

29 April 2008

ASX Code: CHM
SPECULATIVE BUY

Chameleon Mining Limited

Chameleon Launches Broadside on Murchison... Jack Hills at Risk

Capital Structure

Sector	Materials
Share Price	A\$0.037
Fully Paid Ordinary Shares	1097.1m
Options (ex 0.4c, 31/12/10)	422.6m
Options (ex 15c, 31/12/10)	4.0m
Market Capitalisation (diluted)	\$57.1m
Cash (31/12/07)	\$1.3m
Share Price Year High-Low	\$0.125-\$0.02

Management

Ben Elias	Director
Siew Hong Koh	Director
Anthony Karam	Director
John Chambers	Director / Secretary

Major Shareholders

RBC Dexia Inv Serv Aust Nom	7.8%
McNeil Nominees Pty Ltd	4.6%
Centrebright Pty Ltd	4.2%
Fortis Clearing Nominees PL	2.5%
RLB Investments Limited	2.0%

Analyst

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Share Price Performance



Source: E-trade.com

Investment Highlights

Chameleon Commences Federal Court Proceedings

In late November 2007, Chameleon Mining Limited ("Chameleon", "CHM", "the Company") commenced foreshadowed proceeding against Murchison Metals Limited ("Murchison", "MMX"), former Murchison director Phil Grimaldi, Greg Barnes, Pinnacle Nominees Pty Limited and Murchison's 50% owned subsidiary Crosslands Resources Ltd ("Crosslands") in the Federal Court of Australia;

The claim relates to, inter alia, Crosslands, which holds the Jack Hills and Weld Range iron ore deposits situated in the Midwest of Western Australia, 380km north-east of Geraldton. The balance of the shares in Crosslands (50%) is owned by Mitsubishi Development Pty Ltd ("Mitsubishi");

The claim, inter alia, alleges that Murchison is holding shares in Crosslands on a constructive trust for Chameleon. The writ also alleges that Crosslands is holding Jack Hills and Weld Range on constructive trust for Chameleon. Furthermore, the writ alleges that former Chameleon director Barnes and de facto director Grimaldi caused Chameleon to issue securities sold to raise funds that were then used by Murchison to acquire Jack Hills and Weld Range. Chameleon is therefore looking for an account of profits from its ownership of Crosslands, an account of profits from Murchison's sale of 50% of the project to Mitsubishi and interest in the tenements or alternatively equitable compensation or damages;

On 28th February 2008, Chameleon also announced it had an 80% interest in an additional claim (acquired from director Siew Hong Koh and former director David Evans) over 5% of Jack Hills and Weld Range held by Crosslands. The claim relates to an MOU between the parties. The matter has been before the courts since 2006;

Resources at Jack Hills were upgraded (9th December 2007) to 158Mt tonnes grading 60% Fe, up from 97m tonnes @ 60% Fe;

Murchison Metals is currently exporting iron ore from its Port Facilities at Geraldton at a rate of 1.5m tonnes per annum (Stage 1) with a view of increasing production to 25m tonnes per annum by 2010 (Stage 2);

Murchison's bid for Midwest Corporation Limited ("Midwest Corporation", "MIS") has lapsed with Murchison left holding around 4.78% of the issued capital of MIS.

Phenomenal Upside Potential for Chameleon

This report details a range of outcomes in respect to the claim by Chameleon over Jack Hills, with potential for further resource upside potential at Weld Range. **RMWise Research** considers, based on Enterprise Value/NPV valuations that 100% of Jack Hills is worth in the range of A\$3.1b to A\$4.7b. This translates to A\$0.23 based on a 10% interest in Jack Hills up to A\$2.31 in the event that Chameleon was able to obtain 100% of Jack Hills;

Murchison have lodged their defence reaffirming their position. Interestingly Murchison have lodged a counter claim against Greg Barnes and Grimaldi in respect the matters that are the subject of the Chameleon claim. The claim appears to be a serious thorn in the side for Murchison. As Barrister Steven Pengelis, acting for Murchison, said at the March 20 2008 Federal Court hearing "We are very concerned. We want to get this matter to trial as quickly as possible".

