

Proto Resources & Investments Ltd.

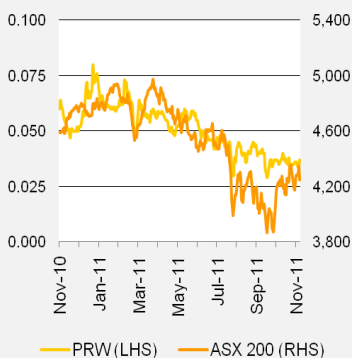
(Ticker: ASX:PRW)

December 02, 2011

RB MILESTONE GROUP 
EQUITY RESEARCH AND MARKET INTELLIGENCE

| | |
|---------------------|-------|
| Price (A\$): | 0.031 |
| Target Price (A\$): | 0.149 |
| Beta: | 1.19 |
| Price/Book Ratio: | 1.20 |
| Debt/Equity Ratio: | 0.0 |
| Listed Exchange: | ASX |

*Coverage initiation: March 02, 2011



Recent News

04/11/2011: PRW completes two fixed loop transient and electromagnetic surveys at its Lindeman's Bore project area during September-October 2011.

02/11/2011: PRW executes agreement with Deutsche Rohstoff AG for acquiring Granulite Mountains licence in Saxony, Germany. The licence is considered prospective for nickel, cobalt, copper, chrome, silver and gold.

25/10/2011: PRW agrees to substantially increase the feasibility study throughput for the Barnes Hill project from 250,000 tons per annum to 500,000 tons per annum.

18/10/2011: Meteoric Resources NL releases drill results for its Tibooburra gold project. Meteoric Resources is exploring EL6286 under an earn-in with Awati Resources, in which PRW holds an 8.88% equity stake.

06/10/2011: Metals Finance Limited (MFC) completes a detailed feasibility study on the Barnes Hill project. Barnes Hill project is a JV between MFC and PRW.

Shares in Issue

432.20 M

Market Cap

(\$M) 14.09

52 Week (High): A\$0.08

52 Week (Low): A\$0.025

Huge Upside Once Barnes Hill Commences

Proto Resources & Investments Ltd. is an Australia based resource development company, focusing on nickel, cobalt and iron ore, while also engaging in exploration program concentrating on copper and nickel sulphide targets across Australia. The company's flagship project is the Barnes Hill Project which has 12.1 million ton Joint Ore Reserve Committee (JORC) compliant indicated resource at 0.83% nickel and 0.07% cobalt. Apart from the Nickel project, Proto is in possession of numerous attractive exploration targets which it is currently evaluating.

It has been a busy two quarters for the company since our last update with progress made on several fronts. The company signed a landmark deal with mining equipment giant Caterpillar Inc. for equipment supply as well as financing of US\$36 million for development of its Barnes Hill project. The deal was clinched after the company was granted the Barnes Hill lease in June 2011 and subsequently lodged the Development Application (DA) and Development Proposal and Environmental Management Plan (DPEMP) in September 2011, two important milestones. Proto also reported increased throughput from the project.

In addition, the company reported continued progress on its Barrier Bay technology as it conducts leaching of 10 tonnes of Barnes Hill ore using the technology. Other developments included acquisition of Granulite Mountains in Germany (no financial details available), ZTEM survey conducted at Lindeman's Bore and Wave Hill, FLTEM conducted at Lindeman's Bore. The company also received grant of first Doolgunna tenements.

Investment Arguments

- **Significant Progress at Barnes Hill with Near-term Production Potential:** The company received the mining lease for its Barnes Hill project in June 2011, following which it lodged the DA and DPEMP. Fresh independent research has indicated a reserve of 6.6Mt at 0.82% Ni and 0.06% Co at a 0.5% Ni cut-off for the Barnes Hill deposit. The company has revised the throughput since our last update to 500,000t p.a. (doubled from 250,000t p.a. previously) as a result the expected life has been revised to just over 15 years. Our valuation includes cash flows from this project only. We also believe that the deal with Caterpillar significantly improves the risk of the company.
- **Technologically Strong, DFS Three Quarters Away:** Proto's unique acid recycling technology, Barrier Bay, is superior to traditional existing High Pressure Acid Leach (HPAL) technologies used in Australia. Not only will this technology lead to lower opex and capex, but will also lead to turning iron and magnesium (by products from laterites) into saleable products and is also environment friendly. Testing results have also continued to reinforce the environmental credentials of the process. In addition, Proto's partner Metals Finance's low-pH nickel recovery system that has been successfully deployed in Palabora Mine in South Africa, further adds to the technological appeal of Proto. The company may also generate third party sales from its technologies. In fact, Proto will look to replicate this model at its recent acquisition in Germany. Detailed feasibility study is now expected by Q2 2012.
- **Promising Exploration Opportunities in Western Australia and Northern Territory:** Proto has continued to expand its exploration horizon through acquisition of attractive new, as well as existing, licenses. Proto's license areas in NT are said to have giant Norilsk style Ni-Cu-PGE mineralization while many of the other prospects are located in close vicinity to known mineral reserves.

