusion

KBL has transformed significantly over the past 18 months which has set the Company up for and secured an exciting future for the Company and its assets. We are producing at a low cost base with significant grades and we anticipate our first gold pour in the next 7-10 days resulting in strong cash flows.

The KBL Board would like to thank all of our stakeholders which have contributed to the continued success of the Company over the past 18 months. Specifically, Quintana Minerals Corporation (financiers) and MRI Trading (offtake partners) for their ongoing support of the Company in difficult circumstances, our staff both in the office and on site who have tirelessly dedicated their time and effort above and beyond what could be expected to get the Company through the tough times and most importantly we thank you, the Shareholders, for your continued support of the Company.

We hope you have a safe and happy holiday season.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Brian Wesson', with a small horizontal line drawn below it.

Brian Wesson
Managing Director
KBL Mining Limited