Company Background

Chameleon Mining Limited re-listed on the Australian Securities Exchange ("ASX") on 17th September 2007 following a A\$2.3 million capital raising underwritten by RM Capital Pty Ltd, a Perth based financial group. This followed its suspension on 30 September 2004 and subsequent administration.

Previous Chameleon Directors Charged..

On 20th September 2007, ASIC laid charges against former Chameleon director for allegedly providing false and misleading information in relation to an Initial Public Offering (IPO) in 2003.

Mr Gregory Barnes ("Barnes") and Mr Landan Roberts ("Roberts") face charges relating to providing false and misleading information to ASX and the company's auditor between July 2003 and December 2004. ASIC alleges that the pair made false or misleading representations concerning \$3.0m purportedly raised by CHM during an IPO in 2003, whereby the company represented that it had issued 15m shares to Zenith Development Company Limited in consideration for \$3.0m. ASIC alleges this payment was not received and continuing representations to that effect by Roberts and Barnes was false.

Chameleon's Claim

The claim relates to, inter alia, a 50% owned subsidiary of Murchison, Crossland, which holds a portion of the Jack Hills and Weld Range iron ore deposits situated in the Midwest of Western Australia, 380km northeast of Geraldton. The claim alleges that Crosslands is liable to Chameleon as trustee of a resulting trust in respect to a portion of the Iron Jack and Weld Range tenements. The balance of the shares in Crosslands (50%) are owned by Mitsubishi.

The writ details a series of transactions whereby it is alleged that Barnes and Grimaldi used funds from Chameleon to assist in the acquisition of Jack Hills, which was eventually acquired by Murchison.

For example, Chameleon undertook a series of share placements to raise in excess of A\$1.0m for the development of Palm Springs gold project. The writ alleges that the shares were issued to Murchison however, no funds were received by Chameleon. These shares were then sold and the sale proceeds were applied to the acquisition of Murchison's assets and their ongoing expenses.

Chameleon is therefore looking for an account of profits from its ownership of Crosslands, an account of profits from Murchison's sale of 50% of the project to Mitsubishi and interest in the tenements or alternatively equitable compensation or damages.

What does it mean for Chameleon?

There are a number of possible outcomes for Chameleon in respect to this claim:

1. The case proceeds to court –

Win for Chameleon – Damages, Account of profits, restitution.

Loss for Chameleon – Chameleon would be likely liable for costs.

2. The case doesn't proceed to trial –

Settlement – Possible cash payment/Shares in Murchison or Equity in Crosslands in favour of Chameleon;

Chameleon withdraws writ

RMWise Research's view?

Neither side appear to be giving any ground and the case looks headed for court. A high stakes game that may have an all or nothing outcome. The writ threatens to stifle development of not only the mining assets but, equally importantly, the infrastructure (rail, port etc) which is currently the subject of a tender process by the Western Australian government. Oakajee Port and Rail ("OPR") have been asked by the WA government to submit a tender proposal to finance, build and operate the Oakajee deepwater port, with tenders to be submitted by 9 May 2008.

The Chameleon claim relates to the actions of Roberts and Barnes...

...a fact that may present a number of challenges to Murchison if this case makes it to court.

Chameleon is claiming that Murchison is holding Crosslands on a constructive trust for Murchison.

Neither Chameleon nor Murchison appear willing to concede any ground...

What would a successful outcome mean for Chameleon?

