



Kingsgate

Consolidated Limited

ABN 42 000 837 472

This is an important document and requires your immediate attention.

TARGET'S STATEMENT

TARGET'S STATEMENT

Your Directors unanimously recommend that you

REJECT

the inadequate and unsolicited takeover offer by Northern Gulf Petroleum International Pte. Ltd. to acquire 50.1% of your Kingsgate Shares for 4.2 cents cash per Share.

You should read the entire document. If you are in doubt as to what you should do, you should obtain independent advice from your investment, financial, tax or other professional adviser. If you have any questions about the Offer, please contact the Kingsgate Shareholder Information Line on 1 800 882 102 (toll free) (within Australia) or +61 1 800 882 102 (outside Australia).

Legal Adviser

NORTON ROSE FULBRIGHT

IMPORTANT NOTICES

NATURE OF THIS DOCUMENT

This Target's Statement is dated 17 October 2016 and is given by Kingsgate Consolidated Limited ABN 42 000 837 472 (**Kingsgate**) under Part 6.5 Division 3 of the Corporations Act in response to the Bidder's Statement by Northern Gulf Petroleum International Pte. Ltd. (**NGPI**) dated 16 September 2016.

KINGSGATE SHAREHOLDER INFORMATION

If Shareholders have any queries in relation to NGPI's Offer, they may call the Kingsgate Shareholder Information Line on 1 800 882 102 (toll free) (within Australia) or +61 1 800 882 102 (outside Australia).

ASIC AND ASX DISCLAIMER

A copy of this Target's Statement has been lodged with ASIC and ASX on 17 October 2016. None of ASIC or ASX, nor any of their respective officers, takes any responsibility for the contents of this Target's Statement.

PROPORTIONAL TAKEOVER BID

Shareholders should note that the Offer is a proportional takeover bid. NGPI is offering to acquire 50.1% of the Shares held by each Shareholder. If all Shareholders accept the Offer, NGPI will obtain a relevant interest in Kingsgate of 50.1%.

DEFINED TERMS AND INTERPRETATION

Capitalised terms used in this Target's Statement are defined in Section 8. Section 8 also sets out some rules of interpretation which apply to this Target's Statement.

NO ACCOUNT OF PERSONAL CIRCUMSTANCES

This Target's Statement should not be taken as personal financial, investment or tax advice, as each Shareholder's deliberations and decision will depend upon their own financial situation, tax position, investment objectives and particular needs.

Your Directors encourage you to read this Target's Statement in its entirety and obtain independent advice from your investment, financial, tax or other professional adviser before making a decision whether or not to accept the Offer.

FORWARD LOOKING STATEMENTS

Some of the statements in this Target's Statement may be in the nature of forward looking statements. All statements other than statements of historical fact are forward looking statements. You should be aware that forward looking statements are only predictions and are inherently subject to uncertainties, in that they may be affected by a variety of known and unknown risks, variables and other important factors, many of which are beyond the control of Kingsgate. Actual values or results, performance or achievements may differ materially from those expressed or implied by such statements. The risks, variables and other factors that may affect the forward looking statements include matters specific to the sectors in which Kingsgate operates, as well as economic and financial market conditions; legislative, fiscal or regulatory developments; and risks associated with the business and operations of Kingsgate.

None of Kingsgate, any of its officers or employees nor any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) or gives any assurance as to the accuracy or likelihood of fulfilment of any forward looking

statements, or any events or results expressed or implied in any forward looking statements, except to the extent required by law. You are cautioned not to place undue reliance on any such statements. The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Subject to any continuing obligations under law or the ASX Listing Rules, Kingsgate and its officers disclaim any obligation or undertaking to disseminate after the date of this document any updates or revisions to any forward looking statements to reflect any change in expectations in relation to any forward looking statements or any change in events, conditions or circumstances on which such statements are based.

INFORMATION ON NGPI

All of the information concerning NGPI contained in this Target's Statement has been obtained from publicly available sources including public documents filed by NGPI. None of the information in this Target's Statement relating to NGPI has been verified by NGPI or independently verified by Kingsgate or its Directors for the purposes of this Target's Statement. Accordingly, to the extent permitted by law, Kingsgate makes no representation or warranty (either express or implied) as to the accuracy or completeness of this information. The information on NGPI in this Target's Statement should not be considered comprehensive.

FOREIGN JURISDICTIONS

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

CHARTS AND DIAGRAMS

Any diagrams, charts, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, graphs and tables is based on information available at the date of this Target's Statement.

PRIVACY

Kingsgate has collected your information from the register of Kingsgate Shareholders for the purpose of providing you with this Target's Statement. The type of information Kingsgate has collected about you includes your name, contact details and information on your shareholding (as applicable) in Kingsgate. Without this information, Kingsgate would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including the Kingsgate Share Registry and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about Shares you hold by Kingsgate, please contact the Kingsgate Share Registry on 1 800 882 102 (within Australia) or +61 1800 882 102 (outside Australia).

Further information relating to the Offer can be obtained from the Kingsgate website at www.kingsgate.com.au.



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Key Dates

Offer Period opens	30 September 2016
Date of this Target's Statement	17 October 2016
Date for NGPI to give notice of status of the FIRB Condition (subject to extension if the Offer Period is extended)	28 October 2016
Offer Period closes (unless extended or withdrawn)	4 November 2016 7:00pm (Sydney time)

YOUR DIRECTORS UNANIMOUSLY RECOMMEND
THAT YOU **REJECT** THE OFFER FROM
NORTHERN GULF PETROLEUM INTERNATIONAL PTE. LTD.
FOR 50.1% OF YOUR KINGSGATE SHARES

The reasons for this recommendation are set out in Section 1 of this Target's Statement

THE INDEPENDENT EXPERT
HAS CONCLUDED THAT THE OFFER IS
**NOT FAIR AND
NOT REASONABLE**

THE OFFER PRICE OF 4.2 CENTS
PER KINGSGATE SHARE IS
MATERIALLY BELOW
THE INDEPENDENT EXPERT'S VALUATION RANGE
OF 27.9 TO 42.0 CENTS PER SHARE DETERMINED
BY THE INDEPENDENT EXPERT¹

The findings of the Independent Expert are set out in Annexure A of this Target's Statement

TO **REJECT** THE OFFER,
DO NOTHING

If you decide to DO NOTHING, you should be aware of the risks associated with rejecting the Offer. A non-exhaustive summary of those risks is set out below in Section 2.3.

¹ On a control and 100% basis

17 October 2016

Dear Shareholder,

Reject the inadequate takeover offer from NGPI

You should have recently received a Bidder's Statement containing the terms of an unsolicited takeover offer from Northern Gulf Petroleum International Pte. Ltd. (**NGPI**) to acquire 50.1% of your Kingsgate Shares for 4.2 cents in cash per Share (the **Offer**).

This document is Kingsgate's Target's Statement, which provides our formal response to the Offer.

Background to the Offer

As a Shareholder, you will be aware that in May 2016 the Government of Thailand announced that all gold mining in Thailand would cease at the end of 2016. Despite the exceptional operational and compliance track record of Kingsgate's Chatree Gold Mine in Thailand and our extensive efforts to change the Government's decision, the Company has not received any indication from the Government that gold mining at Chatree will be allowed to continue beyond 31 December 2016.

In response, Kingsgate Shares were voluntarily suspended from quotation on ASX on 13 May 2016. Since that time, Kingsgate has made substantial progress in improving its net debt position and restoring stability to the Company's outlook so that Kingsgate can achieve attractive Shareholder returns in years to come.

NGPI and its controlling Shareholder, Mr Chatchai Yenbamroong, have chosen this time to make an opportunistic proportional takeover offer in an attempt to secure ownership of 50.1% of Kingsgate Shares for just 4.2 cents per Share, the equivalent of less than \$5 million in total. Your Directors believe that such a valuation is demonstrably inadequate compared to the quality of Kingsgate's assets and significant growth potential. NGPI's takeover offer was also launched without any prior discussion or consultation with the Company, highlighting NGPI's opportunistic approach.

Looking ahead, the Kingsgate Board is positive regarding the future prospects of the Company. However, given the challenges of the last six months, the way forward is not without risk.

It is important that the Kingsgate Group delivers on its revised mine plan at the Chatree Gold Mine prior to the closure of the mine on 31 December 2016. This we believe (as set out in Section 4.3) should enable the Kingsgate Group to satisfy all of its financial obligations, subject to gold price and other factors explained in this document. Further details on the risks associated with achieving this outcome are set out in Section 4.9. Subject to achieving this plan, we believe that the Company's future in advancing its flagship asset, the Nueva Esperanza Project in Chile, will be attractive for all Shareholders.

After a detailed review of the Offer, your Directors unanimously recommend that you REJECT the Offer¹

In making our recommendation, your Directors have concluded that the Offer should be **REJECTED** for the following reasons:

1. The Independent Expert, Grant Thornton Corporate Finance, has concluded that the Offer is not fair and not reasonable and your Directors believe that the Offer significantly undervalues your Shares.
2. The Offer fails to recognise Kingsgate's improved prospects and financial position.
3. The Offer is highly opportunistic in both its structure and timing.
4. The Offer ignores the strong future potential of Kingsgate's flagship asset, the Nueva Esperanza Project in Chile.
5. The Bidder's Statement is unclear and uncertain regarding the future operation and growth of Kingsgate should NGPI gain control of the Company.

Additionally, each of your Directors who own or control Shares intends to **REJECT** the Offer in respect of those Kingsgate Shares that they own or control.

¹ Peter McAleer has been granted extended leave of absence from February 2016 due to ill health, and has not participated in any board deliberations (including deliberations relating to the Offer) since that date. For that reason, Peter McAleer has not made any recommendation in connection with the Offer.

4 CHAIRMAN'S LETTER

Further details underlying the Directors' recommendation to reject the Offer are set out in Section 1 of this Target's Statement. I urge you to read this Target's Statement in its entirety, including the Independent Expert's Report contained in Annexure A.

To reject the Offer, you should DO NOTHING.

Shareholders should note that Kingsgate's voluntary suspension from quotation on ASX will be lifted and trading in Kingsgate Shares will resume on 17 October 2016 (as further explained in Section 4.7 of this Target's Statement).

If you decide to DO NOTHING, you should be aware of the risks associated with rejecting the Offer. A non-exhaustive summary of those risks is set out below in Section 2.3 of this Target's Statement.

If you have any questions, please contact the Kingsgate Shareholder Information Line on 1 800 882 102 (toll free) (within Australia) or +61 1 800 882 102 (outside Australia).

In conclusion, I wish to reiterate that your Directors are confident in Kingsgate's potential and future outlook, including our highly prospective Nueva Esperanza Project. Furthermore, your Directors remain committed as ever to the interests of Shareholders and other stakeholders in the Company over both the short and longer term.

Thank you for your continued support.

Yours sincerely,



Ross D Smyth-Kirk

Chairman

Kingsgate Consolidated Limited

1 Reasons Why You Should Reject The Offer

AFTER A DETAILED REVIEW, THE KINGSGATE BOARD UNANIMOUSLY RECOMMENDS¹ THAT YOU **REJECT THE OFFER FROM NGPI** FOR THE FOLLOWING REASONS

1

The Independent Expert has concluded that the Offer is not fair and not reasonable

2

The Offer fails to recognise Kingsgate's improved prospects and financial position

3

The Offer is highly opportunistic in both its structure and timing

4

The Offer ignores the strong future potential of Kingsgate's Nueva Esperanza Project in Chile

5

The Bidder's Statement is unclear and uncertain regarding the future operation and growth of Kingsgate should NGPI gain control of the Company

Further explanation for your Board's unanimous recommendation to reject the Offer is provided in the remainder of this Section 1.

If you decide to reject the Offer, you should be aware of the risks associated with rejecting the Offer. A non-exhaustive summary of those risks is set out below in Section 2.3.