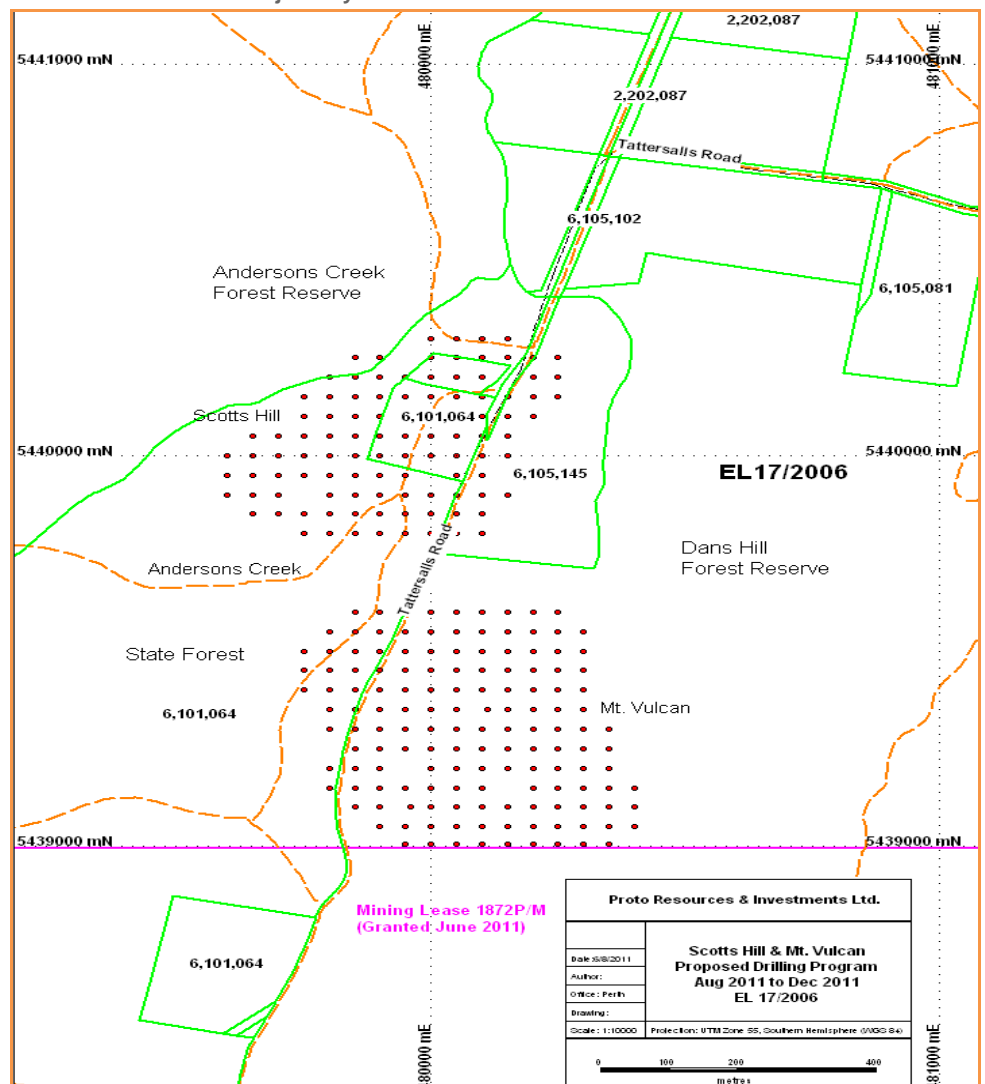
Key Developments

Barnes Hill Mining Lease Granted

In June 2011, Proto received Mining Lease (ML) 1872 P/M from the Tasmanian Government for the company's flagship Barnes Hill project near Launceston. The initial term would allow for mining for 15 years, through to 2026 once land permits are issued. Below is the outline of the mining lease area, mining pits and placement of processing facilities in the now completed Development Proposal and Environmental Management Plan (DPMP) for Barnes Hill. The ML gives Proto authority to carry out mining operations on the area of land covered for the minerals, subject to receipt of environmental and planning clearances for the mine plan and processing facility that has been designed.

The specified coverage of the ML approved by the Minister for Energy and Resources includes all metallic minerals and "Construction Materials". This will allow Proto to pursue its high value-add poly-metallic processing route, where nickel, cobalt, iron and magnesium products are to be produced. Proto is also undertaking analytical work on the beneficiation of ironstone material which overlies the lateritic nickel bearing zones and expects these to provide an additional revenue stream

Exhibit 1 : Barnes Hill Project Layout



Source: Company Reports

Upon completing the lease deed the company forwarded A\$250,000 security deposit to Mineral Resources Tasmania. The security deposits will be further incurred in line with the

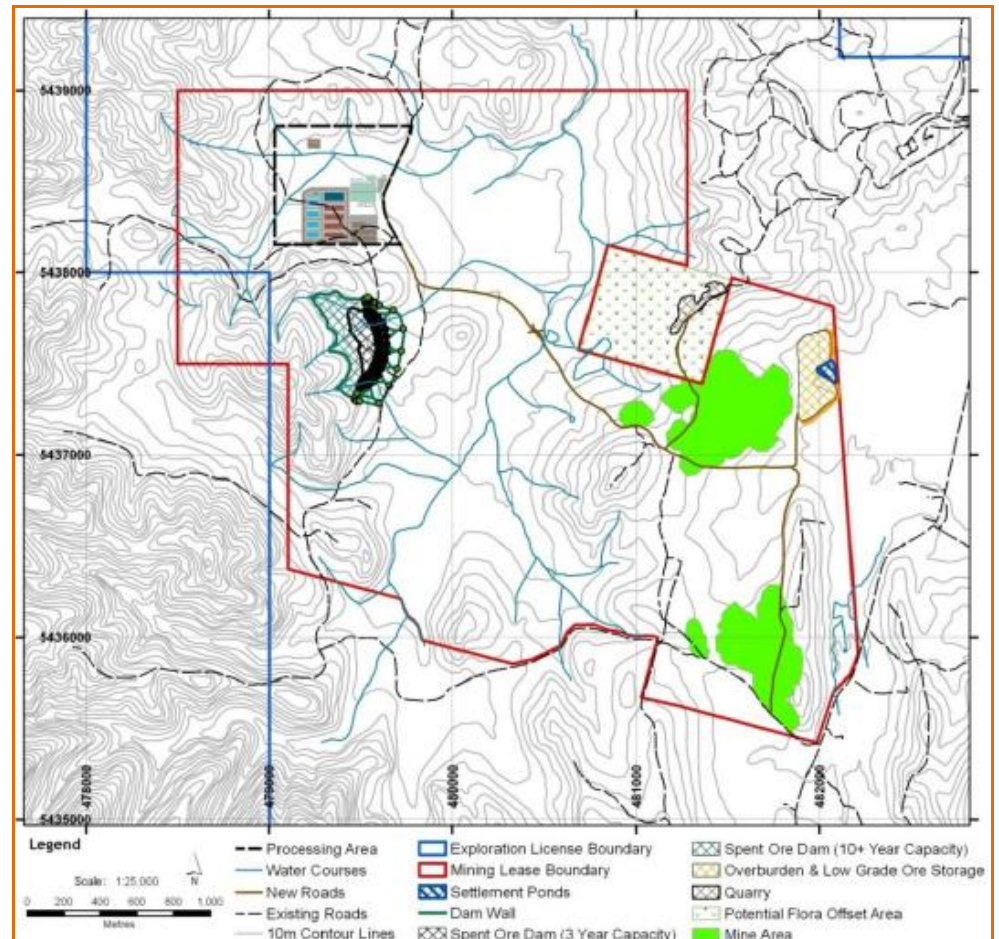
progress made on the project. The first stage A\$250,000 deposit will allow all necessary work for delivery of the detailed feasibility study. In the next stage, the security deposit will increase to A\$1.5m on the granting of the land use permit for mining and this second stage will allow minor construction such as fencing, roads, associated drainage and the clearing of vegetation. The deposit will then increase to a third level to allow for major construction and the subsequent commencement of mining. The lease grant was necessary to advance financing of Barnes Hill.

Barnes Hill Mining Application Lodged

Subsequently, in September 2011, Proto announced lodging the Development Application (DA) and Development Proposal and Environmental Management Plan (DPEMP) for the company's Barnes Hill nickel-cobalt deposit. The application covers the approvals required for the construction of processing facilities, the commencement of mining, and ongoing environmental management.

The agreement also gives Proto the right to acquire land adjacent to the proposed Barnes Hill to donate it as an environmental reserve to offset impacts. The land covers 105 ha, including 87 ha of higher conservation value native habitat that will offset the impact of mining. Under the terms of the Mining Lease, only 65 ha of area will be being utilized for mining and processing at any point with ongoing rehabilitation of mined areas to be undertaken on a rolling basis. This will create a situation where the offsets surpass the impacted area at all times during the operation of the mine.

Exhibit 2 : Barnes Hill Site layout with Offset Area Marked



Source: Company Reports

Increased Throughput at Barnes

Towards the end of October 2011, Proto announced achieving a higher mining rate of 500,000 tonnes per annum for the Barnes Hill nickel-cobalt project. Initially, the company's JV partner Metals Finance was targeting to complete a definitive feasibility study by Q2 2012 focusing on costing and modeling of the project at a throughput rate of 250,000tpa. It showed that economies of scale and consistent nickel recovery from the leach are the primary economic drivers for the project, with first pass operating and capital costs estimates indicating that an increased scale of 500,000tpa would achieve a more optimal return on investment.

Proto's JV partner Metals Finance also completed a letter of intent in October with Dow Chemical, relating to a technology alliance between them. Dow is contributing technical know-how and process engineering input associated with the use of its Ion Exchange Resin separation technology at Metals Finance's Lucky Break nickel laterite project in Queensland.

During Q4 2011 Proto has taken two 10-tonne saprolite samples from Barnes Hill for testing to inform the expanded definitive feasibility study currently underway as well as the integration of the Barrier Bay processing technology. Proto's geological team has already conducted inspections of the Mining Lease sites that have been identified for excavation. A site visit with Mineral Resources Tasmania to obtain approval for the sample collection has been completed and approvals to begin are awaited.

Financing Arrangement for Tasmanian Nickel Project

In August 2011, the company signed an agreement with mining equipment giant Caterpillar Inc. according to which Caterpillar will become the equipment supplier and debt financier for the Barnes Hill project in Northern Tasmania. While Caterpillar Inc. will provide the mining equipment, Caterpillar Financial SÀRL in Zurich will manage the financing of the Barnes Hill project.