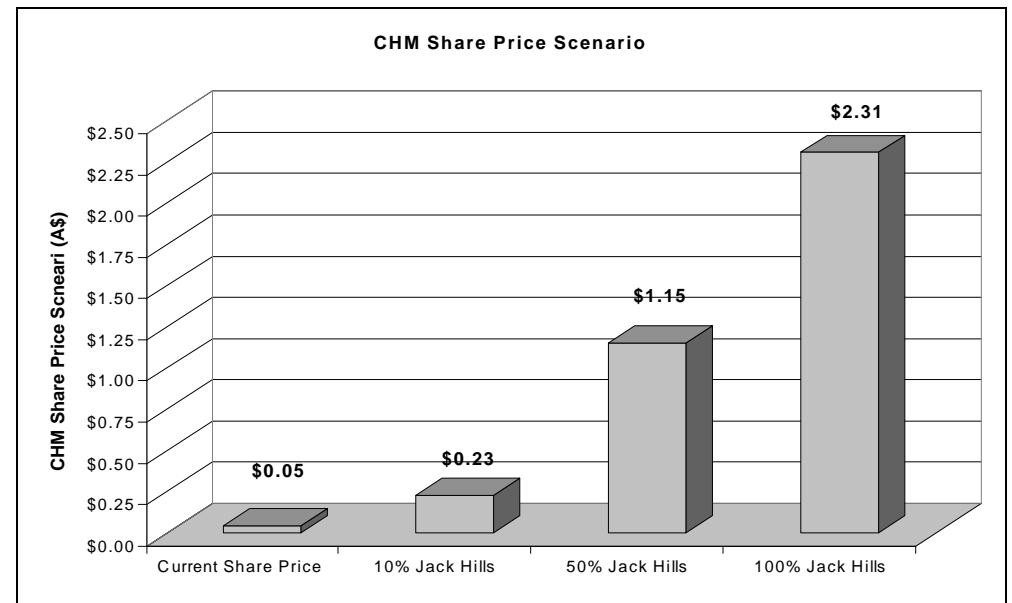
This summary outlines a series of potential outcomes based on Chameleon successfully obtaining (via court action or settlement) various interests in Jack Hills based on average Net Present Value ("NPV") and Yardstick Valuations. Valuations for Jack Hills range from A\$3.1b to \$4.7b. Note that Weld Range on its own has the potential to double the valuation of Crosslands and therefore the figures presented below:

Table 1: Jack Hills Scenario

Jack Hills Scenario	CHM Share Price	Market Cap/Valuation (\$m)
Current Share Price	\$0.047	\$71.40
10% Jack Hills	\$0.230	\$355.96
50% Jack Hills	\$1.150	\$1779.80
100% Jack Hills	\$2.310	\$3559.60

Source: Chameleon Mining Limited

Figure 1: CHM Share Price Scenario



Source: RMWise Research Limited

Discussion

Discounted Cash Flow Analysis

Recent research from Bell Potter placed an NPV on Iron Jack of A\$4.15 (discount rate 10%), which implies a valuation of approximately A\$1.7b for a 50% interest in Iron Jack. Interestingly Merrill Lynch valued Murchison at A\$7.00 based on an NPV of A\$5.85 (7/12/07) compared to a base case NPV (8% Discount Rate) of A\$3.97 published by UBS (10/12/07).

Net Present Value, Enterprise Valuation and Transactional methods can be used to value Jack Hills...