¹ Peter McAleer has been granted extended leave of absence from February 2016 due to ill health, and has not participated in any Board deliberations (including deliberations relating to the Offer) since that date. For that reason, Peter McAleer has not made any recommendation in connection with the Offer.

6 Reasons Why You Should Reject The Offer

1

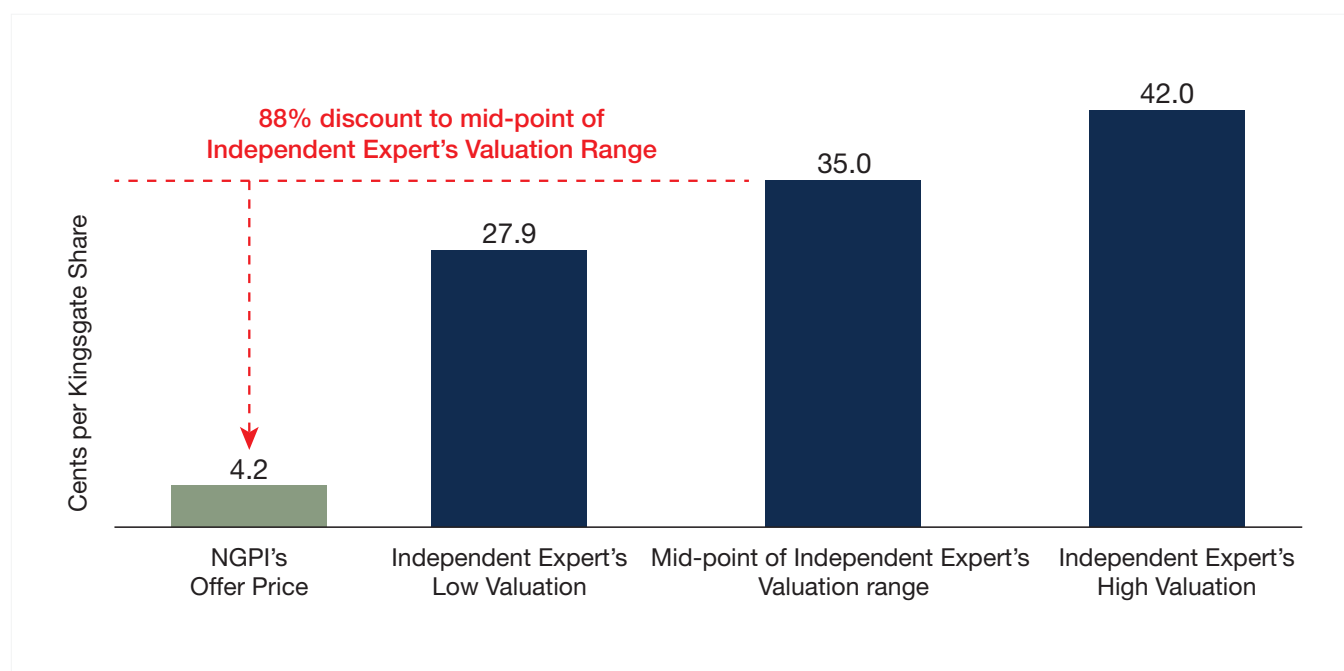
The Independent Expert has concluded that the Offer is not fair and not reasonable

Your Directors engaged Grant Thornton to prepare an Independent Expert's Report in response to the Offer.

The Independent Expert has concluded that:

- the Offer is **NOT FAIR AND NOT REASONABLE** to Kingsgate shareholders; and
- the Offer Price of 4.2 cents per Share is **materially below** the valuation range of 27.9 to 42.0 cents per Share on a control and 100% basis determined by the Independent Expert.

The Offer Price of 4.2 cents per Share is therefore 88% less than the mid-point of the Independent Expert's valuation range of 35.0 cents per Share.



Accordingly, your Directors believe that the Offer significantly undervalues your Shares.

Furthermore, your Directors would like to draw your attention to Section 5.2.5 of the Independent Expert's Report where the Independent Expert has referred to a potential uplift in its assessed market value of the Nueva Esperanza Project if the discount rate used in that valuation was adjusted to reflect the cost of capital of a large diversified silver producer.

The Independent Expert's Report is set out in Annexure A.



2

The Offer fails to recognise Kingsgate's improved prospects and financial position**a) The Kingsgate Group is on track to repay all bank debt in the near future**

Since 30 June 2016, the bank debt of the Kingsgate Group has reduced from \$86 million to \$72 million as at the date of this Target's Statement, reflecting the strong cash flow that has been generated by the Chatree Gold Mine over that period.

Subject to the assumptions and qualifications outlined in Section 4.3e), the Board believes that the Kingsgate Group will have sufficient cash resources (including cash flows generated by the Chatree Gold Mine up to 31 December 2016) in order to:

- repay all of its outstanding bank loans and meet all other current financial obligations (including employee redundancies) falling due in the period up to and including 30 June 2017;
- provide for all care and maintenance and rehabilitation obligations at the Chatree Gold Mine falling due in the period up to and including 30 June 2017;
- deliver on its work program in relation to its Nueva Esperanza Project during the period up to and including 30 June 2017; and
- meet its general working capital requirements.

b) Trading in Kingsgate Shares on ASX will resume on 17 October 2016

As announced by Kingsgate to ASX on 14 October 2016, the voluntary suspension of trading in Kingsgate Shares will be lifted and trading will resume following release of the Target's Statement which will take place on 17 October 2016.

This is a positive milestone as part of Kingsgate's plan to deliver an attractive future for the Company and has the clear benefit to Shareholders of increased transparency as to the market value of their investment in Kingsgate.

As a result, NGPI's claim in its Bidder's Statement that "*you cannot easily trade your Kingsgate Shares as they have been suspended from trading since 13 May 2016 and this will continue for the foreseeable future*"² is out-of-date from 17 October 2016, and Shareholders will have an alternative to accepting the Offer should they wish to realise the value of their investment in Kingsgate at any time in the future.

However, Shareholders should be aware that it is possible that there may be a degree of volatility in the trading price of Kingsgate Shares, particularly shortly after trading recommences, reflective of changes that have occurred since trading in the Shares was voluntarily suspended in May 2016.

² Refer to page 6 of the Bidder's Statement.

8 Reasons Why You Should Reject The Offer

3

The Offer is highly opportunistic in both its structure and timing

a) Structure: the Offer is a proportional offer for 50.1% of Shares

The Offer is a proportional takeover offer under the Corporations Act. Therefore, NGPI is only proposing to acquire 50.1% of Shares held by each Shareholder instead of all Shares held by each Shareholder. If successful, this structure could enable NGPI, and its controlling shareholder Mr Chatchai Yenbamroong, to acquire control or de facto control of Kingsgate at a much lower cost compared to an ordinary takeover offer for 100% of the Shares.

The Bidder's Statement claims that "*NGPI intends to share the risk and hopefully the reward*"³ with Kingsgate Shareholders. Your Directors believe instead that NGPI and Mr Yenbamroong are seeking to use the proportional takeover to acquire a stake in Kingsgate without paying fair value or a premium for control so that it can then exert influence or control over Kingsgate contrary to the strategy of Kingsgate's existing Board and management.

Your Directors believe that any acquisition of Shares by NGPI under the Offer may be highly disruptive and costly to Kingsgate's future success. Shareholders who accept the Offer would still be left exposed to any adverse outcomes caused by such disruption given they would continue to hold 49.9% of their Shares.

b) Timing: the Offer was announced during voluntary suspension of trading

It is clear that the Offer has been opportunistically timed while:

- Kingsgate Shares were in voluntary suspension from trading on ASX; and
- Kingsgate's management was dealing with the implications of the final decision of the Government of Thailand to cease gold mining in Thailand after 31 December 2016.

Further details regarding this situation and the voluntarily suspension of trading of Kingsgate Shares are set out in Section 4.7 of this Target's Statement.

However, trading in Kingsgate Shares will resume on 17 October 2016 as confirmed by Kingsgate's separate announcement on ASX on 14 October 2016 and further explained above in Reason 2.

³ Refer to page 6 of the Bidder's Statement.



4

The Offer ignores the strong future potential of Kingsgate's Nueva Esperanza Project in Chile**a) The Nueva Esperanza Project is an integral part of Kingsgate's future...**

The Chatree Gold Mine in Thailand will cease to operate at the end of 2016 according to the Government of Thailand's decision to end all gold mining operations in Thailand (including at the Chatree Gold Mine) as at the end of 2016.

As a result, the key to Kingsgate's future beyond 2016 is the Nueva Esperanza Project, which is a highly prospective gold and silver development project located in the Atacama Region in Chile. Your Directors believe that this represents one of the most exciting new precious metals projects in South America.

Kingsgate is already well advanced with its development of the Nueva Esperanza Project, with a Pre-Feasibility Study having been released to ASX on 14 April 2016 following significant work by Kingsgate.

...however, the Bidder's Statement makes almost no mention of the Nueva Esperanza Project

Notwithstanding the significance of the Nueva Esperanza Project as Kingsgate's only key asset once the Chatree Gold Mine is closed at the end of 2016 in accordance with the Government of Thailand's decision, the Bidder's Statement only includes a single paragraph relating to the Nueva Esperanza Project, and without any reference to the future potential of the project.

b) NGPI and Mr Yenbamroong have failed to demonstrate that they have the requisite experience and credentials to realise the significant potential of the Nueva Esperanza Project

Having management and project teams with the technical, operational and country/political experience for a Chilean gold/silver development asset is critical to developing the Nueva Esperanza Project to its full potential.

Based on the information in the Bidder's Statement, NGPI and Mr Yenbamroong do not have the expertise, experience or credentials specifically relevant to the Nueva Esperanza Project.

In essence, the Bidder's Statement reveals the following key facts relating to NGPI:

- NGPI is a dormant private company incorporated in Singapore and wholly-owned by an entity existing under the laws of the Islands of Bermuda named Northern Gulf Petroleum Holdings Limited (**NGPH**);
- NGPH owns an entity that holds petroleum interests located in Thailand and, together with Mr Yenbamroong, approximately 20% of ASX-listed Tap Oil Limited;
- NGPH (and ultimately NGPI) is controlled by Mr Yenbamroong and Ms Catherine Yenbamroong; and
- The current directors of NGPI are Mr Yenbamroong and Ms Lie Sin Nee (a finance manager with a background in accounting).

None of this information suggests that NGPI and Mr Yenbamroong have the requisite experience and credentials specifically needed to develop a gold/silver project in Chile.

10 Reasons Why You Should Reject The Offer

5

The Bidder's Statement is unclear and uncertain regarding the future operation and growth of Kingsgate should NGPI gain control of the Company

a) There is no evidence to suggest that NGPI can overturn the Government of Thailand's decision to close the Chatree Gold Mine

In the Bidder's Statement, NGPI claims that "*Mr Chatchai Yenbamroong will leverage his Thai experience to seek a positive outcome*"⁴.

On 10 May 2016, the Government of Thailand announced that it would cancel all existing gold exploration and production licences in Thailand and ordered that all gold mines in the country be shut down by the end of 2016. On 17 May 2016, the Government of Thailand notified Kingsgate's subsidiary, Akara Resources PCL (**Akara Resources**), that its metallurgical licence would only be renewed to 31 December 2016, rather than for a period of three to five years, as had been the case in the past.

Akara Resources appealed the Government of Thailand's decision to extend the metallurgical licence only until 31 December 2016, and has had and is continuing to have extensive discussions with various levels of the Government of Thailand and regulatory authorities. Kingsgate also continues to explore all potential legal and other remedies. However, Kingsgate was advised of the dismissal of the appeal against the short extension of the metallurgical licence on 30 September 2016.