Caterpillar Financial is the financing arm of Caterpillar Inc., the world's largest manufacturer of construction and mining equipment, diesel and gas engines, and industrial gas turbines. Proto has signed with Caterpillar Financial on the basis of their unique combination of a first-class balance sheet and the ability to link this balance sheet to equipment supply. The financing facility is to the tune of US\$36 million and will cover 60% the total project costs. The remaining 40% of project construction and development costs are to be provided by equity funding from Metals Finance, off-takers and their associates. The entire amount will be delivered by April 2012 when construction approvals are also planned for finalization. The commitment letter is to deliver a debt finance facility consisting of a Senior Secured Project Loan (Project Loan) along with a Subordinated Loan (Subloan). Both the Project Loan and Subloan would have a payback period of five years from the end of the availability period.

Proto determined that Caterpillar's machinery was the best available for the project on the basis of the mine plan that identified the mixture of excavator, dozer and front end loaders required in conjunction with the haul truck fleet. Caterpillar Inc. has an unrivalled reputation for quality and service that has enabled it to become the world's largest manufacturer of construction and mining equipment.

Operations will be based on CAT 972H loaders for the mining, moving, screening, stockpiling and loading of transport trucks. This will be supported by CAT D10 sized dozers engaged in ground clearance and top soil removal and also supported by smaller CAT D6 sized dozers in managing spent ore.

Exhibit 3 : 972H Wheel Loader (left) and D10 Dozer (right) for Mining at Barnes Hill



Source: Company Reports

Barrier Bay Technology Update

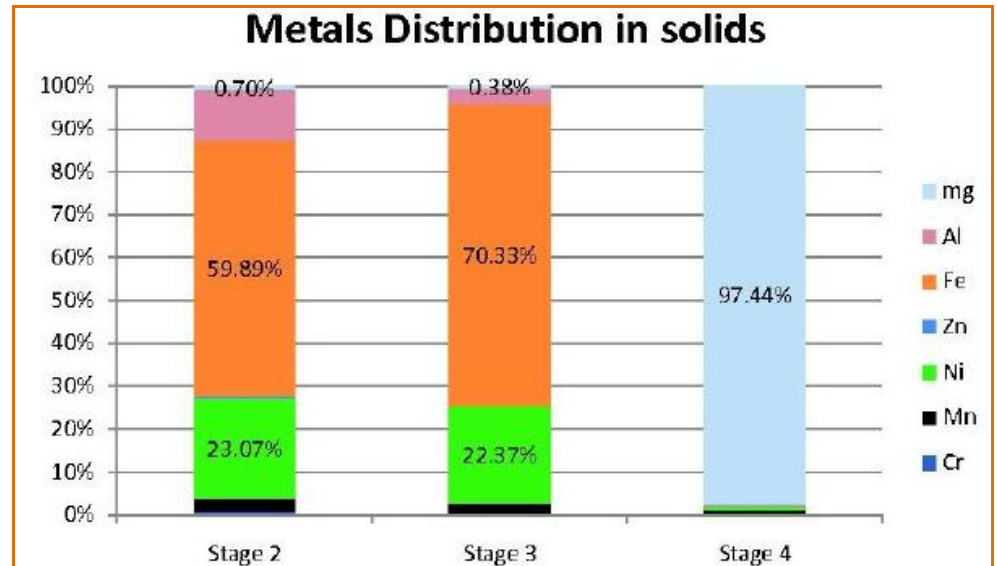
The company reported progress on the Barnes Hill ore leach and Barrier Bay technology pilot program. Proto is conducting leaching of 10 tonnes of Barnes Hill ore and comparing vat loading methods, and assessing leach characteristics and metal recoverability. Testing has shown that the Barrier Bay process results in a more benign solution than conventional laterite processing, thereby reducing significantly the potential environmental impact of the process flow sheet. Proto's JV partner Metals Finance Limited has also conducted specific nickel recoverability tests in the form of bottle-roll trials.

The proposed flow chart for utilization of the 5-step Barrier Bay acid recovery technology comprises four proprietary stages and an Ion Exchange ("IX") step for selective recovery of nickel between stages 1 and 2.

- **Stage 1** aims to achieve ferric reduction of the pregnant liquor solution ("PLS"), and is followed by IX to effectively separate nickel from iron. The nickel solution is then sent for conventional electro-winning.
- Following this, **Stage 2** of the technology is aimed at concurrent acid recovery and removal of the major iron content together with minor contained metals including copper, aluminium, and chromium.
- **Stage 3** of the process is aimed at removing a mixed product containing iron, manganese and magnesium.
- **Stage 4** of the process targets the majority of the remaining sulphate together with a higher magnesium content hydroxide.

Testing has shown that this leaves an inert and benign end solution, which can be more cheaply and safely stored. Importantly, the target total sulphate recovery and regeneration is >90%. Early testing has taken place without the IX stage, in order to provide data on the sequential recovery across all constituent metals

Exhibit 4 : Sequential Metal Recovery in an Early Barrier Bay Trial



Source: Company Reports

Bench scale testing has already provided the confidence to establish the target acid recycling and metal recoveries that optimization will work towards. Iron deposition from solution occurs in agreement with the order of hydroxide precipitation, allowing controlled recovery of the metals. Based on the earlier bench scale testing and the current pilot plant results, target metal removal is aimed at recovering approximately 99.9% of the iron, >90% of manganese, >80% of the magnesium, and 99% of minor contained metals.

Product produced from the pilot plant is shown in the figure below. The material shown is primarily an iron product, which consists of a mixture of oxide or hydroxide species and is strongly magnetic.

Exhibit 5 : Sequential Metal Recovery in an Early Barrier Bay Trial



Source: Company Reports

In order to allow further trials that will optimize process voltages and pH levels, and in order to produce product examples for presentation to potential off-takers, Proto will be taking two new saprolite samples from Barnes Hill in September. These further Barnes Hill ore samples will be processed in successive leach trials commencing later in the year. The saprolite zone is the higher nickel content horizon that Proto and MFC will be specifically targeting in developing the Barnes Hill project. There is also additional nickel hosted in the higher limonite horizon at Barnes Hill which, using the Barrier Bay process, could be considered as part of the Barnes Hill project's future. This would see Proto gaining revenue from surface, through the beneficiation of the ironstone cap, first limonite layer as well as the primary nickel bearing saprolite layer.

ABR and Barrier Bay Pty Ltd are currently testing and selecting membranes for the full 5-step processing of the mixed metal sulphate PLS that will be generated from the leaching of these new saprolite samples. This processing will also include the nickel IX step. The choice of membranes is important to achieving minimal power consumption. The wear of