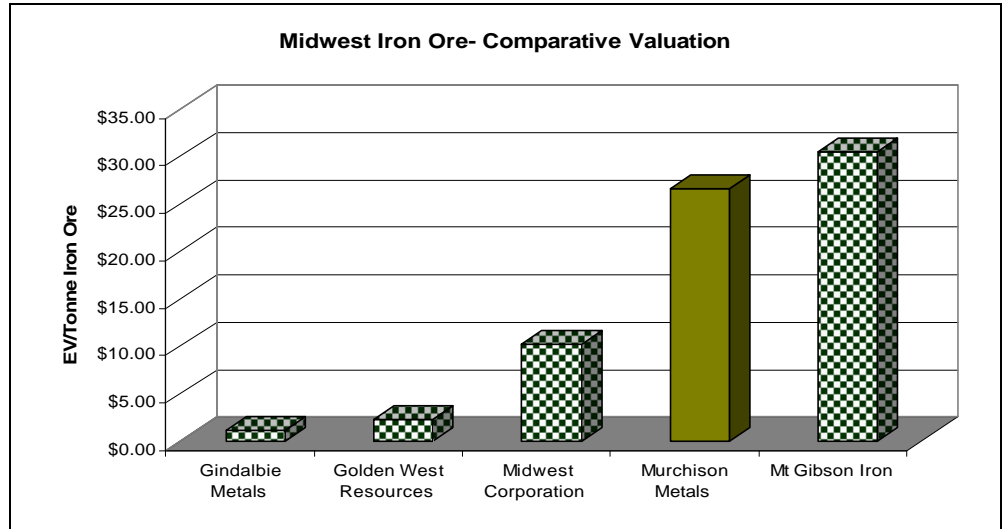
Note that Weld Range is not included and has the potential to double the future value of Crosslands.

Broker valuations for Murchison have ranged from A\$3.97 to A\$7.00/share over recent months.

Transactional Method

- June 2007 - Murchison sold a 50% interest in Iron Jack to Mitsubishi for A\$150m in cash;
- Parties have agreed to jointly develop Oakajee Port and Rail;
- Murchison appears to have sold their interest relatively cheaply (compared to alternative valuations) with the incentive to find a partner to arrange funds of up to A\$3b;
- We have therefore discounted this method for determining the valuation of Murchison.

Figure 2: Midwest Iron Ore Comparative Valuation



Source: RMWise Research Limited

Yardstick Values

Enterprise Value per tonne of iron ore is another useful check to NPV as this will provide an idea of what value the market is assigning to iron ore resources. Interestingly the valuations for Murchison are not materially different from the NPV figures as set out above. Murchison appears to be trading at A\$25.00/tonne against an average of around A\$14/tonne for Midwest iron ore players. The lower valuation for Golden West Resources Limited (“Golden West”) is probably due to its distance to port (Wiluna), while the disparity between Murchison and Midwest Corporation could reflect the sale of 50% of Crosslands to Mitsubishi.

Murchison Metals Snapshot

Background

Murchison Metals Limited is listed on the ASX and holds a 50% interest in Crosslands whose primary asset is the Jack Hills iron ore project (153Mt @ 60% Fe) situated 380km northeast of Geraldton in the Midwest region of Western Australia. The remaining 50% of Crosslands is held by Mitsubishi, a subsidiary of Mitsubishi Corporation. Murchison also has a 50% interest in a new independent infrastructure joint venture Oakajee Port and Rail.

Jack Hills is a premium grade (+62% Fe) resource that is suitable for direct shipping ore (“DSO”). Furthermore, the relatively high lump to fines ratio (65:35) has the potential to deliver operating cost advantages. With Benchmark iron ore prices projected to rise 65% in CY 2008 as a tight market continues to drive prices higher, RMWise Research considers Murchison has arrived at the right time and right place.