On that basis, and given the lack of information in the Bidder's Statement, your Directors believe there is no evidence to suggest that NGPI and Mr Yenbamroong can overturn the Government of Thailand's decision. The Bidder's Statement only provides vague statements that Mr Yenbamroong will:

- "*attempt to seek meetings with the highest levels of Government*"⁵ - without clarification of how such meetings would result in the ordinary operation of the mine by Kingsgate after the end of 2016;
- "*present various studies*"⁶ - without specifically identifying those studies and their authors and whether or not such studies have been previously raised with Thai regulatory authorities; and
- engage in a "*fact-based*"⁷ and "*positive*" campaign⁸ - again, without specifying the relevant facts and clarifying how this would result in the ordinary operation of the mine by Kingsgate after the end of 2016.

In your Directors' view, these limited details do not provide comfort to Shareholders and consequently, there is high level of risk to Shareholders accepting the Offer and relying on NGPI's ability to overturn the Government of Thailand's decision.

⁴ Refer to page 6 of the Bidder's Statement.

⁵ Refer to page 17 of the Bidder's Statement.

⁶ Refer to page 17 of the Bidder's Statement.

⁷ Refer to page 6 of the Bidder's Statement.

⁸ Refer to page 17 of the Bidder's Statement.

b) No disclosure of NGPI's intentions in the event that the Government of Thailand's decision is not overturned

In addition, the Bidder's Statement does not provide any indication of the specific intentions of NGPI and Mr Yenbamroong for Kingsgate's business and employees in the event that the Chatree Gold Mine ceases to operate at the end of 2016 in accordance with the Government of Thailand's decision.

This is a significant omission given the likelihood of that outcome and the high degree of uncertainty as to NGPI's ability to overturn the Government of Thailand's decision.

2 Your Choices as a Shareholder

2.1 Summary of the Offer

The Offer is for 50.1% of your Shares for a cash price of 4.2 cents per Share, subject to the terms and conditions of the Offer as set out in the Bidder's Statement.

2.2 Your choices as a Shareholder

Your Directors unanimously recommend that you REJECT the Offer¹. However, as a Shareholder you have three choices currently available to you:

a) Reject NGPI's Offer and do nothing

Shareholders who wish to reject the Offer (as unanimously recommended by your Directors) should simply DO NOTHING.

You are not required to take any action in order to reject NGPI's Offer and you should not respond to any correspondence (documentation, email or telephone solicitation or any other forms of communication) sent to you by NGPI or its representatives.

However, if you decide to DO NOTHING, you should be aware of the risks associated with rejecting the Offer. A non-exhaustive summary of those risks is set out below in Section 2.3.

b) Sell your Shares on market

As noted above, trading in Kingsgate Shares will resume on 17 October 2016.

Once trading has resumed on 17 October 2016, Shareholders may elect to sell some or all of their Shares on market for cash through ASX, if you so wish.

The consideration you will receive for your Shares will depend on the prevailing market price of the Shares at the time of sale. You should note that you may be liable for tax on the sale and you may incur a brokerage charge.

Shareholders who wish to sell their Shares on market should contact their broker for information on how to effect that sale.

c) Accept the Offer

Your Directors unanimously recommend that you REJECT the Offer, which is supported by the conclusions of the Independent Expert (as set out in Reason 1 and Annexure A).

However, Shareholders may disagree with the Directors' recommendation and elect to accept the Offer in respect of their Shares. Section 8 of the Bidder's Statement contains details on how to accept the Offer. If the Offer becomes Unconditional, you will receive 4.2 cents cash consideration per Share for 50.1% of your Shareholding. You will still hold the remaining 49.9% of your Shares. You may then choose to either hold or sell some or all of your Remaining Shares on ASX.

If accepting the Offer would leave you holding a parcel of Shares that has a market value of \$500 or less, the Offer extends to all of your Shares and if you accept the Offer you will be then deemed to have accepted the Offer for all of your Shares.

Your Directors urge you to consider the key matters set out below before accepting the Offer. If you accept the Offer, then:

¹ Peter McAleer has been granted extended leave of absence from February 2016 due to ill health, and has not participated in any board deliberations (including deliberations relating to the Offer) since that date. For that reason, Peter McAleer has not made any recommendation in connection with the Offer.

- you will lose the opportunity to benefit if the market price for Shares trades above the Offer Price upon resumption of trading of Shares on 17 October 2016;
- you will have limited rights to withdraw your acceptance as set out in Section 6.6 of this Target's Statement; and
- NGPI will not be able to pay the Offer consideration due to you for your Shares until the earlier of:
 - (i) 10 Business Days after the end of the Offer Period; and
 - (ii) 10 Business Days after you have accepted your Offer or the FIRB Condition has been satisfied or waived (whichever is later),and NGPI cannot acquire your Shares whilst the Offer remains conditional.

2.3 Risks of not accepting the Offer

Set out below are some risks associated with not accepting the Offer, which may form reasons why Shareholders consider not following the unanimous recommendation of the Directors to reject the Offer.

- You may disagree with the unanimous recommendations of the Directors and the Independent Expert's conclusion and believe that the Offer Price of 4.2 cents per Share is adequate.
- As at the date of this Target's Statement, the Offer represents the only takeover offer available to Shareholders and a superior or alternative proposal may not arise.
- Any trading price in Shares that is realised on market outside of the Offer will be subject to various economic, market and Company-based factors and may or may not meet Shareholders' expectations.
- There are specific risks associated with continuing to hold Shares as set out in detail in Section 4.9 of this Target's Statement, including risks relating to the continued operation of the Chatree Gold Mine, the ability of Kingsgate to continue its operations as a going concern, the status of Kingsgate's external borrowings, and certain risks related to the future exploration and development of the Nueva Esperanza Project in Chile.

3 Frequently Asked Questions

This Section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for Shareholders. This Section should be read together with all other parts of this Target's Statement.

The Offer

What is being offered to me? NGPI is offering to acquire 50.1% of your Shares at a cash price of 4.2 cents per Share.

What is a "proportional" takeover Offer? A proportional takeover bid (such as the Offer) is a takeover bid for a specific proportion of the securities in a class of shares. The Corporations Act requires that the specified proportion is the same for all holders of securities in that class. The specified proportion for the Offer is 50.1% of the Shares held by each Shareholder.

However, if accepting the Offer would leave you holding a parcel of Shares that has a market value of \$500 or less, the Offer extends to all of your Shares and if you accept the Offer you will be then deemed to have accepted the Offer for all of your Shares.

What are the Directors recommending? The Directors unanimously recommend that you REJECT the Offer¹. The reasons for your Directors' recommendation are set out in Section 1 of this Target's Statement.

To follow your Directors' recommendation that you REJECT the Offer, simply DO NOTHING.

If there is a change to your Directors' recommendation or there are any material developments in relation to the Offer, your Directors will make the appropriate supplementary disclosure.

Why are the Directors recommending I reject the Offer? Your Directors recommend you REJECT the Offer because of five key reasons:

- the Independent Expert has concluded that the Offer is not fair and not reasonable;
- the Offer fails to recognise Kingsgate's improved prospects and financial position;
- the Offer is highly opportunistic in both its structure and timing;
- the Offer ignores the strong future potential of Kingsgate's Nueva Esperanza Project in Chile; and
- the Bidder's Statement is unclear and uncertain regarding the future operation and growth of Kingsgate should NGPI gain control of the Company.

What do the Directors intend to do with their Shares? Each Director intends to REJECT the Offer in respect of the Shares they own or control.

What is the opinion of the Independent Expert? Kingsgate engaged Grant Thornton to provide an Independent Expert's Report. Grant Thornton concluded that the Offer is not fair and not reasonable to Kingsgate Shareholders. See Annexure A of this Target's Statement for the full Independent Expert's Report. You should read the report carefully.

Who is NGPI? NGPI is a limited private company incorporated in Singapore. It is a wholly-owned subsidiary of NGPH, a private entity controlled by Mr Yenbamroong and Ms Catherine Yenbamroong.

Further information regarding NGPI can be found in Section 1 of the Bidder's Statement.

¹ Peter McAleer has been granted extended leave of absence from February 2016 due to ill health, and has not participated in any board deliberations (including deliberations relating to the Offer) since that date. For that reason, Peter McAleer has not made any recommendation in connection with the Offer.



The Offer

Was the Offer solicited by Kingsgate?	No, the Offer was made at NGPI's initiation and was not sought out by Kingsgate and was therefore unsolicited.
What are the conditions to the Offer?	<p>The Offer is subject to NGPI receiving unconditional approval from the Treasurer or his delegate under the <i>Foreign Acquisitions and Takeovers Act 1975</i> or Australia's foreign investment policy, or the Treasurer ceasing to be empowered to make any orders under those laws.</p> <p>Sections 6.8 and 6.9 of this Target's Statement provide further details on the FIRB Condition.</p>
What happens if the FIRB Condition is not satisfied or waived?	If the FIRB Condition is not satisfied or waived by the end of the Offer Period, the Offer will lapse and any acceptances will be cancelled.
When does the Offer close?	<p>The Offer is presently scheduled to close at 7:00pm (Sydney time) on 4 November 2016 (unless extended or withdrawn).</p> <p>There will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period, NGPI increases the Offer Price or its voting power in Kingsgate increases to more than 50%. The extension will be for 14 days after the relevant event occurs.</p> <p>Section 6.2 of this Target's Statement provides further details regarding the circumstances in which the Offer Period can be extended.</p>
Can NGPI extend the Offer?	Yes, NGPI can extend the Offer in accordance with the Corporations Act. However, NGPI has no obligation to do so.
Can NGPI withdraw the Offer?	NGPI may withdraw the offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent.

Options for Shareholders

What choices do I have as a Shareholder?	<p>As a Shareholder, you have the following choices in respect of your Shares:</p> <ul style="list-style-type: none"> • reject the Offer by doing nothing; • after Shares resume trading on 17 October 2016, sell your Shares on ASX (unless you have previously accepted the Offer made to you and you have not validly withdrawn your acceptance) if you so wish; or • accept the Offer in respect of your Shares. To accept the Offer, you must complete your Acceptance Form before the end of the Offer Period in accordance with the instructions set out in the Bidder's Statement. If you accept the Offer, you will be left with 49.9% of your Shares. You may either hold or sell some or all of that remaining holding on ASX. However, if accepting the Offer would leave you holding a parcel of Shares that has a market value of \$500 or less, the Offer extends to all of your Shares and if you accept the Offer you will be then deemed to have accepted the Offer for all of your Shares. <p>There are several implications in relation to each of the choices above. A summary of the key implications is set out in Section 2 of this Target's Statement.</p>
Can I accept the Offer for less than 50.1% of my Shares?	<p>No, you can only accept for the full 50.1% of your Shares.</p> <p>If you accept the Offer, you will be able to sell your Remaining Shares on ASX but a transferee will not be able to accept the Offer in respect of them.</p>
Can I be forced to sell my Shares under the Offer?	No. You do not have to accept the Offer.

16 Frequently Asked Questions

How to respond to the Offer

How do I reject the Offer?	To reject the Offer, you should do nothing.
How do I accept the Offer?	To accept the Offer, you should follow the instructions set out in the Bidder's Statement.
Can I accept the Offer for all of my Shares?	No, you can only accept the Offer in respect of 50.1% of your Shares, rounded down to the nearest whole number.
Can I sell my Shares on-market?	After Shares resume trading on 17 October 2016 you may seek to sell all or some of your Shares on ASX unless you have accepted the Offer in respect of those Shares. If you sell your Shares on-market: <ul style="list-style-type: none">• you may incur brokerage charges;• you will lose the ability to accept the Offer or any other offer which may eventuate;• you may receive more or less for your Shares than the Offer Price; and• you will be paid on the second Business Day after the sale.
What are the consequences of accepting the Offer now?	By accepting the Offer whilst it remains subject to the FIRB Condition, you will: <ul style="list-style-type: none">• be unable to accept any superior offer from another bidder that may emerge unless you become entitled to withdraw your acceptance or the Offer lapses; and• give up your right to otherwise deal with 50.1% of the Shares you hold whilst the Offer remains open.
If I accept the Offer now, can I withdraw my acceptance?	You may withdraw your acceptance at any time before the FIRB Condition has been fulfilled or waived and NGPI varies the Offer in a way that postpones for more than one month the time when NGPI has to meet its obligations under the Offer. However, you will not get any notice from NGPI before the FIRB Condition is fulfilled. See Section 6.6 of this Target's Statement for more details.
Do I pay brokerage if I accept?	No brokerage or stamp duty will be payable as a result of your acceptance of the Offer.
What happens if I do nothing?	You will retain all your Shares.
What are the tax consequences if I accept the Offer?	You should consult a taxation adviser on the tax implications of acceptance. However a general summary of the likely Australian tax consequences is set out in Section 6 of the Bidder's Statement.