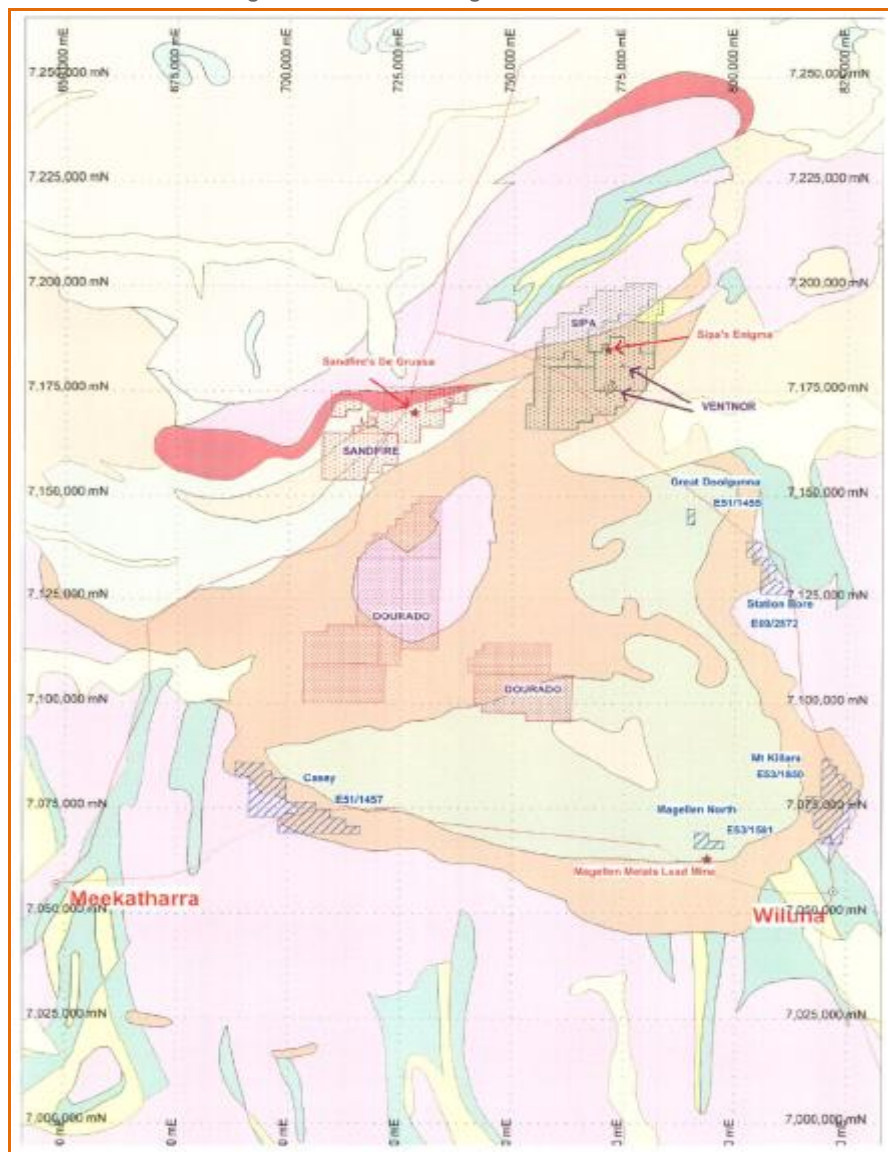
membranes is also important as membrane replacement contributes to variable costs. Proto is pleased with the progress so far, and believes that operation using the optimal membranes will create a step-improvement in the cost of processing lateritic nickel ore. Recommencement of the pilot trial will occur when the new preferred membranes are received and installed.

Grant of First Doolgunna Tenements

At the end of September 2011, Proto received grant confirmation for the Casey project (E51/1457) and the nearby Great Doolgunna project (E51/1455). Both projects are located in the Yerrida Basin, which has seen encouraging exploration results in recent times of Western Australia and were granted following applications lodged in late 2010.

The Casey project consists of 63 sub-blocks (192 km²) and the Great Doolgunna license covers 2 sub-blocks (6 km²). Proto has three other tenements under application within the same region. These are: E53/1580 (named Mt Killara), E53/1581 (named Magellan North) and E69/2872 (Station Bore). These applications are currently under Native Title assessment and Native Title Agreements are expected to be negotiated as needed according to standard practices. The following figure shows the position of the granted tenements and current license applications in relationship to other explorers who have been successfully undertaking active exploration within the region.

Exhibit 6 : Proto's Doolgunna License Holdings



Source: Company Reports

Exploration successes near the Great Doolgunna project include the work of Sipa Resources Ltd and Ventnor Resources Limited. Sipa Resources Ltd have intersected very encouraging grades in wide-spaced exploration drilling at their Enigma Project with results of up to 8m @ 3.7% Cu, and 2m @ 5.1% Cu. Nearby, Ventnor Resources have also intersected extremely promising drill intersection at their Thaduna and Green Dragon Prospects. These include 7m @ 5.70% Cu, 7m @ 5.58% Cu, 11 m @ 5.57% Cu, 12 m @ 5.07% Cu, 5 m @ 6.07% Cu and 5m @ 6.93% Cu.

The large license area covered by the Casey project is near the holdings of Dourado Resources Ltd. Dourado Resources have conducted extensive geophysical and geochemical exploration programs and have so far highlighted 13 anomalous zones (for copper and/or gold) which appear to show a close correlation to identified structures.³ Proto hopes that the Casey project will provide a similar opportunity to examine local structural features.

Proto will embark on its first Doolgunna exploration programme as soon as is practicable, and is already moving to assemble logistics and the ground team. This is being planned around the results of the already commenced desktop studies that began with the analysis of data generated by previous explorers in the region, including the recent results noted above. The first field studies will comprise mapping and associated geochemical surveys (soil sampling/rock chip sampling)

Waterloo Research Expedition Completed

In October 2011, a team from the Queensland University of Technology led by Dr David Murphy has completed a research expedition over the Company's Waterloo project. Waterloo is being explored under Proto's joint venture with Peak Mining and Exploration Limited ("Peak") and is situated approximately 80km southeast of Kununurra in the Kimberley region of the Northern Territory. Waterloo sits within the extensive Antrim Plateau Volcanics. Waterloo comprises two granted exploration licenses (EL27416 and EL27420) and two applications (EL28504 and EL28505) that sit near the major structural feature, the Blackfellow Creek Fault.

The Waterloo area in the vicinity of the Blackfellow Creek Fault has extensive outcrops of the Antrim Plateau Basalts. This trip follows the earlier one in November 2010, when the northern most basaltic outcrops in the vicinity of the Blackfellow Creek Fault were extensively mapped through a series of stratigraphic traverses. In that area the basalts were found to be almost perfectly flat lying and have relatively low degrees of alteration. In addition, most of the area mapped to the west of the Blackfellow Creek Fault demonstrated a coherent stratigraphic package of lavas that could be correlated over ~10km.

However, a small number of traverses that were done further to the south but still to the west of the fault and traverses to the east of the fault all had very different stratigraphies that could not be correlated. Upon investigation of aerial photographs and regional magnetic data it became clear that the Blackfellow Creek Fault had a number of fault splays that appeared to be Riedel shears that correlated with the stratigraphic breaks.

As part of the field trip a series of stratigraphic traverses to the south of the previously mapped area in the vicinity of Riedel shears to the east and west of the Blackfellow Creek Fault were conducted. These have been completed to provide data to better constrain the stratigraphy between the faults and to ascertain whether or not the Black Fellow Creek fault and the Riedel Shears separate distinct coherent fault bound blocks. The traverses are in the vicinity of the two regional stratigraphic drill holes, Waterloo 1 and 2, that were drilled by the BMR in 1969. This will now allow for the stratigraphic sequences encountered within the drill holes to be extended vertically.

All stratigraphic traverses were extensively sampled for petrological and geochemical investigation. The geochemical data obtained will examine features of the lava to make inferences about the lava formation. This will include petrological and barometry calculations (i.e., low pressure and melting experiments). This work is now underway and

will provide invaluable information on the location of potential vents across a larger area of Proto's tenements.

The field trip also investigated the nature of malachite mineralization around the Limestone Hill locality. Several days were spent collecting samples and mapping zones of mineralization at the Antrim Plateau Volcanics/Headleys Limestone contact.