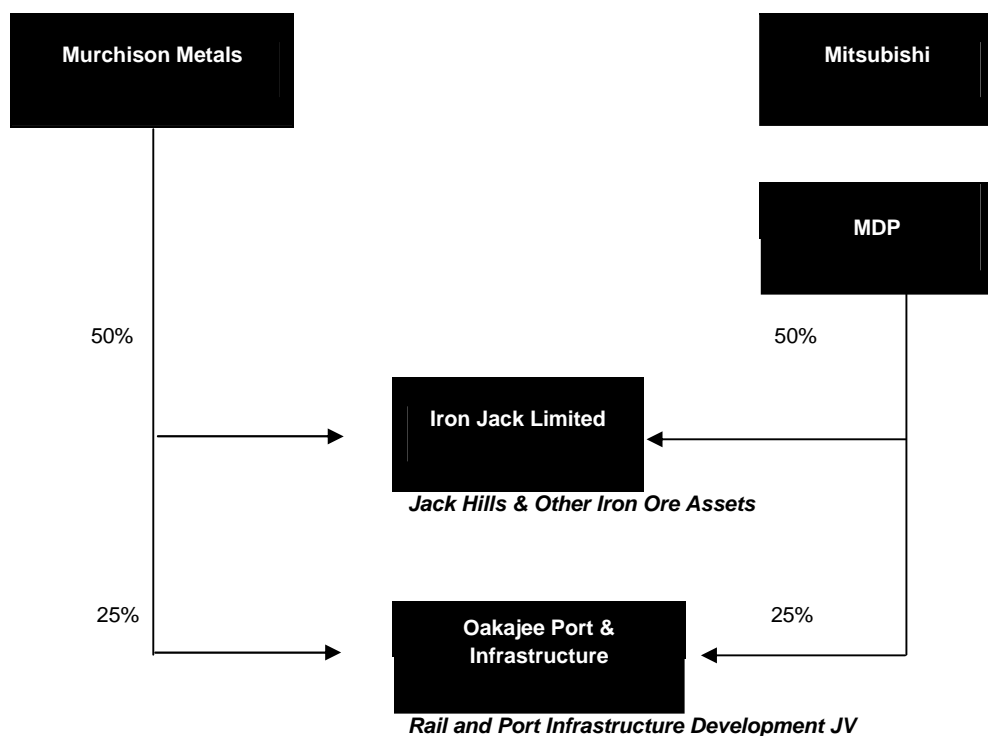
Figure 3: Map of Projects



Source: Murchison Metals Limited

Murchison holds a 50% interest in Crosslands.

Iron Jack has total resources of 153Mt @ 60% Fe.



Capital Structure

Share Price	A\$4.00
Fully paid ordinary Shares	409.1m
Options (exercisable A\$0.05–A\$5.19, exp 12/08-12/10)	26.4m
Market Capitalisation - diluted	A\$1,740m
Approximate Cash (31/12/07)	A\$135m
Share Price Year High-Low	A\$1.40-A\$6.09

Directors

Paul Kopetjka	Executive Chairman
Trevor Matthews	Managing Director
Robert Vagnoni	Executive Director
James Clements	Non-Executive Director
Sun Moon Woo	Non-Executive Director

Resources and Reserves

Table 2: Jack Hills Mineral Resources

Direct Ship Ore								
Category	Tonnes(m)	Fe%	P%	LOI%	SiO2%	Al2O3%	MgO%	Density
Indicated	49.62	60.5	0.062	3.0	6.0	0.9	3.3	4.0
Inferred	20.00	59.9	0.075	3.6	5.3	0.6	4.9	4.1
TOTAL DSO	69.60	60.3	0.066	3.2	5.8	0.8	3.7	4.1

Source: Murchison Metals Limited

Table 3: Jack Hills Mineral Resources

Beneficiation Feed								
Category	Tonnes(m)	Fe%	P%	LOI%	SiO2%	Al2O3%	MgO%	Density
Indicated	53.9	42.1	0.046	8.5	18.1	1.0	11.8	3.8
Inferred	29.5	42.7	0.043	8.8	17.2	0.9	11.9	3.8
Total	83.4	42.3	0.045	8.6	17.8	0.9	11.8	3.8

Source: Murchison Metals Limited

Recent resource upgrade would imply higher operating costs...