Other Questions

What is the Bidder's Statement?	The Bidder's Statement was prepared by NGPI and describes the terms of the Offer for your Shares and other information that NGPI considers material to your decision as to whether or not to accept the Offer made to you.
What is the Target's Statement?	This Target's Statement is the formal response to the Offer by the Board, as required by the Corporations Act. This document has been prepared by Kingsgate and contains important information to help you decide whether or not to accept the Offer.
Is there a number that I can call if I have further queries in relation to the Offer?	If you have any further questions about the Offer, please contact the Kingsgate Shareholder Information Line on 1 800 882 102 (within Australia) or +61 1 800 882 102 (from outside Australia).



4 Information Relating to Kingsgate

4.1 Overview of Kingsgate

Kingsgate is an Australian gold mining company based in Sydney and listed on ASX. As an experienced Pacific Rim gold producer, Kingsgate has significant expertise in gold exploration, development and mining and adheres to globally recognised best practice health and safety, environmental and social responsibility standards at all of its operations.

Kingsgate's vision is to be a leading precious metals company, with a focus on delivering value for Shareholders by:

- maximising operational performance;
- acquiring and developing high quality precious metal projects;
- lowering costs, increasing margins and improving cashflows; and
- strategic engagement and relationship building with all stakeholders.

Kingsgate currently holds two assets: the Chatree Gold Mine in Thailand and the Nueva Esperanza Project in Chile.

4.2 Principal activities

a) Thailand

Kingsgate, through Akara Resources, operates the Chatree Gold Mine in central Thailand. The Chatree Gold Mine is a large scale open pit gold mining operation. The Chatree Gold Mine processing plant is capable of processing 6.2 million tonnes of ore per annum.

Chatree Gold Mine Thailand



Kingsgate commenced gold production at the Chatree Gold Mine in 2001. Since that time, the Chatree Gold Mine has produced approximately 1.8 million ounces of gold and more than 8.6 million ounces of silver. In recent years, the Chatree Gold Mine has, on average, produced approximately 125,000 to 135,000 ounces of gold per annum. Approximately 99% of the Chatree Gold Mine workforce are Thai, with 65% of the Thai workforce originating from the surrounding villages.

Akara Resources has a proud operating history at the Chatree Gold Mine, and is a modern, compliant and internationally accredited mining operation. Akara Resources was one of the first signatories to the International Code for Cyanide Management and is in compliance with all major health and safety, environmental and labour standards necessary to operate the Chatree Gold Mine.

On 18 June 2010, The Royal Thai Board of Investment granted Akara Resources certain investment rights as a promotion in relation to the construction of the Chatree Gold Mine processing plant. Under this promotion, Akara Resources became entitled to a number of benefits including an eight year tax-free period commencing on 1 November 2012 related to income derived from the new processing plant.

On 10 May 2016, the Government of Thailand announced that it would cancel all existing gold

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exploration and production licences in Thailand and ordered that all gold mines in the country be shut down by the end of 2016. On 17 May 2016, the Government of Thailand notified Akara Resources, that its metallurgical licence would only be renewed to 31 December 2016, rather than for a period of three to five years, as had been the case in the past. A metallurgical licence is required to operate the processing plant at the Chatree Gold Mine. Refining operations are not permitted without this metallurgical licence. Therefore, the decision by the Government of Thailand will prematurely close the Chatree Gold Mine despite Kingsgate and Akara Resources' sound and safe record of operation and despite there being no evidence of operations having caused health or environmental harm.

Since the notification by the Government of Thailand, Kingsgate has been engaging with various levels of the Government of Thailand and exploring potential legal and other remedies to rectify the situation, including potentially extending the metallurgical licence and maintaining the safe operation of the Chatree Gold Mine beyond the end of 2016. Such efforts have included an appeal by Akara Resources against the decision of the Government of Thailand to only extend the metallurgical licence until 31 December 2016. However, Akara Resources was notified on 30 September 2016 that such appeal had been dismissed.

Kingsgate has a rehabilitation plan in place for the Chatree Gold Mine, including an allocation of approximately \$3.7 million in existing restricted cash reserves to be expended on rehabilitation and care and maintenance activities during the period ending on 30 June 2017. The Government of Thailand has not yet articulated its expectations or conditions for any closure obligations or rehabilitation that Akara Resources may be required to undertake if the Chatree Gold Mine ceases operations on 31 December 2016. Nevertheless, Akara Resources does in the normal course of operations concurrently rehabilitate sections of the Chatree Gold Mine after use and has instituted a plan to transition the Chatree Gold Mine on to care and maintenance after 31 December 2016.

In light of these circumstances, Akara Resources has implemented a revised mine plan up until 31 December 2016 that is expected to generate sufficient cash flow in order to satisfy its financial, care and maintenance and rehabilitation obligations. Further details regarding the Company's near term cash flow profile and obligations are contained in Section 4.3.

b) Chile

Kingsgate owns the Nueva Esperanza Project, which is located in the highly endowed Maricunga Gold/Silver Belt of the Atacama Region of northern Chile.

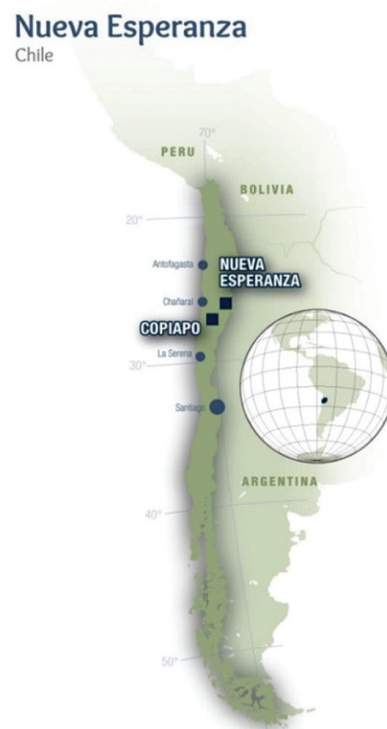
In 2009, Kingsgate first expanded into South America with the acquisition of the Arqueros Project in Chile. This was followed by Kingsgate's acquisition of further high sulphidation epithermal projects in 2011, which were then consolidated into the Nueva Esperanza Project.

Kingsgate had previously released to ASX:

- (a) on 13 April 2016, an update on the Mineral Resource estimate for the Nueva Esperanza Gold-Silver Project in an announcement titled "Nueva Esperanza Mineral Resource Update"; and
- (b) on 14 April 2016, an update on the Ore Reserve estimate for the Nueva Esperanza Gold-Silver Project in an announcement titled "Nueva Esperanza Pre-Feasibility Study Confirms Kingsgate Growth Strategy",

as a significant milestone in the project's ongoing development.

In those prior announcements, it was noted that the Probable Ore Reserves for the Nueva Esperanza Project is 1.1 million gold equivalent ounces, at a gold equivalent grade of 2.0 grams per tonne AuEq60



of oxidised mineralisation contained in three open pits. The total Mineral Resource base (combining Measured, Indicated and Inferred Mineral Resources) is 1.9 million gold equivalent ounces, at a gold equivalent grade of 1.5 grams per tonne AuEq60. The Company confirms it is not aware of any new information or data that materially affects the information included in the abovementioned announcements, and confirms that all material assumptions and technical parameters underpinning the estimates in the abovementioned announcements continue to apply and have not materially changed.

In respect of its work program at the Nueva Esperanza Project, Kingsgate has budgeted for a total of \$8.3 million for the nine month period between 30 September 2016 and 30 June 2017. This amount includes \$2 million in royalty payments as well as funding of exploration and plans to advance permitting and feasibility activities at the project. A new topographic base map and high resolution satellite image have also been commissioned and will be used to help build layers of geological information at a district level in order to unlock the prospective 45 square kilometre alteration footprint. The spring field season in Chile commenced in September and a number of key targets that were identified prior to the winter shut-down in June are currently being pursued.

4.3 Financial Information

a) Introduction

This Section contains financial information for Shareholders to consider in response to the Offer. Specifically, this Section provides:

- an overview of the operating performance of Kingsgate in the last quarter ended 30 September 2016;
- guidance relating to the production, sales and operating cost performance of the Chatree Gold Mine for the next quarter ending 31 December 2016; and
- based on such guidance, projections relating to Kingsgate's cash flows for the next quarter ending 31 December 2016 and resulting projected cash and debt position as at 31 December 2016.

The guidance and forward-looking financial information set out in this Section has been prepared by Kingsgate. Whilst care and diligence has been taken by Kingsgate in the preparation of this information, it has not been the subject of any external audit or review. The financial information in this Section has been presented in an abbreviated form and does not contain all disclosures required by the Australian Accounting Standards applicable to financial statements prepared in accordance with the Corporations Act. The financial information in this Section should be read in conjunction with the Directors' material best estimate assumptions described in Section 4.3e), the sensitivity analysis in Section 4.3f) and the risk factors in Section 4.9 of this Target's Statement.

Shareholders should refer to the 2016 Annual Financial Statements for more detailed disclosures, including details of accounting policies. These statements are available at Kingsgate's website at www.kingsgate.com.au and the ASX website at www.asx.com.au.

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b) Historical operating and financial performance

Set out in the table below is a summary of Kingsgate's historical operating performance at the Chatree Gold Mine for the quarterly period ended 30 September 2016, including details provided in Kingsgate's September 2016 Quarterly Report, which was separately announced to ASX on 17 October 2016. The information in the table below has been extracted from the Company's unaudited management accounts.

A\$ million	Units	Jul-16 (Actual)	Aug-16 (Actual)	Sep-16 (Actual)	Sep 2016 Quarter (Actual)
Production Summary					
Waste Mined	tonnes	649,454	284,074	334,294	1,267,822
Ore Mined	tonnes	338,124	389,809	461,851	1,189,784
Strip Ratio	waste/ore	1.79	0.67	0.79	1.02
Ore processed	tonnes	451,277	436,430	457,089	1,344,796
Gold Grade	g/t	0.76	0.97	1.49	1.08
Silver Grade	g/t	23.0	22.9	23.9	23.3
Gold Recovery	%	82.3	84.8	84.2	83.9
Silver Recovery	%	43.3	41.3	41.2	41.9
Gold Produced	ounces	9,094	11,527	18,405	39,026
Silver Produced	ounces	144,599	132,671	144,660	421,930
Gold Poured	ounces	10,854	8,815	20,073	39,742
Silver Poured	ounces	141,997	115,140	146,702	403,839

A\$ million	Units	Sep 2016 Quarter (Actual)
Revenue Summary		
Gold Sold	ounces	29,905
Silver Sold	ounces	341,204
Average Gold Price Received	US\$ per ounce	1,335
Average Silver Price Received	US\$ per ounce	20
Revenue from Metal Sold	US\$ million	46.6
All-in Sustaining Cost Summary¹		
Adjusted Total Cash Cost ²	US\$ per ounce	525
Sustaining Capex	US\$ per ounce	8
Corporate and Administration Costs ³	US\$ per ounce	63
All-in Sustaining Cash Costs	US\$ per ounce	596

1 Cost figures are based on gold ounces sold.

2 Adjusted operating costs are based on gold sales and include movements in gold inventory and stockpiles over the period. Group corporate and administration costs have been allocated 60% to the operating asset.