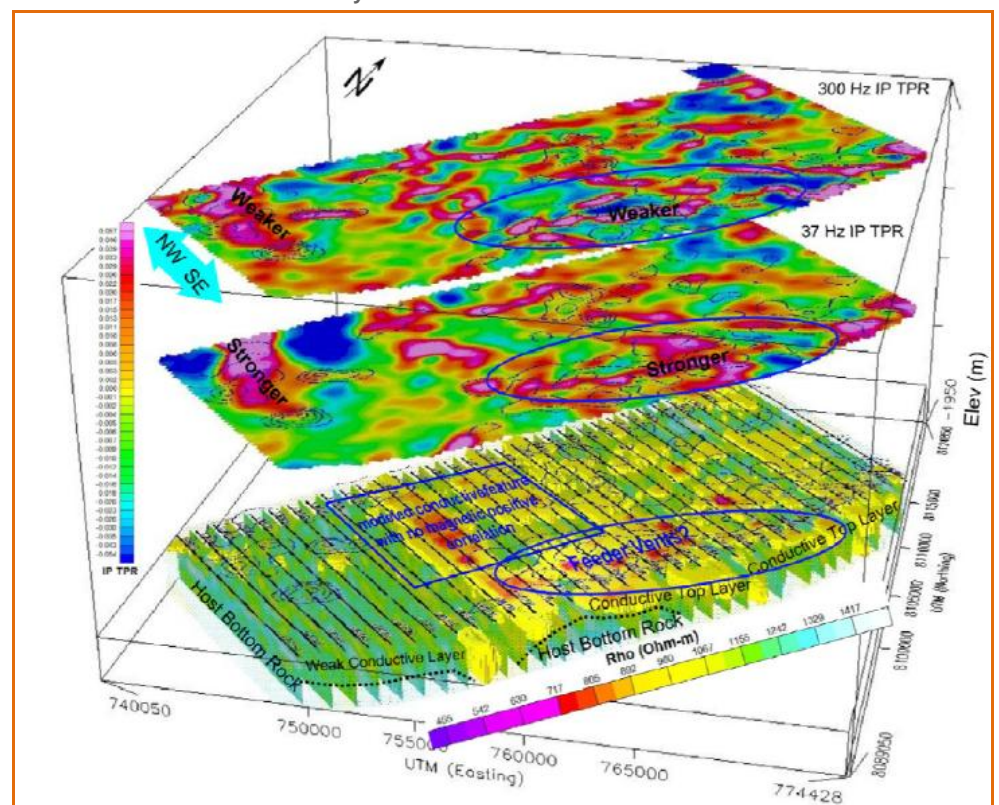
ZTEM Survey at Lindeman's Bore and Wave Hill

In Q2 2011, Proto and JV partner Peak Mining and Exploration Limited announced the results of a Z Axis Tipper Electromagnetic system (ZTEM) airborne geophysical survey at Lindeman's Bore (EL25307) and Wave Hill (EL27413, EL27617 & EL27618) located 380km south-west of Katherine in the Northern Territory. The ZTEM survey was the first large scale commercial use of this new system in Australia. 918 line kms of ZTEM were flown over the project areas at line spacings of 1km. This program represented the first large scale commercial use of ZTEM in Australia. ZTEM has the capacity to see to a depth of up to two kms in resistive environments.

At Lindeman's Bore the ZTEM survey results have outlined small anomalies and deeper resistivity breaks, particularly in the low frequencies that are associated with the main magnetic anomaly where previous deeper drilling efforts had been focused (LBD-1 and LBD-2). The ZTEM data was evaluated in concert with geological information from surface work as well as the two exploratory drill holes.

At Wave Hill the results have outlined various anomaly trends sub parallel and perpendicular to the flight lines. The most prominent anomaly (A-trend) correlates well with an elongated magnetic anomaly that is believed to be at relatively shallow depth (<200m). 2D inversion relating to this A-trend showed weakly conductive features below this magnetic anomaly that could be responding to structural controls

Exhibit 7 : Wave Hill 2D Resistivity Inversions



Source: Company Reports

Lindeman’s Bore FLTEM and Drilling Target

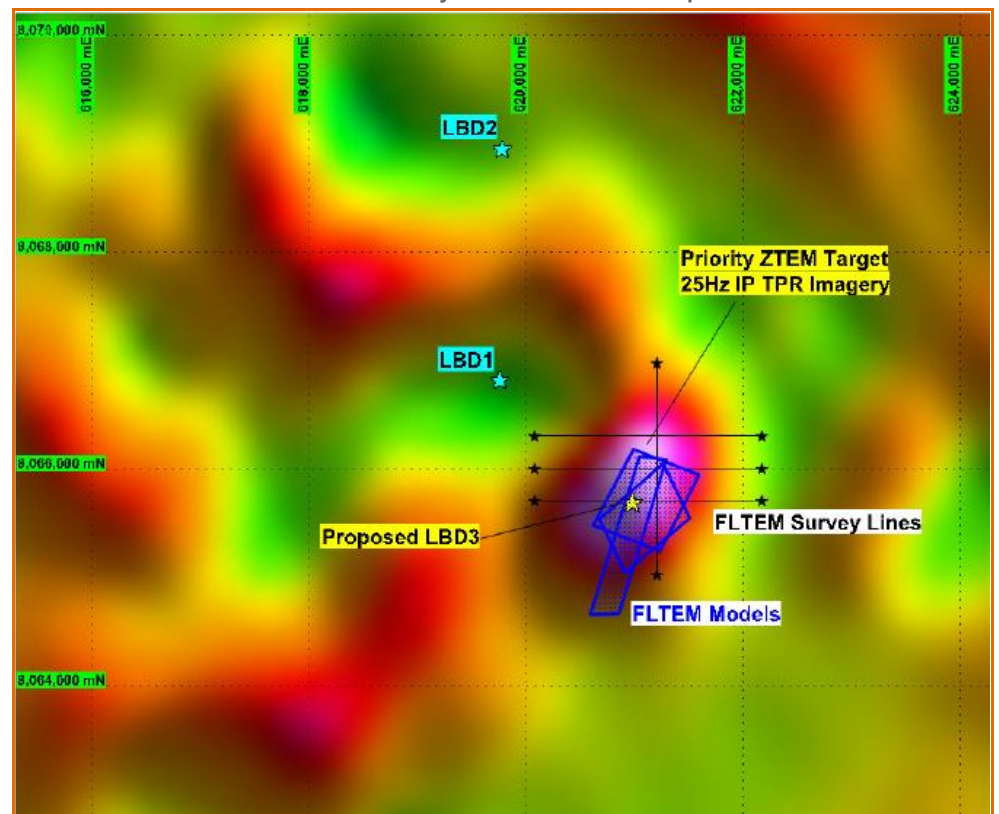
During September and October 2011, Proto completed two FLTEM ground surveys at the Lindeman’s Bore project. The aim of the FLTEM surveys was to confirm/delineate bedrock anomalies of potential interest coincident with or adjacent to the priority ZTEM target defined at Lindeman’s Bore 1.5km southeast of the original LBD-01 deep drill hole.

All data was acquired with a Crone PEM Coil (dB/dt) combined with a Crone PEM receiver working at a base frequency of 1.67Hz. The large transmitter loops (both 1000mx1000m) utilized during this program were powered by a Crone PEM transmitter working at ~20A current (single turn loops).

Assessment of the FLTEM survey data highlighted the presence of a broad, deep bedrock type anomaly within the vicinity of the ZTEM priority target area. Initial modeling of this FLTEM anomalism using both transmitter loop datasets indicates that the associated bedrock source has a large area (size >500x500m), is situated at a reasonably significant depth (~250-400m from surface), appears to be tabular in nature (having the potential to be a thick conductive unit), is likely to be steeply orientated and lies in a NNE-SSW direction. Modelled conductance levels were low to moderate across the conductor (~50-500S+).

A proposed new diamond drill hole (LBD-03) is to be drilled to test this deep bedrock conductor. The following figure shows the location of FLTEM surveying completed with respect to the ZTEM results (as background) and the location of the ZTEM priority target, previous drill holes LBD-01 and LBD-02 and the proposed new LBD-03 hole.