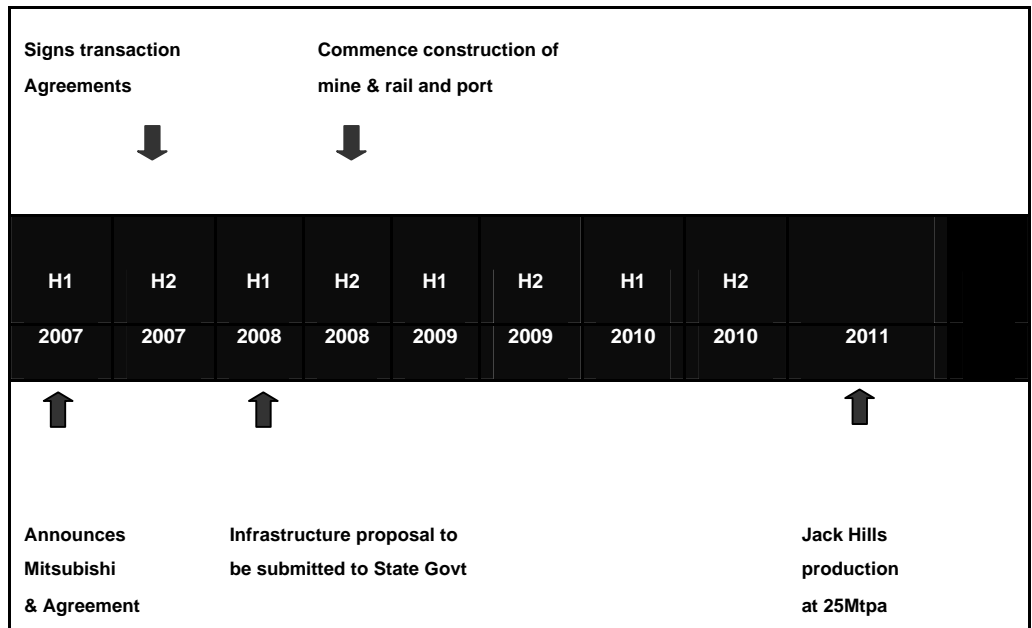
... however this should be partially offset by resource upside potential at Mt Weld.

Murchison have also recently announced an increase in the mineral resources at Jack Hills from 97m tonnes to 153m tonnes this year and includes Saddle (105Mt) and Mt Matthew (48Mt). There remains significant upside at a number of prospects including NE Extensions and Brindle. Around 70% of the Jack Hills mineralised trend remains to be followed-up.

RMWise Research considers that the resources potential is in excess of 450m tonnes of which 350Mt+ of product will be required to meet the Company's development strategy. RMWise Research considers that Mt Weld on its own has the potential to return a sizeable resource of mostly DSO, given its proximity and similar geology to Midwest Corporation's Mt Weld project.

Direct shipping ore rose around 38% while beneficiation ore rose 79% thereby implying higher operating costs and higher capital costs. The increased costs however should in part be offset by higher prices received for fines. These costs will no doubt be quantified in the Bankable Feasibility Study. Total project costs are estimated by Murchison at A\$3b (June 2007).

Development Strategy



Two stage development plan for Jack Hills.

Stage 1 contemplates a five-year mine plan using contract mining, crushing and screening with iron ore transported to Geraldton by contract road haulage. Iron ore is currently stored and transferred at the Port of Geraldton, ahead of shipment to customers. A bankable feasibility study for Stage 2 of the Jack Hills Project will target annual production of 25Mt and is anticipated to be completed late in CY 2008.

Operations Update

Crosslands Resources (MMX: 50%)

A total of seven iron ore shipments grading 65% Fe were made during the quarter coinciding with high iron ore prices. Shipments are being undertaken from the company's storage and loading facilities at the Port of Geraldton. Revenue for FY 2007 totalled \$22.1m with the 1H 2008 returning \$17.3m. Mining commenced at the Saddle Zone in the December Quarter 2006 and is currently progressing at a rate of around 1.5Mtpa. Murchison is currently investigating options for the establishment of an additional stockpile area closer to the Port of Geraldton. In addition, an expansion of the capacity of the Company's existing storage facilities at the Port itself further optimise its iron ore logistics operations is planned .