3 Includes Kingsgate Group corporate and head office administrative costs.



The Chatree Gold Mine delivered a strong September 2016 quarter, with higher grades being accessed as a result of cut-back activities. Notably, 39,742 ounces of gold was poured during the quarter with 20,073 ounces of gold poured in the month of September itself which represents one of the highest monthly results since the Chatree Gold Mine commenced operation. Gold sold for the quarter was 29,905 ounces at an average gold price received of US\$1,335 per ounce. Gold sold was less than gold poured with the difference to be carried over as sales in the December 2016 quarter.

For further details regarding Kingsgate's most recent historical operating performance, Shareholders should refer to Kingsgate's Quarterly Activities Report for the period from 1 July 2016 to 30 September 2016, which was announced to ASX on 17 October 2016.

c) Projected operating performance and cash flows

Based on the assumptions set out in Section 4.3e), your Directors provide the production, sales and operating cost guidance set out below in relation to Kingsgate's operations at the Chatree Gold Mine for the quarterly period ending 31 December 2016.

December 2016 quarterly guidance

Company Guidance	Units	Dec 2016 Quarter (Forecast)
Gold Production Guidance	ounces	40,000 – 45,000
Gold Sales Guidance	ounces	45,000 – 50,000
Total Operating Cash Costs	A\$ million	45

As set out above, gold production and sales are expected to increase in the December 2016 quarter as compared with the results achieved in the September 2016 quarter, continuing the upward trend achieved over the course of the September quarter. This guidance is largely the result of pit optimisation work carried out by Akara Resources and the continued access to a section with higher grades and lower strip ratio. Furthermore, gold sales during the December 2016 quarter are expected to benefit from the gold produced but not sold during the September 2016 quarter (hence the positive difference between the sales and production guidance noted above).

Based on the mid-point of the gold production guidance, the mid-point of the gold sales guidance and the operating cost guidance, projected cash flows for Kingsgate Group for the quarterly period ending 31 December 2016 are set out below. These projections assume a gold and silver price of US\$1,260/oz and US\$18/oz respectively (being the approximate spot prices as at 10 October 2016) and an AUD/USD exchange rate of 0.76 for conversion to A\$ currency for the December 2016 quarter. For reference, the table below also includes Kingsgate Group's historical cash flows for the quarterly period ended 30 September 2016.

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December 2016 quarterly cash flows

A\$ million	Sep 2016 Quarter (Actual)	Dec 2016 Quarter (Forecast)
Sales Revenue	61	87 ⁴
Total Operating Cash Costs	(39)	(45)
Corporate and Other Costs	(5)	(5)
Working Capital Adjustments	3	-
Cash Flows from Operating Activities	21	37
Proceeds from Asset Sales ⁵	1	5
Nueva Esperanza Exploration and Development Costs	(5)	(2)
Other Investing Cash Flows	0	0
Cash Flows from Investing Activities	(3)	3
Interest and Other Financing Costs	(2)	(3)
Cash Flows from Financing Activities (Pre Repayment of Debt)	(2)	(3)
Net Cash Flow (Pre Repayment of Debt)	16	37

Projected sales revenue for the December 2016 quarter reflects the expected increase in gold production and gold sold from the September 2016 quarter, which is largely underpinned by the continued access to higher grade areas of the mine site. The expected increase in total operating cash costs in the December 2016 quarter reflects the inclusion of employee severance payments of \$5.0 million and community fund contributions of \$0.6 million that are required under the terms of the metallurgical licence. Projected Nueva Esperanza Exploration and Development Costs for the December 2016 quarter are lower than the equivalent costs for the September 2016 quarter primarily due to the US\$2.0 million in royalty payments that were paid in the September 2016 quarter.

Set out in the table below is a summary of Kingsgate Group's cash and debt projections based on the projected cash flows outlined above and the assumptions set out in Section 4.3e), it is anticipated that the Kingsgate Group's total cash resources will exceed its Gross Debt (as defined below) as at 31 December 2016 by \$18 million (based on such projections and assumptions set out in Section 4.3e)).

Gross Debt in this table is defined as Kingsgate Group's bank debt facilities (which are further described below in Section 4.5) and excludes the preference shares issued in Akara Resources of \$10.2 million (which are also described in Section 4.5) on the basis that such preference shares are not due and payable unless called on 180 days' notice.

Cash and debt summary

	A\$ million
Cash as at 30 September 2016 ⁶ (actual)	48
Net Cash Flow (Pre Repayment of Debt) for quarter ending 31 December 2016	37
Cash (Pre Repayment of Debt) as at 31 December 2016	85
Cash and Cash Equivalents (Pre Repayment of Debt) as at 31 December 2016 ⁷	90
Gross Debt (Pre Repayment of Debt) as at 31 December 2016	72
Net Cash and Cash Equivalents (Pre Repayment of Debt) as at 31 December 2016	18

⁴ Assumes forecast silver sales of 359,562 ounces and a AUD/USD exchange rate of 0.76.

⁵ Proceeds from asset sales realised in the December 2016 quarter include the expected receipt of \$4 million in relation to the sale of the Bowdens Project (as announced to ASX on 30 September 2016) and \$500,000 in relation to the Challenger Project (as announced to ASX on 16 March 2016).

⁶ Excludes restricted cash balance of \$3.7 million held by Akara Resources which is to be applied to future rehabilitation of the Chatree Gold Mine.

⁷ Includes gold bullion on hand of \$4.6 million based on forecasts outlined in this Section 4.3.



The production, sales and operating costs guidance for the quarter ending 31 December 2016 together with the cash flow and debt projections set out in this Section 4.3c) have been approved by the Board based on its assessment of the likely future operating conditions and a number of best estimate assumptions regarding future events as set out in Section 4.3e) below. This information is intended to assist Shareholders in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

Shareholders should be aware that events and circumstances often do not occur as anticipated and therefore actual results from the operation of the last calendar quarter from the Chatree Gold Mine may differ significantly from the guidance provided in this Section 4.3. Neither Kingsgate, the Directors nor any other person guarantees or provides any assurance as to the achievement of the guidance. The guidance should not be regarded as a representation or warranty that Kingsgate will achieve, or is likely to achieve, any particular results. Actual events and outcomes may differ in quantum and timing from those assumed, which may have material consequential positive or negative impact on Kingsgate's actual earnings and cash flow.

d) Kingsgate Group's debt position

As supported by the historical and forward-looking financial information set out above and subject to the assumptions and qualifications outlined in Section 4.3e) below, the Board believes that the Kingsgate Group will have sufficient cash resources (including cash flows generated by the Chatree Gold Mine up to 31 December 2016) in order to:

- repay all of its outstanding bank loans and meet all other current financial obligations (including employee redundancies) falling due in the period up to and including 30 June 2017 (refer to Section 4.5 for further details);
- provide for all care and maintenance and rehabilitation obligations at the Chatree Gold Mine falling due in the period up to and including 30 June 2017 (refer to Section 4.2 for further details);
- deliver on its work program in relation to its Nueva Esperanza Project during the period up to and including 30 June 2017 (refer to Section 4.2 for further details); and
- meet its general working capital requirements.

e) Key assumptions

In preparing the forward-looking production, sales and cost performance and cash flow for the quarterly period ending 31 December 2016 set out in Section 4.3c) and in making the determination as to Kingsgate Group's cash and debt position set out in Section 4.3d), the Directors have made the following assumptions (which they believe are reasonable in the circumstances):

- (1) average gold and silver prices of US\$1,260/oz and US\$18/oz respectively (being the approximate spot prices as at 10 October 2016) are received for the metal sold during the quarterly period ending 31 December 2016;
- (2) Kingsgate continues to undertake its mining operations at the Chatree Gold Mine until 31 December 2016 in a manner which is materially consistent with its current mine plan and budget;
- (3) Kingsgate continues to receive support from its external lenders and will not be required to repay or refinance its existing facilities before becoming due and payable (refer to Section 4.5 for details on the current status of Kingsgate's debt facilities);
- (4) the preference shares issued in Akara Resources are not called by the holder;
- (5) Kingsgate receives \$4 million in proceeds as the remaining consideration not yet paid in relation to the sale of the Bowdens Project agreed with purchaser party, Silver Mines Limited, rather than Kingsgate retaining a 15% interest in that project under a joint venture with Silver Mines Limited (which would be the outcome if the \$4 million is not paid by 30 December 2016);
- (6) Kingsgate receives \$500,000 in proceeds as the remaining consideration in relation to the sale of the Challenger Project as agreed with the purchasers;
- (7) In respect of its rehabilitation and care and maintenance obligations relating to the Chatree Gold Mine:
 - (i) the \$3.7 million in restricted cash reserves which have been allocated to the rehabilitation of Chatree Gold Mine up to 30 June 2017 will be sufficient to cover all such rehabilitation and care and maintenance activities and requirements applicable up to 30 June 2017; and
 - (ii) Kingsgate's proposed rehabilitation plan will be approved by the Government of Thailand and implemented without any adverse changes;

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- (8) there is no further change to laws or regulatory requirements applicable to Kingsgate in Thailand or elsewhere which may impose material adverse obligations or liabilities on Kingsgate;
- (9) there are no material changes in key personnel of Kingsgate, including key management personnel and no industrial action; and
- (10) there are no material disruptions to the continuity of operations of Kingsgate or other material changes to the business.

Shareholders should be aware that future events cannot be predicted with certainty, and the actual outcome of Kingsgate's operations in the last calendar quarter is subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Kingsgate, its respective Directors and management. If one or more of the key assumptions set out above proves to be incorrect during the quarterly period ending on 31 December 2016, this may have a materially adverse effect on the financial position of Kingsgate and is likely to result in Kingsgate not being able to meet the projected production, sales, cash flow and debt position set out in this Section 4.3 for the quarterly period ending on 31 December 2016. Additional risks relating the operation of Kingsgate and its business are set out in more detail in Section 4.9.

f) Sensitivity analysis

Set out below is a sensitivity analysis on the effect of changes to certain key variables that may affect net cash flows of the Kingsgate Group during the December quarter of 2016.

Variable	Assumption	Sensitivity	Impact on net cash flows (Dec 2016 Quarter forecast)
Gold Price Received	US\$1,260 per ounce	±5%	± \$4 million
Gold Sales	47,500 ounces	±5%	± \$4 million

The sensitivity table is intended as a guide only and variations in actual performance of the Chatree Gold Mine during the period could exceed the ranges shown. Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, in order to illustrate the likely impact on the projection. It is possible that a change in circumstance may give rise to movements in more than one variable and those movements may have a cumulative or off-setting effect on Kingsgate's revenue.

4.4 2016 Annual Financial Statements

Kingsgate's Annual Financial Statements are the most recent set of audited financial figures available. The report was released to ASX on 31 August 2016 and can be accessed online at www.kingsgate.com.au.

4.5 Existing debt facilities

The total outstanding bank loans of the Kingsgate Group as at 30 September 2016 amounts to approximately \$72 million.

The Kingsgate Group currently has two drawn debt facilities in place, as described below.

- (1) Kingsgate has a revolving corporate credit facility. As at 30 September 2016, \$5 million is outstanding under this facility, which is due for repayment on 31 January 2017.
- (2) Kingsgate's subsidiary, Akara Resources, has an amortising multi-currency loan facility (**Akara Facility**). As at 30 September 2016, approximately \$67 million is outstanding under this facility, which Kingsgate expects to pay on or before 31 December 2016.

Covenants under these two facilities have been breached as a consequence of the announced closure of the Chatree Gold Mine by 31 December 2016. However, no notice of default has been received from the lenders under either facility.