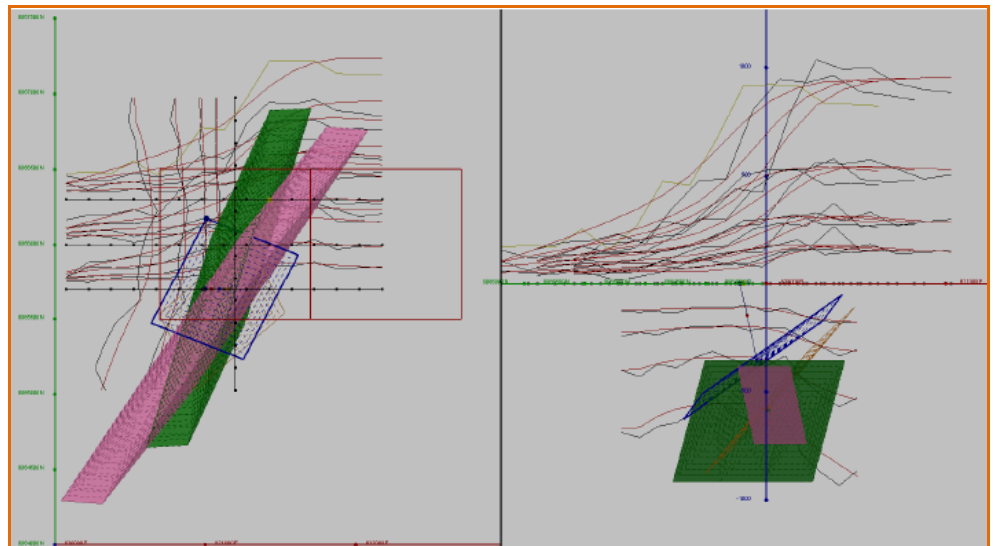
Exhibit 8 : Lindeman’s Bore FLTEM Survey Model Results and Proposed LBD-03 Location



Source: Company Reports

The figure below shows the FLTEM modelling results and the placement of the proposed LBD-03 target hole.

Exhibit 9 : Lindeman's Bore FLTEM Survey Model Results and Proposed LBD-03 Location



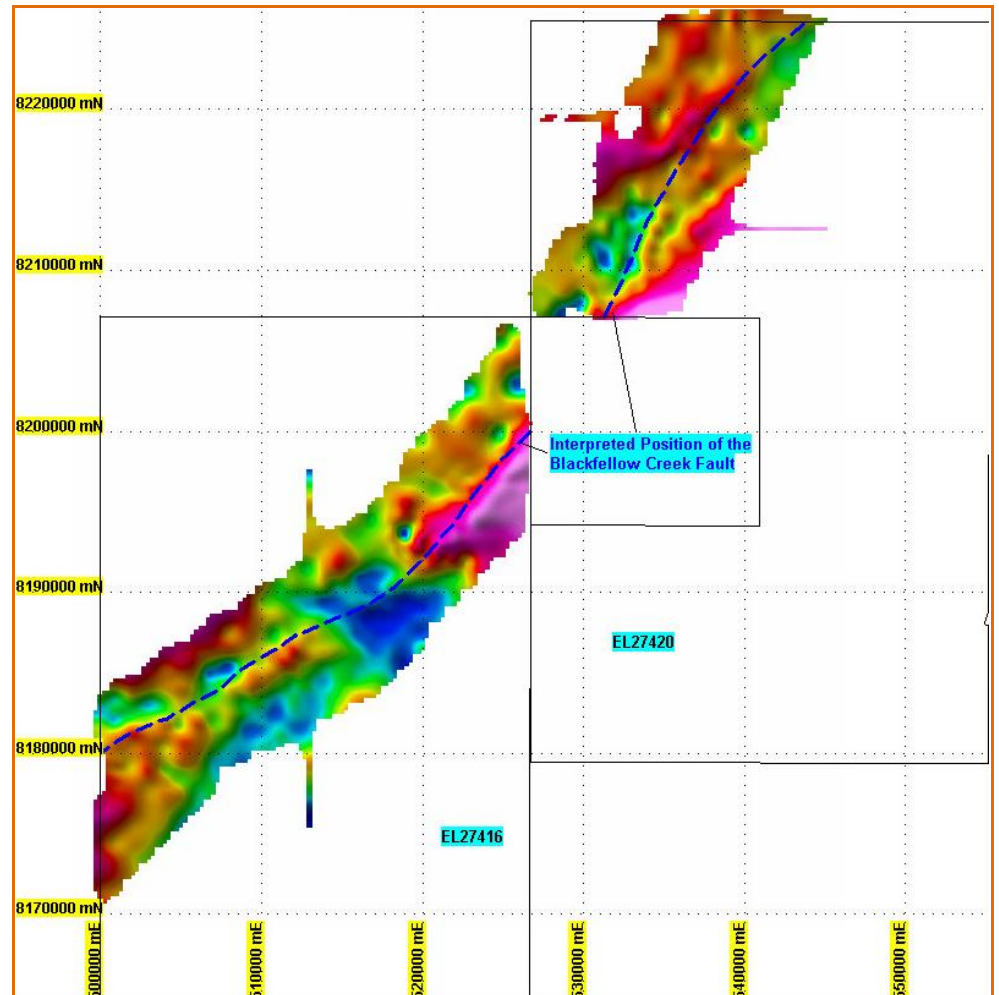
Source: Company Reports

Proto believes that this third hole may clarify the results returned from Lindeman's Bore drilling to date. Those results included 24m @ 4.92g/t Ag from 32m, and 5m @ 0.13g/t Au from 380m at LBD-01, and 7m @ 1.1g/t Au with Pd grading between 0.009 to 0.453g/t from 424m, and 14m @ 0.106% Cu from 467m in LBD-02. The elevated levels in LBD-02 were returned within the Proterozoic Birrindudu Group that is composed of graphitic and sulphide-bearing black shales and minor porphyry dykes. Proto will update on the planned drilling schedule once the drilling contractor has confirmed mobilization dates.

Waterloo Project Survey Program

During Q2 2011, the company also commenced a semi-regional ground gravity survey programme over its Waterloo project. Waterloo is located in the NT approximately 350km southwest of Katherine, NT and 75km southeast of Kununurra, WA. Waterloo comprises two granted exploration licenses (EL27416 and EL27420) and two applications (EL28504 and EL28505). Preliminary gravity results received subsequently in July are encouraging and are clearly mapping the major structural suture/conduit present at Waterloo. This structure, the Blackfellow Creek Fault, is orientated in a ~NE-SW direction. Several discrete gravity anomalies of potential interest are present along this major structure and are to be investigated further.