Oakajee Port and Rail (MMX: 50%)

This company was formed to develop the necessary infrastructure (port and rail) to enable a full ramp up of Murchison's operations and has been established to promote open infrastructure access to all users. Significant progress was made in 2007 including the completion of engineering design and documentation for port and rail works, wharf and stockyard design. In addition, requests for quotation have been issued to external suppliers and geotechnical field investigation of rail alignment is now complete. The WA government has appointed an Oakajee Policy Team to work with the joint venture in respect to the process and timeframe for the selection of an infrastructure provider and an appropriate rail corridor that would connect the Midwest regional mines to the ports at Geraldton and Oakajee. The WA Government has asked OPR to submit a tender proposal to finance, build and operate the Oakajee deepwater port, with tenders to be submitted by 9 May 2008. A decision is expected by June 30 2008.

Corporate

Mitsubishi Development Pty Ltd

In June 2007, Murchison signed an agreement with Mitsubishi, to assist in the development of the necessary iron ore and infrastructure requirements. Mitsubishi has acquired a 50% interest in Crosslands, which in turns owns the Jack Hills iron ore project. Furthermore, the two companies have established Oakajee Port and Rail, a company that will focus on rail and port infrastructure in the Midwest of Western Australia. This will be undertaken on a multi-user basis.

Should the venture proceed, Mitsubishi will effectively finance the development of the iron ore and infrastructure projects with total estimated capital (debt and equity) requirements in the order of \$3 billion. To date \$150m has been received with further funds due on commencement of the expanded Jack Hills project.

Two thirds of this amount was received by Murchison (retire debt) and one third was retained by Iron Jack to fund Jack Hills expansion and infrastructure studies. A deferred payment less half the initial payment will be made on completion of the Jack Hills development study based on agreed parameters and assumptions.

POSCO

The strategic alliance with Pohang Iron and Steel Company Limited ("POSCO") appeared to gain further traction during the year with POSCO exercising all their Murchison options it held in Murchison to become a major shareholder. POSCO also has a right to acquire 10 Mt of iron ore per annum from Jack Hills over a 25 year period.

Geraldton Iron Ore Alliance

The Geraldton Iron Ore Alliance (including Murchison, Midwest Corporation and Gindalbie Metals Ltd) was formed in an attempt to unlock the potential of the Midwest iron ore province. This alliance seeks to cooperate in respect to the facilitation and development of the iron ore industry in the Geraldton region. The region has the potential to produce up to 60m tonnes per annum of iron ore and carbon steel related minerals and products within the next ten years.

Mining is currently taking place at a rate of 1.5Mtpa.

Oakajee Port and Rail will promote access to all users.

Mitsubishi will effectively finance the development of iron ore and infrastructure, estimated at A\$3b.

Takeover Bid for Midwest Corporation

The takeover bid for Midwest Corporation lapsed on 5 February 2008 with Murchison gaining acceptances of just over 2.0%. Murchison currently hold around 4.78% of the issued capital of MIS. Subsequently Sinosteel Corporation ("Sinosteel") has launched a non-binding and highly conditional cash bid at A\$5.60 however, Sinosteel have not as yet been granted access to the data room.

RMWise Research considers there is significant merit in combining Murchison and Midwest Corporation by jointly developing the Jack Hills project and the Weld Range project (currently being developed by Midwest Corporation and Sinosteel) as the projects have complementary ore types and have the potential to use the same rail and port infrastructure. Benefits of a merged operation are as follows:

1. Combined Production: Stage 1 Production (2008)- 4mtpa, Stage 2 production of ~ 45mtpa by 2013 from Jack hills (approximately 25mtpa) and Weld Range (approximately 20mtpa);
2. Corporate, financial, technical and administration efficiencies reductions;
3. Reduced infrastructure costs including optimisation of rail and port development; and
4. Great marketing power with a larger production profile.

Economies of scale by combining the operations of Midwest Corporation and Murchison...

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Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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