The external lenders of the Kingsgate Group have been advised of the revised mine plan for the Chatree Gold Mine that has been implemented to maximise cash flow from the operation up until 31 December 2016. To date, these lenders have indicated that they support the adoption of the revised mine plan. It is currently anticipated, subject to the assumptions and qualifications set out in Section 4.3e), that together with current Kingsgate Group cash reserves and the cash flow generated from the Chatree Gold Mine up until its closure there will be sufficient cash resources to meet all outstanding debt repayments as they fall due. Further, your Directors believe that the lenders are currently supportive of Kingsgate on an ongoing basis.

In addition, the following debt arrangements also exist in relation to the Kingsgate Group.

- (1) Kingsgate is a borrower under an inter-company loan with Akara Resources. As at 30 September 2016, the net amount outstanding under this loan equals approximately \$62 million. Akara Resources must give Kingsgate at least 180 days' notice to seek repayment of this inter-company loan.
- (2) Preference shares in Akara Resources are held by a Thai resident. As at 30 September 2016, the par value of these preference shares equals approximately \$10 million. The preference shares may be put by the holder to Kingsgate after 180 days' notice at par value. As at the date of this Target's Statement, the put option has not been exercised.

4.6 Future funding of the Nueva Esperanza Project

The Board continues to evaluate Kingsgate's strategic options in relation to this project. The Board will decide on a proposed funding pathway in due course having regard to market conditions and potential investor feedback. Any decisions made in this regard will seek to maximise value for Shareholders.

4.7 ASX trading suspension

On 12 May 2016, Kingsgate requested a voluntary suspension of trading of its Shares on ASX due to the uncertainty following a public announcement on 10 May 2016 from the Thai Minister of Industry concerning the tenure of the renewal of the metallurgical licence at the Chatree Gold Mine. The voluntary suspension was further extended due to continued uncertainty pending clarification of the basis on which the Chatree Gold Mine could continue to operate through to 31 December 2016.

ASX has confirmed that Kingsgate Shares will resume trading on ASX following release of the Target's Statement which will take place on 17 October 2016.

4.8 Senior management

Kingsgate's senior management team as at the date of this Target's Statement are:

Name	Position
Greg Foulis	Chief Executive Officer
Ross Coyle	Chief Financial Officer
Alistair Waddell	Vice President Corporate Development & Exploration
Jamie Gibson	General Manager Corporate & External Relations

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4.9 Investment risks in Kingsgate

There are a number of risks associated with holding an investment in Kingsgate. You will continue to hold some of your Shares regardless of whether you accept or reject the Offer (unless if accepting the Offer would leave you holding a parcel of Shares that has a market value of \$500 or less, the Offer extends to all of your Shares and if you accept the Offer you will be then deemed to have accepted the Offer for all of your Shares). Some of the more important general risks that may affect Kingsgate and your investment in the Shares are set out below.

This Section does not purport to list every risk that may be associated with holding Shares now or in the future. The occurrence of, or consequences of, the risks described in this Section are partially or completely outside of the control of Kingsgate, its Directors and its management team and may impact on the ability of Kingsgate to continue to meet its obligations as they fall due.

Before making a decision in respect of your Shares (whether to accept the Offer, sell your Shares on market, or continue to hold all of your Shares), you should satisfy yourself that you have sufficient understanding of these matters having regard to your own investment objectives.

a) Chatree Gold Mine

The Directors are not aware of any indication from the Government of Thailand that the Chatree Gold Mine will not be able to continue to operate until 31 December 2016. Notwithstanding that, there is no assurance that no adverse events will occur that may have a material impact on the ability of Kingsgate to continue production during that period. An adverse event may be generally defined as a geotechnical failure, plant or equipment failure, lost time due to a significant weather event, the closure of the mine by the Government of Thailand before 31 December 2016, and interruptions to production caused by other events in Thailand.

b) Going concern

The ability of Kingsgate to continue its operations as a going concern, particularly if the adverse events noted in Section 4.9a) eventuate, is dependent upon the Kingsgate Group being successful in one or more of the following:

- continuing to receive support of the lender under the Akara Facility. If it loses that support, the lender could require repayment of the loans as described in Section 4.5 which could impact on Kingsgate's ability to continue its operations as a going concern;
- continuing to undertake the operation of Chatree Gold Mine until 31 December 2016 in accordance with Kingsgate's current mine plan and budget without any adverse change or disruption;
- receiving the remaining cash proceeds to be paid in relation to the sale of the Bowdens Silver Project and the Challenger Gold Mine from the relevant counter parties (and, in respect of the Bowdens Silver Project in particular, not retaining a 15% interest in that project in lieu of such cash payment) as further described in Section 4.3e);
- realising the value of other assets including reviewing the possibility of the sale of Chatree Gold Mine infrastructure assets which include plant and equipment and non-strategic land and property;
- obtaining approval and implementing a rehabilitation plan for the Chatree Gold Mine that is consistent with industry standards and which takes into account the significantly shorter life of the mine that has been imposed on the Kingsgate Group⁸
- pursuing legal and other avenues in relation to the closure of the Chatree Gold Mine; and/or
- reducing, if necessary, the Kingsgate Group's currently planned ongoing expenditure.

Although Kingsgate management has prepared a responsible and cost effective production and operations plan that it believes will allow the Company to meet its obligations in the context of the early Chatree Gold Mine closure on 31 December 2016, there is a risk that one or more assumptions set out above may not be met in the future which would materially affect the ability of Kingsgate to continue its operations as a going concern.

If Kingsgate ceases to be a going concern, an administrator may be appointed to Kingsgate in which case your Shares may cease to have any value.

⁸ Note that Kingsgate has prepared a responsible and cost effective rehabilitation plan that it believes will meet its obligations in the context of the early mine closure on 31 December 2016, as further described in Section 4.2 of this Target's Statement.



c) Breach of covenants under facility agreements

Covenants under the Akara Facility and the revolving corporate credit facility have been breached as a consequence of the announced closure of the Chatree Gold Mine by 31 December 2016. The external lenders of Kingsgate have been advised of the revised mine plan that has been implemented to maximise cash flow from the operation up until 31 December 2016 and they have indicated at this time that they support the adoption of the revised mine plan. Consequently, to date no formal default notice has been received from those lenders.

The Kingsgate Group is dependent on the support of the lender under the Akara Facility. If it loses that support, the lender could require repayment of the loans as described in Section 4.5 which could impact on Kingsgate's ability to continue its operations as a going concern.

d) Exploration and development

Following the closure of the Chatree Gold Mine on 31 December 2016, the future value of Kingsgate will be materially dependent on the success of the exploration and development of the Nueva Esperanza Project. Although Kingsgate has completed a Pre-Feasibility Study which indicated a positive economic return, no definitive or bankable feasibility study has been completed in connection with the Nueva Esperanza Project. Therefore the prospects and future viability of the project will be subject to further exploration and studies which will need to be funded by Kingsgate through relevant sources.

Although the rewards can be substantial, there is no guarantee that future exploration on areas for which Kingsgate has exploration permits and licences will lead to further commercial discovery, or, if there is such discovery, that Kingsgate will be able to develop it economically.

e) Changes in gold and silver commodity prices

Kingsgate's current revenue from the operation of the Chatree Gold Mine and possible future revenues from the Nueva Esperanza Project will be mainly derived from the sale of gold and silver. Consequently, any adverse change to the commodity prices for these minerals will have a material adverse effect on the earnings and financial position of the Company. In the future, Kingsgate may take initiatives to mitigate those risks through the use of hedging and other arrangements, but the risks relating to changes in commodity prices cannot be completely eliminated.

f) Political and country risks

Kingsgate's main assets, being the operating Chatree Gold Mine and the Nueva Esperanza Project, are located in Thailand and Chile respectively and therefore are subject to the laws, regulations, policies and other political factors in those jurisdictions. In particular, Kingsgate's continued operation of the Chatree Gold Mine until 31 December 2016 is subject to the Government of Thailand allowing the metallurgical licence to continue until that date.

The laws and authority under which Kingsgate is operating its assets in Thailand and Chile may change from time to time (as exemplified by the issues relating to the metallurgical licence for the operation of the Chatree Gold Mine in Thailand), and therefore may materially affect Kingsgate's operations in those jurisdictions. These matters are beyond the control of Kingsgate, and their potential impact on the price of Shares cannot be predicted.

In addition, following the closure of the Chatree Gold Mine on 31 December 2016, the future value of Kingsgate will be materially dependent on the success of its Nueva Esperanza Project in Chile. Any future material adverse changes in government policies or legislation in Chile that affect foreign ownership, mineral exploration, development or mining activities, may affect the viability and profitability of Kingsgate. The legal systems operating in Chile may be less developed than in more established countries, which may result in political difficulties in obtaining effective legal redress in the courts whether in respect of a breach of law or regulation, or in an ownership dispute. Lastly, when conducting operations on foreign assets in emerging markets such as Chile, ASX-listed entities may face a number of additional risks that companies with operations wholly within Australia may not face. For example, the ability to implement effective internal control and risk management systems, having regard to the separation of executive management and the Board from the location of the project and the need to rely on consultants and advisers in the local jurisdiction.

28 Information Relating to Kingsgate

g) Additional funding requirements

As the exploration and development of the Nueva Esperanza Project is capital intensive Kingsgate will require additional funding. Such funding may be required to carry out further exploration, undertake feasibility studies, develop mining operations and/or acquire new projects.

Inability to obtain funding on reasonable terms will adversely affect Kingsgate and may result in the Nueva Esperanza Project not proceeding or defaults in licences or permits which, if not remedied, could result in forfeiture.

h) Operational risks

Kingsgate's operations are subject to a number of factors that can cause material delays or changes in operating costs for varying lengths of times. Operational risks include weather conditions and natural disaster, disruption of energy supply, unexpected technical problems, unanticipated geological conditions or events, equipment failures, disruptions of transportation infrastructure, pollution and environmental hazards. Kingsgate's financial performance may also be adversely affected by long lead times, delays and price escalations in respect of required equipment, consumables and mining and exploration support services. Industrial disruptions may also result in lower than planned production or delays in delivery of the product.

i) Environmental risk

It is possible that environmental claims could be made, based on the current or past conduct of Kingsgate in connection with the operation or exploration of its mining assets. It is also possible that legislative amendments may require higher standards of operations and rehabilitation in the future, leading to increased costs or other difficulties with compliance for Kingsgate. Kingsgate may become subject to liability for pollution or other hazards against which it has not insured or cannot insure, including those in respect of past mining activities for which it was not responsible.

j) Insurance

Kingsgate maintains insurance within ranges of coverage it believes to be consistent with industry practice. However, no assurance can be given that Kingsgate will be able to obtain such insurance coverage in the future at reasonable rates or that any coverage it arranges will be adequate and available to cover claims.

k) General share investment risk

There is no guarantee of profitability, dividends, return of capital or of the price at which the Shares will trade. Historical share price performance of the Shares should not be taken as a guide to future Share price performance as the price of Shares can fluctuate.

In particular, following closure of the Chatree Gold Mine, Kingsgate will no longer have any producing mines to generate future income if and until the Nueva Esperanza Project is fully developed. Consequently there is a high likelihood that Shareholders may not receive any dividends or distribution on their Shares in the short to medium term.



I) General economic conditions

The performance of Kingsgate, and the price at which the Shares will trade, may be determined by a range of factors including, but not limited to, the following:

- movement in the spot price of gold, silver and other precious materials;
- movements in the local and international equity and bond markets and general investor sentiment in those markets;
- recommendations by brokers and analysts;
- changes in exchange, inflation and interest rates;
- general economic conditions and outlook;
- availability of a skilled workforce;
- changes in government, fiscal, monetary and regulatory policies;
- costs of production;
- environmental impacts;
- global geo-political events and hostilities and acts of terrorism; and
- announcement of new technologies.

Regardless of Kingsgate's operating performance, certain of these factors could affect Kingsgate's revenues, operating costs, profit margins and Share price. A number of these factors are beyond the control of Kingsgate, and their potential impact on the Share price cannot be predicted.