Exhibit 10 : Initial Gravity Survey Results from Waterloo



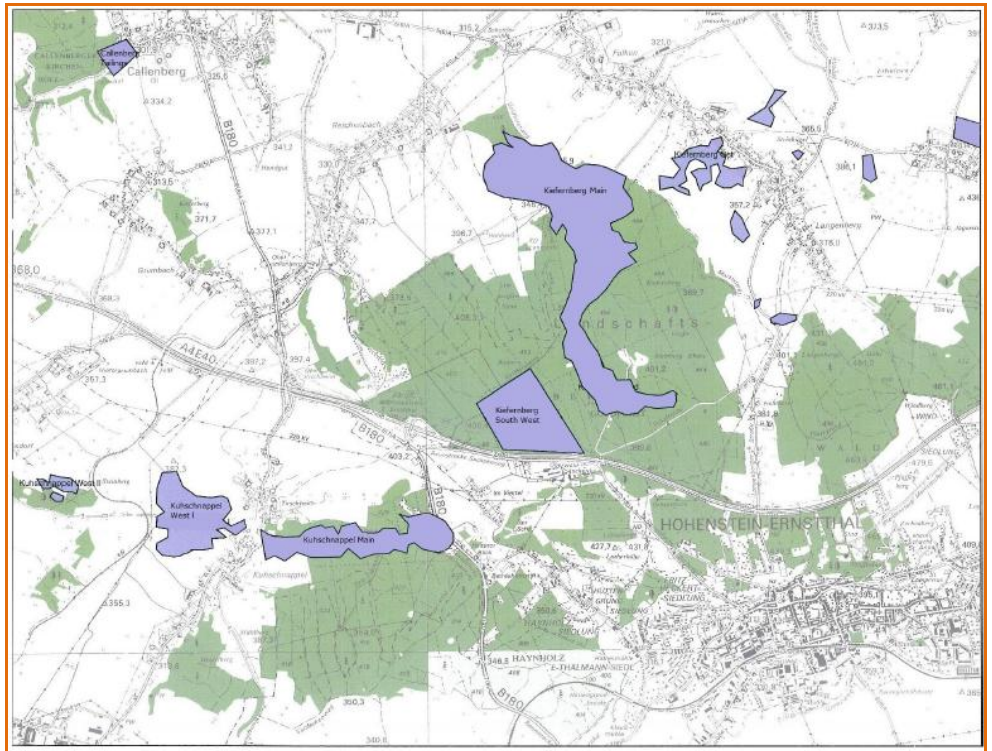
Source: Company Reports

Following these results, Proto has now also commenced the next exploration program planned at Waterloo. A research team from the Queensland University of Technology is undertaking a field trip to conduct a series of stratigraphic traverses to the south of Riedel shears that have been identified to the east and west of the Blackfellow Creek Fault.

Acquisition of Granulite Mountains in Germany

In June 2011, Proto announced that it had executed an agreement with Deutsche Rohstoff AG that gave it the right to acquire the Granulite Mountains license (No: 32-4741.1/649). This license is in Saxony, Germany located ~ 50km west of Dresden. The license covers over 600km² and encompasses known nickel-cobalt mineralization where over 1200 drill holes have been completed with 0.5m assaying on a tight drill spacing of less than 30x30m. This should allow rapid completion of the necessary allow sufficient quality assurance/quality control ("QAQC") to define a JORC-compliant resource using the historical data to support mine planning and plant engineering. Proto has identified the Kiefernberg mineralization as the leading prospect and engaged a local geological and environmental consultancy to undertake preliminary analysis on the mineability of the area.

Exhibit 11 : Initial Gravity Survey Results from Waterloo



Source: Company Reports

Proto considers that Kiefernberg represents an excellent opportunity to replicate the plant that has been designed for its flagship project at Barnes Hill in Tasmania. The economic potential of the project is reinforced by the proximity of infrastructure, with roads and electricity passing over the license just a few hundred meters from the mineralization. A high intensity 220kV power line is also just 1.5km from the project area. Proto's processing technology is also well suited to the project, offering first-class environmental outcomes. The license also contains a brown field former nickel mine as well as several other known nickel mineralizations.

At the end of the quarter, the project to compile all historical geochemical results into a digital database was well advanced. Proto will then prepare and implement a program of targeted drilling to provide the necessary confirmatory information to utilize this data in resource modeling.

Other Financial Developments

- **Cancellation of Moving Strike Options.** In July 2011, Proto and Macquarie Bank Limited mutually agreed to cancel the unexercised Moving Strike Options on issue to Macquarie. Under the terms of the arrangement the company may cancel any amount of Moving Strike Options at any time with 20 business days' notice of the announced cancellation. Of the 88,235,294 Moving Strike Options issued to Macquarie, 74,085,294 currently remain unexercised
- **Expiry of Options.** The company's options exercisable at A\$0.20 on or before 31 August 2011 (PRWO) expired on 01 September 2011. A total of 23,650,555 options lapsed unexercised.

New Chairman Appointed

On 1 September 2011, the company appointed the Honourable Ian Campbell took on the role of Chairman of the company. Mr Campbell had been an independent non-executive director of Proto since 2008, when he retired from Federal politics after a distinguished

career spanning 17 years in the Australian Senate. This included serving as the Minister for the Environment and Heritage and involvement in the Corporate Law Economic Reform Program (CLERP).

Mr Campbell replaces Mr Andrew Mortimer in the role of Chairman. Mr Mortimer is continuing in the capacity of Managing Director, where he will focus more closely on achieving production at Barnes Hill where first shipments are planned for early 2013 and where the equipment supplier and finance arranger were appointed in the quarter.

Latest Financial Results

Exhibit 12 : Annual Income Statements

| Australian \$ | Year Ended June 30, 2010 | Year Ended June 30, 2011 | YoY% |
|---|-----------------------------|-----------------------------|-------------|
| Revenue and Other Income | 338,168 | 240,302 | -28.9% |
| Compliance and Regulatory Expense | (260,586) | (134,131) | -48.5% |
| Consultancy and Brokers Fees | (166,459) | (593,412) | 256.5% |
| Director Fees | (101,066) | (322,017) | 218.6% |
| Employee Benefit Expense | (220,182) | (309,924) | 40.8% |
| Share Based Payments | (472,621) | (204,273) | -56.8% |
| Occupancy Expense | (108,033) | (102,830) | -4.8% |
| Travel and Accommodation | (194,401) | (237,101) | 22.0% |
| Finance Costs | (4,164) | (9,401) | 125.8% |
| Realized Loss on Financial Assets | - | (22,253) | |
| Unrealized Loss on Financial Assets | (434,231) | (51,692) | -88.1% |
| Impairment of Property, Plant and Equipment | (450,000) | - | |
| Exploration Costs Written Off | (1,075,554) | (982,339) | -8.7% |
| Exploration Costs | (101,937) | (66,818) | -34.5% |
| Computer Expense | (104,803) | (75,365) | -28.1% |
| Audit Fees | (49,555) | (53,200) | 7.4% |
| Marketing and Public Relations | (73,930) | (413,837) | 459.8% |
| Other Costs | (287,350) | (301,879) | 5.1% |
| Provision for Doubtful Debts | - | (151,575) | |
| Share of Net Loss of Associate Accounted for using the Equity Method | - | (126,521) | |
| Loss before Income Tax Expense | (3,766,704) | (3,918,266) | 4.0% |
| Income Tax Expense | - | - | |
| Loss for the Year | (3,766,704) | (3,918,266) | 4.0% |
| Other Comprehensive Income | | | |
| Net Loss on Revaluation of Available for Sale Financial Assets | (12,713) | (3,321) | -73.9% |
| Total Other Comprehensive Income/(Loss) for the Year, Net of Tax | (12,713) | (3,321) | -73.9% |
| Total Comprehensive Income/(Loss) Attributable to Members of Parent Equity | (3,779,417) | (3,921,587) | 3.8% |
| Basic Loss per Share (Cents per Share) | 2.05 | 1.14 | -44.4% |

Source: Company Filings, RB Milestone

PRW's revenue and other income declined 28.9% YoY in FY11 to A\$240,302 from A\$338,168 in FY10, primarily due to absence of any gain from share trading. The company had gained A\$114,401 from share trading in FY10. PRW's interest income rose 9.4% in FY11 to A\$52,176 from A\$47,707 in the previous year, while office reimbursement income grew 25% YoY to A\$87,500.

Consultancy and broker fees rose 256.5% to A\$593,412 in FY11 from A\$166,459 in the previous year, while Director fees increased by 218.6% YoY to A\$322,017 from A\$101,066 in FY10. Exploration costs fell 34.5% YoY to A\$66,818 in FY11 from A\$101,937 in FY10. Marketing and public relations expense increased by 459.8% in FY11 to A\$413,837 from A\$73,930 in the same period a year ago.