Interests and 5 recommendation of the Kingsgate Directors

5.1 Details of Directors

The Directors of Kingsgate as at the date of this Target's Statement are:

Name	Position
Ross Donald Smyth-Kirk	Chairman
Peter Alexander	Non-Executive Director
Peter William Warren	Non-Executive Director
Peter McAleer	Non-Executive Director
Sharon Skeggs	Non-Executive Director

5.2 Directors' recommendation

Your Directors unanimously recommend that you REJECT the Offer. Shareholders who wish to reject the Offer should DO NOTHING and should ignore all documents sent to them by NGPI in relation to the Offer.

In considering whether to reject the Offer, your Directors encourage you to:

- read and carefully consider the whole of this Target's Statement;
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- obtain independent advice from your investment, financial, tax or other professional adviser on the effect of rejecting the Offer.

Peter McAleer has been granted extended leave of absence from February 2016 due to ill health and has not participated in any board deliberations relating to the Offer. Consequently he has not made any recommendation in connection with the Offer.

5.3 Your Directors' reasons for their recommendation

Your Directors' reasons for their above recommendation are set out in Section 1.

5.4 Intentions of your Directors in relation to the Offer

Each of your Directors intends to REJECT the Offer in respect of the Shares that they or their Associates own or control or in which they otherwise have a Relevant Interest. Details of the interest of each Director in Shares are set out in Section 5.6 of this Target's Statement.

5.5 Directors' interests in NGPI securities

As at the date of this Target's Statement no Director has a Relevant Interest in any securities of NGPI.

5.6 Directors' interests in Kingsgate securities

Except as set out below, no Director has a Relevant Interest in any securities of Kingsgate as at the date of this Target's Statement.

Director	Ordinary Shares held directly or indirectly
Ross Donald Smyth-Kirk	5,076,725
Peter Alexander	46,487
Peter William Warren	145,000
Peter McAleer	100,000
Sharon Skeggs	19,347

5.7 Dealing in Kingsgate securities

No Director or Associate of Kingsgate has acquired or disposed of a Relevant Interest in any Kingsgate securities in the period commencing 31 May 2016 (being the date which is 4 months prior to the date of the Offer) and ending on the day immediately before the date of this Target's Statement.

5.8 Conditional agreements

No Director is a party to any agreement or arrangement with any other person in connection with or conditional on the outcome of the Offer.

5.9 Benefits and agreements

As a result of the Offer, no person has been or will be given any additional benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person or someone else from a Board or managerial office of Kingsgate or a related body corporate of Kingsgate.

There are no agreements made between any Director and any other person (including NGPI or its related entities) in connection with, or conditional upon, the outcome of the Offer. None of the Directors has entered into any contracts with NGPI or its related entities.

As a result of the Offer, no benefit (other than a benefit permitted by Section 200F or 200G of the Corporations Act) will or may be given to a Director in connection with their retirement from office in Kingsgate or a related body corporate of Kingsgate.

6 Information on the Offer

NGPI served Kingsgate with a copy of the Bidder's Statement, which contains the Offer, on 16 September 2016. NGPI is offering to acquire 50.1% of your Shares on the terms and conditions set out in the Bidder's Statement.

6.1 Offer Price

NGPI is offering 4.2 cents cash for each Share.

6.2 Offer Period and extension of the Offer

The Offer is open for acceptance from 30 September 2016 until 7:00pm (Sydney time) on 4 November 2016 unless it is withdrawn or the Offer Period is extended in accordance with the Corporations Act.

If the Offer becomes Unconditional, NGPI may extend the Offer Period at any time before the end of the Offer Period.

There will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period, NGPI increases the Offer Price or its voting power in Kingsgate increases to more than 50%. The extension will be for 14 days after the relevant event occurs.

6.3 Proportional Offer only

The Offer is for only 50.1% of your Shares (rounded down to the nearest whole number) and does not provide you with the ability to sell your entire shareholding as part of the Offer. Accordingly, if you accept the Offer in respect of 50.1% of your Shares, you are not entitled to accept the Offer for your remaining Shares.

However, if accepting the Offer would leave you holding a parcel of Shares that has a market value of \$500 or less, the Offer extends to all of your Shares and if you accept the Offer you will be then deemed to have accepted the Offer for all of your Shares.

6.4 Withdrawal of the Offer by NGPI

NGPI may be able to withdraw the Offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent.

6.5 Effect of acceptance

If you accept the Offer, subject to the withdrawal rights set out in Section 6.6 of this Target's Statement:

- you will be unable to accept any higher takeover bid that may be made by a third party or any alternative transaction that may be recommended by the Board in respect of 50.1% of your Shares the subject of the acceptance under the Offer;
- you will relinquish control of 50.1% of your Shares to NGPI but will have no guarantee of payment until the Offer becomes Unconditional; and
- you will be unable to sell your 50.1% of your Shares, the subject of the acceptance under the Offer, on ASX after Shares resume trading on 17 October 2016.

6.6 Limited rights to withdraw your acceptance

You have only limited rights to withdraw your acceptance of the Offer. You may withdraw your acceptance of the Offer only if it is still subject to the FIRB Condition and NGPI varies the Offer in a way that postpones for more than one month the time when NGPI has to meet its obligations under the Offer.

If you have accepted the Offer and the FIRB Condition is not satisfied or waived by the end of the Offer Period (which may be extended), the Offer will lapse and you will be free to deal with your Shares.

6.7 Timing of payment

If you accept the Offer in accordance with the instructions contained in the Bidder's Statement, NGPI will pay or provide the consideration for your Shares to you by the earlier of:

- 10 Business Days after the Offer is accepted or 10 Business Days after the FIRB Condition has been waived or fulfilled (whichever is the later); and
- 10 Business Days after the end of the Offer Period, assuming the Offer has become Unconditional.

6.8 FIRB Condition

The Offer is subject to the FIRB Condition. The full terms of the FIRB Condition are set out in Section 8.8 of the Bidder's Statement. In particular, the FIRB Condition is stated to only be satisfied if approval is given under Australia's Foreign Acquisition and Takeovers Act 1975 or Australia's foreign investment policy on an unconditional basis, or the Treasurer ceases to be empowered to make any orders under those laws.

As at 13 October 2016, NGPI has not provided any information on the status of the FIRB Condition, including when the FIRB application was lodged and when NGPI expects to receive approval from the Australian Government.

If the FIRB Condition is not satisfied, and has not been waived, NGPI may allow the Offer to lapse with unsatisfied conditions.

6.9 Notice of status of the FIRB Condition

The Bidder's Statement states that NGPI will give its Notice of Status of Conditions to ASX and Kingsgate on 28 October 2016. If the Offer Period is extended by a period before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period. If there is such an extension, NGPI is required, as soon as possible after the extension, to give a notice to ASX and Kingsgate that states the new date for the giving of the Notice of Status of Conditions.

NGPI is required to set out in its Notice of Status of Conditions:

- whether the Offer is free of the FIRB Condition;
- whether, so far as NGPI knows, the FIRB Condition has been fulfilled; and
- NGPI's voting power in Kingsgate.

If the FIRB Condition is fulfilled (so that the Offer is Unconditional) before the date on which the Notice of Status of Conditions is required to be given, NGPI must, as soon as possible, give ASX and Kingsgate a notice that states that the FIRB Condition has been fulfilled.

7 Additional Information

7.1 Kingsgate Share Capital

As at the date of this Target's Statement, Kingsgate's issued capital comprised:

- 223,584,937 Shares
- 1,500,000 Options
- 111,660 Deferred Rights

Kingsgate has no other securities on issue.

7.2 Kingsgate Employee Share Option Plan

The previously operating Kingsgate long-term incentive plan, also referred to as the Executive Rights Plan, has been terminated and replaced by the Kingsgate Employee Share Option Plan (**ESOP**). Under the terms of the ESOP, long-term incentives can be provided to certain employees through the issue of options to acquire Shares. Options are issued to employees to provide incentives for employees to deliver long-term Shareholder returns.

Options granted carry no dividend or voting rights. When exercisable, each Option is convertible into one ordinary Share.

As the date of this Target's Statement, other than 1,500,000 Options granted to Alistair Waddell (Vice President Corporate Development & Exploration) with the following exercise price:

- (1) 500,000 Options have an exercise price of \$0.40 and expires on 30 June 2019;
- (2) 500,000 Options have an exercise price of \$0.50 and expires on 30 June 2020; and
- (3) 500,000 Options have an exercise price of \$0.60 and expires on 30 June 2021,

no other executive or Director was the recipient of Options under ESOP. Further information regarding the Options the ESOP plan can be found in Kingsgate's FY2016 annual financial statements.

7.3 Executive Rights Plan

Under the previous long-term incentive plan, Kingsgate executives could be granted Performance Rights and Deferred Rights each year, although an award of rights does not confer any entitlement to receive any subsequent awards. In awarding rights the Board took into account such matters as the position of the eligible person, the role they played in Kingsgate, their current level of fixed remuneration, the nature of the terms of employment and the contribution they made to Kingsgate and its subsidiaries. This plan has now been replaced by the ESOP and no further Performance Rights and Deferred Rights will be issued.

All outstanding Performance Rights and Deferred Rights vested on 1 July 2016 with the Performance Rights subsequently lapsing. Kingsgate currently has 111,660 vested Deferred Rights held by a number of key management personnel and other employees. No Director of Kingsgate holds any Deferred Rights.

On vesting the first \$1,000 value of each of the Deferred Rights is paid in cash with the remaining value of the award received as Shares in Kingsgate as per below.

Number of Shares = (number of vested Deferred Rights x Share price on vesting date - \$1,000) ÷ Share price on vesting date

As the Shares are currently suspended from trading, the vested Deferred Rights have not yet been paid out to the holders. This is expected to be done once the Shares resume trading on 17 October 2016.

7.4 Details of substantial Shareholders

As at the day immediately before the date of this Target’s Statement, the following Shareholders have substantial shareholdings:

Name	No. of Shares	% holding
Universal-Investment-Gesellschaft	16,500,000	7.38%
Resource Capital Funds	13,353,040	5.97%

7.5 Changes in financial position

So far as known to any Director, the financial position of Kingsgate has not materially changed between 30 June 2016 (the date of Kingsgate’s last audited financial report) and the date of this Target’s Statement, except as disclosed in this Target’s Statement.

7.6 Effect of the successful completion of a takeover

Kingsgate is a party to a number of material contracts that contain certain provisions that may be triggered on the completion of a takeover. These are summarised below:

- (1) Executive contracts:** If NGPI acquires a relevant interest in Kingsgate exceeding 50% on completion of the Offer, certain executives will receive a lump sum gross payment equal to between six to 12 months of their total remuneration package. If within six months after the completion of the Offer the executive elects to terminate his employment or his employment is terminated by Kingsgate the executive will not be entitled to any notice of termination or payment in lieu of notice.
- (2) Loan agreement:** under the revolving corporate credit facility entered into by Kingsgate, it is an event of default if any change occurs in the ownership or control of Kingsgate from that existing on the date of the facility agreement. This will be triggered if NGPI acquires control of Kingsgate following completion of the Offer. On the occurrence of an event of default, all amounts due under the facility agreement will be accelerated and become repayable immediately.

7.7 Material disputes

The Directors do not believe that there is any current litigation against Kingsgate or its subsidiaries which is material in the context of Kingsgate and its subsidiaries taken as a whole.

7.8 Tax considerations for Kingsgate Shareholders

Section 6 of the Bidder’s Statement provides a brief guide to the potential Australian tax consequences of accepting the Offer.

Shareholders should consult their own tax adviser for tax advice tailored to their own particular circumstances. Shareholders should not rely solely on Section 6 of the Bidder’s Statement in relation to the tax implications of accepting the Offer. In particular, Shareholders who are subject to tax outside Australia should obtain their own advice as to the tax consequences of the Offer in those jurisdictions which may be different to those applicable to Australian resident Shareholders.