PRW's loss in FY11 increased by 4.0% to ~A\$3.92 million from ~A\$3.77 million in FY10. However, its loss per share dropped to 1.14 cents per share in FY11 from 2.05 cents per share in the previous year, on account of increase in the weighted average number of ordinary outstanding shares which rose to ~344.1 million in FY11 from ~183.5 million in FY10.

Valuation & Investment View

DCF Valuation Analysis

Proto Resources & Investments Ltd. has its main flagship project as the Barnes Hill nickel-cobalt-iron project located in northern Tasmania, which is steadily approaching its production stage.

The main focus on the company's valuation is on the above mentioned project as first revenues are expected from the Barnes Hill Project and method of discounted cash flow analysis is used.

Key Assumptions

Investment Plans: To account for the production which will continue for a longer span of years, the company will incur heavy capital expenditure amounting to approximately \$68 million. Out of the total capex, \$60 million is expected in first three years, from 2012 to 2014, while the rest is expected to be spent in 2015 to account for the acceleration in mining rate.

Production Timeframe: We expect the company to commence production from the Barnes Hill project by 2013. We expect the company to begin with about ~2,000 tons of nickel production in 2013, which is expected to double from 2014 onwards. Below are the project economics. We have taken the company disclosed JORC resources of 6.6 MT along with Scotts Hill and Mt Vulcan deposits of 3.6 MT.

Exhibit 13 : Project Economics – Barnes Hill Project

| Parameter | Economics |
|---|------------|
| Resources (in tons) | 10,200,000 |
| Nickel reserves (in tons) | 91,862 |
| Average throughput | 0.90% |
| Expected life (in years) | 23.2 |
| Average production (year 1) | 220,000 |
| Nickel production | 1,981 |
| Year 2 onwards | 450,000 |
| Nickel production | 4,053 |
| Total Capex (A\$) | 68,000,000 |
| Proto Resources interest in the project | 55% |

Source: Company filings, RB Milestone

Price Assumption: Nickel price has fallen significantly since our last update owing to global slowdown, especially in the emerging economies. From a peak of over US\$50,000/Mt in May 2007, nickel price dipped to around US\$12,000 in May 2009 but recovered to around

US\$20,000 by August 2010. Currently the price is trading at ~US\$18,000/Mt or ~US\$8.1/pound. We have taken US\$8.1/pound as our price for the first year of production.

Exhibit 14 : Nickel Prices (Feb 2001 – Nov 2011)



Source: Company filings, RB Milestone

We also analyzed the annual price increase since the beginning of 1990 to estimate the expected price increase during the operating period of the Barnes Hill project (2013-2028). Nickel prices have increased on average 3.5% p.a. over the last 21 years. We have assumed the same to be our estimate of annual price increase.

Exhibit 15 : Nickel Prices (1990 & 2011)

| Nickel Prices | \$/MT | \$/Pound |
|---------------|----------|----------|
| 21-Nov-11 | 17,920.0 | 8.1 |
| 8-May-90 | 8,750.0 | 4.0 |

Source: Bloomberg, RB Milestone

Cost Estimates: Below are some of the revenue and cost side assumptions in our valuation model.

Exhibit 16 : Unit Revenue and Cost Related Assumptions

| Parameter | Value |
|----------------------------------|-------|
| Nickel price/LB (A\$) | 8.1 |
| Long Term Nickel Price Inflation | 3.5% |
| Tons to Pounds | 2,205 |
| Cost/Pound (A\$) | 3.0 |
| Long Term Cost Inflation | 3.0% |
| Tax Rate | 35.0% |

Source: Bloomberg, RB Milestone

Exhibit 17 : WACC Calculation

| WACC Calculation | |
|-------------------------|------------|
| Risk free rate | 4.0% |
| Risk premium | 11.8% |
| Beta | 1.19 |
| Cost of Equity | 18.0% |
| Market Cap | 13,398,231 |
| Debt | 0 |
| Weight of Equity | 100.0% |
| Weight of Debt | 0.0% |
| Cost of Debt | 0.0% |
| WACC | 18.0% |

Source: Bloomberg, RB Milestone

Exhibit 18 : PRW Valuation

| Valuation for PRW | A\$ |
|--------------------------------|---------------|
| Sum of PV FCFF | 116,690,881 |
| Adjustments | |
| Cash (A\$, As on June 30,2011) | 690,000 |
| Debt | 0 |
| NPV (based on 50% interest) | 64,559,485 |
| Number of Shares O/S | 432,201,000 |
| Value per Share | 0.149 |
| Last Traded Price | 0.027 |
| Upside/(Downside) | 381.9% |

Source: Bloomberg, RB Milestone

We value the Company based on PV of cash flow which is expected to be generated from its Barnes Hill deposit located at its Barnes Hill Project. Assuming discounting factor of 18%, we have arrived at a target price of AUD\$0.149 which provides an upside of 381.9% to the current market price.

We have taken 55% of the value of the Barnes Hill project, which comprises 50% interest of Proto in the JV (50% net profit sharing with Metals Finance) along with ~10% stake of Proto in Metals Finance. We have not included the valuation estimate of any other tenement and we believe the above is the most conservative estimate of Barnes Hill's shares.

We also believe that there can be significant upside to the target price given the ensuing revenue from sale of magnesium and iron. The valuation also does not include anything for iron ore credits of which the company has 3 million tonnes. At 0.5 million tonnes of iron ore per annum, Proto can make at least \$20m of EBIT after mining and upgrading, which can lift the fair price to A\$0.20 with a ~540% upside.

In short, the current valuation has not incorporated any benefits that will flow from the deployment of its unique technologies. We await further details to concretize those benefits.

Below are cash flows from select years displaying key cash flow items:

Exhibit 19 : Discounted Cash Flows

| Cash flows | 2013 | 2014 | 2020 | 2025 | 2032 |
|-------------------------------|--------------|--------------|--------------|--------------|-------------|
| Nickel production (in tons) | 1,981 | 4,053 | 4,053 | 4,053 | 720 |
| Nickel production (in pounds) | 4,368,092 | 8,934,734 | 8,934,734 | 8,934,734 | 1,588,397 |
| Revenue | 35,505,493 | 75,146,822 | 92,227,839 | 109,392,668 | 24,696,894 |
| Operating costs | (13,104,277) | (27,608,329) | (32,965,788) | (38,216,384) | (8,355,792) |
| Operating profit | 22,401,216 | 47,538,494 | 59,262,051 | 71,176,284 | 16,341,102 |
| NOPAT | 14,560,791 | 30,900,021 | 38,520,333 | 46,264,585 | 10,621,716 |
| Capex | (38,250,000) | (21,250,000) | | | |
| FCFF | (23,689,209) | 9,650,021 | 38,520,333 | 46,264,585 | 10,621,716 |
| PV FCFF | (17,015,384) | 5,874,421 | 8,689,612 | 4,563,384 | 329,043 |

Source: RB Milestone, Company Filings

The company is expected to derive further value from its ~10% stake in Metals Finance Corporation, which has nickel and copper-cobalt operations on the African continent, along with Lucky Break Nickel Laterite Project in North-Eastern Australia. Besides this investment, Proto has approximately 5% investment in Global Nickel Investments which exposes it to a slew of Gold, Nickel and Platinum Group Elements projects based in Australia and New Zealand. In addition, any improvement in nickel price will provide huge benefit to the company. As highlighted in our Initial Valuation Report, the long-term outlook for nickel demand is robust given the economic expansion in the emerging economies driven by India and China.

Given the conservative approach taken by us, there will be considerable gain to the current upside potential of 381.9% once the other projects (except the Barnes Hill deposit) start to generate revenues for the company

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