7.9 Reliance on information obtained from NGPI or public sources

All of the information concerning NGPI contained in this Target’s Statement has been obtained from publicly available sources. None of the information in this Target’s Statement relating to NGPI has been independently verified by Kingsgate or its Directors for the purposes of this Target’s Statement. Accordingly, to the extent permitted by law, Kingsgate makes no representation or warranty (either express or implied) as to the accuracy or completeness of this information. The information concerning NGPI in this Target’s Statement should not be considered comprehensive.

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7.10 Continuous disclosure

Kingsgate is a “disclosing entity” under the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. These obligations require Kingsgate to notify ASX of information about specified matters and events as they occur for the purpose of making that information available to the market. In particular, Kingsgate has an obligation to notify ASX immediately on becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of the Shares (other than in circumstances such as where the information concerns an incomplete proposal or negotiation, or is insufficiently definite to warrant disclosure, and is confidential and a reasonable person would not expect disclosure).

Copies of the documents filed with ASX may be obtained from the ASX website at www.asx.com.au.

Copies of documents lodged with ASIC in relation to Kingsgate may be obtained from, or inspected at, an ASIC office.

7.11 Other information

There is no information that Shareholders and their professional advisers would reasonably require to make an informed assessment whether or not to accept the Offer and which it is reasonable for investors and their professional advisers to expect to find in this Target’s Statement, which is known to any of the Directors other than:

- the information contained in the Bidder’s Statement (to the extent that the information is not inconsistent with or superseded by information in this Target’s Statement);
- the information contained in Kingsgate’s 2016 Annual Financial Statements;
- the information contained in Kingsgate’s September 2016 Quarterly Report released to ASX on 17 October 2016; and
- the information contained in this Target’s Statement; and
- information which has previously been disclosed to the Shareholders or disclosed to ASX or ASIC under the regular reporting and disclosure obligations to which Kingsgate is subject as a disclosing entity for Corporations Act purposes.

The Directors have assumed for the purposes of preparing this Target’s Statement that the information contained in the Bidder’s Statement is accurate (unless they have expressly indicated otherwise in this Target’s Statement). The Board does not take any responsibility for the contents of the Bidder’s Statement and is not to be taken as endorsing, in any way, any or all statements contained in it.

7.12 Consents

a) Independent expert

Grant Thornton has given and has not, before this Target’s Statement is lodged with ASIC, withdrawn, its consent to:

- (1) be named in this Target’s Statement in the form and context in which it is named;
- (2) the inclusion of its report in the form and context in which it is included in this Target’s Statement; and
- (3) the inclusion of other statements in this Target’s Statement that are based on or referable to statements made in that report in the form and context in which they are included.

SRK Consulting (Australasia) Pty Limited has given and has not, before this Target’s Statement is lodged with ASIC, withdrawn, its consent to:

- (1) be named in this Target’s Statement in the form and context in which it is named;
- (2) the inclusion of its report in the form and context in which it is included in this Target’s Statement; and
- (3) the inclusion of other statements in this Target’s Statement that are based on or referable to statements made in that report in the form and context in which they are included.



c) Other consents to be named

As at the date of this Target's Statement, the following persons have given and have not, before the date of this Target's Statement, withdrawn its written consent to the inclusion of its name in this Target's Statement:

- (1) Norton Rose Fulbright Australia as the Australian legal adviser to Kingsgate; and
- (2) Link Market Services Limited as the share registry to Kingsgate.

Each of the above named persons as having given its consent to be named in this Target's Statement:

- (1) has not authorised or caused the issue of the Target's Statement;
- (2) does not make, nor does it purport to make, any statement in the Target's Statement or any statement on which a statement in the Target's Statement is based other; and
- (3) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding and takes no responsibility for any part of this Target's Statement, other than a reference to its name in the form and context in which it appears.

d) Publicly available information

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements that are made in documents lodged with ASIC or the ASX, and the Target's Statement fairly represents the statement or includes, or is accompanied by, a correct and fair copy of the document or the part of the document that contains the statement. Pursuant to ASIC Class Order 13/521, the consent of persons to whom such statements are attributed is not required for the inclusion of those statements in this Target's Statement. Any Shareholder may request a copy of those documents (or part) free of charge during the Offer Period by contacting the Shareholder Information Line on 1 800 882 102 (within Australia) or +61 1 800 882 102 (outside Australia) on weekdays between 9.00am and 5.00pm (Sydney time). A copy of the relevant document (or part) will be provided within 2 Business Days of the request.

Additionally, as permitted by ASIC Instrument 2016/72, this Target's Statement may include or be accompanied by certain statements that:

- (1) fairly represents what purports to be a statement made by an official person; or
- (2) is a correct and fair copy of, or extract from, what purports to be a public official document; or
- (3) is a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication,

provided the statement was not made, or published, in connection with the takeover bid or the bidder or target or any business, property or person the subject of the bidder's or target's statement. The consent of persons to whom such statements are attributed is not required for inclusion of those statements in this Target's Statement.

7.13 Approval of the Target's Statement

The copy of this Target's Statement that is to be lodged with ASIC has been approved by a resolution passed by the Directors.

This Target's Statement is dated 17 October 2016, which is the date on which it was lodged with ASIC.

8 Glossary and Interpretation

8.1 Definitions

The following definitions apply in this Target's Statement unless the context requires otherwise:

2016 Annual Financial Statements means Kingsgate's audited financial statements for the financial year ended 30 June 2016.

Akara Resources means Akara Resources PCL, a subsidiary of Kingsgate.

ASIC means the Australian Shares and Investments Commission.

Associate has the meaning given in Division 2 of Part 1.2 of the Corporations Act.

ASX means ASX Limited or the market operated by it (as the context requires).

Bidder's Statement means the bidder's statement served on Kingsgate by NGPI on 16 September 2016 in relation to the Offer.

Business Day means a day on which banks are open for general banking business in Sydney (not being a Saturday, Sunday or public holiday in that place).

Board means the board of Directors of Kingsgate.

Corporations Act means the *Corporations Act 2001* (Cth).

Deferred Right mean an incentive issued under the previous Executive Rights Plan where the vesting is subject to the passage of time.

Director means a director of Kingsgate.

Executive Rights Plan means the previous long-term incentive plan of Kingsgate approved by Shareholders in the 2014 annual general meeting. This plan has been terminated and replaced by the Kingsgate Employee Share Option Plan.

FIRB means the Foreign Investment Review Board.

FIRB Condition means the condition set out in Section 8.8 of the Bidder's Statement

Independent Expert or **Grant Thornton** means Grant Thornton Corporate Finance Pty Ltd ACN 003 265 987.

Independent Expert's Report means the report prepared by Grant Thornton contained in Annexure A of this Target's Statement.

Kingsgate or **Company** means Kingsgate Consolidated Limited ACN 000 837 472.

Kingsgate Group means Kingsgate and its subsidiaries.

Kingsgate Share Registry means Link Market Services Limited ACN 083 214 537.

Mineral Resource means has the meaning set out in the JORC Code, 2012 edition.

NGPI means Northern Gulf Petroleum International Pte. Ltd. registration number 201438399Z.

NGPH means Northern Gulf Petroleum Holdings Limited registration number EC42114.

Notice of Status of Conditions means NGPI's notice disclosing the status of the Conditions of the Offer, which is required to be given under Section 630(3) of the Corporations Act.

Nueva Esperanza Project means the Nueva Esperanza gold and silver development project located in the Atacama Region in Chile.

Offer or **NGPI Offer** means the takeover bid by NGPI to acquire 50.1% all of the Shares on the terms and conditions set out in the Bidder's Statement.



Offer Price means 4.2 cents per Share.

Offer Period means the period within which the Offer is open for acceptance in accordance with the Bidder's Statement and the Corporations Act.

Options mean options issued under the Employee Share Option Plan, a long-term incentive plan of Kingsgate reintroduced in 2016.

Ore Reserve means has the meaning set out in the JORC Code, 2012 edition.

Performance Right mean an incentive issued under the previous Executive Rights Plan where the vesting is subject to the holder and/or Kingsgate meeting certain performance hurdles.

Pre-Feasibility Study means the pre-feasibility study report for the Nueva Esperanza Project released by Kingsgate to ASX 14 April 2016, in an announcement titled "Nueva Esperanza Pre-Feasibility Study".

Remaining Shares means 49.9% of the Shares held by each Shareholder that are not subject of the Offer.

Relevant Interest has the meaning given to that term in Section 9 of the Corporations Act.

Share or **Kingsgate Share** means a fully paid ordinary share in Kingsgate.

Shareholder means a person who is registered as the holder of a Share in the Kingsgate register of members.

Target's Statement means this document, being the statement of Kingsgate under Part 6.5 of the Corporations Act in relation to the Offer.

Unconditional means free from the FIRB Condition.

8.2 Interpretation

The following rules of interpretation apply unless the context requires otherwise:

- (1) A term not specifically defined in this Target's Statement has the meaning given to it (if any) in the Corporations Act (as is appropriate to the context).
- (2) A gender includes all genders.
- (3) The singular includes the plural, and the converse also applies.
- (4) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (5) A reference to legislation or to a provision of legislation includes any modification or re-enactment of it, any legislative provision substituted for it and any regulations and statutory instruments issued under it.
- (6) A reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including, but not limited to, persons taking by novation) and assigns.
- (7) A reference to a right or obligation of any two or more people comprising a single party confers that right, or imposes that obligation, as the case may be, on each of them severally and each two or more of them jointly. A reference to that party is a reference to each of those people separately (so that, for example, a representation or warranty by that party is given by each of them separately).
- (8) A reference to an agreement or document is to the agreement or document as amended, supplemented, novated or replaced.
- (9) Headings used in this Target's Statement are for ease of reference only and do not affect the meaning or interpretation of this Target's Statement.
- (10) A reference to a Section or Annexure is to a section of, or annexure to, this Target's Statement unless otherwise specified.
- (11) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (12) \$, A\$ or AUD is a reference to the lawful currency of Australia unless otherwise indicated.
- (13) A reference to time is a reference to Sydney time.
- (14) All numbers in this Target's Statement, unless otherwise stated, have been rounded to two decimal places.

Annexure A - Independent Expert's Report



Grant Thornton

An instinct for growth™

Kingsgate Consolidated Limited

Independent Expert’s Report and Financial Services Guide

13 October 2016



The Directors
Kingsgate Consolidated Limited
Suite 801, Level 814 Martin Place
Sydney NSW 2000

13 October 2016

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Dear Sirs

Independent Expert’s Report and Financial Services Guide

Introduction

Kingsgate Consolidated Limited (“Kingsgate” or the “Company”) is a gold and silver mining, development and exploration company. Kingsgate’s Thai subsidiary, Akara Resources Public Company Limited (“Akara Resources”), owns and operates the Chatree gold mine in Thailand (“Chatree Mine”). Kingsgate also owns the gold and silver development project of Nueva Esperanza located in the Maricunga gold/silver belt in Chile (“Nueva Esperanza Project”)¹. The Company is listed on the Australian Securities Exchange (“ASX”) and its American Depository Receipts (“ADRs”)² are listed on the International OTCQX in the United States.

On 10 May 2016, the Government of Thailand (“Thailand Government”) announced that all gold mining in Thailand would cease by 31 December 2016. As a result, Kingsgate only received the renewal of the metallurgical licence (“Metallurgical Licence”) to process the ore at the Chatree Mine up to 31 December 2016 when it must cease operations.

Trading in Kingsgate’s shares (“Kingsgate Shares”) has been voluntarily suspended since 13 May 2016 at the request of the Company in response to the uncertainty caused by the Thailand Government’s announcement noted above.

¹ Kingsgate announced completion of a Preliminary Feasibility Study for the Nueva Esperanza Project in April 2016.

² ADRs represent the ownership in the shares of a foreign company trading on US financial markets. ADRs enable US investors to buy shares in foreign companies without undertaking cross border transactions. ADRs are denominated in US dollars and pay dividends in US dollars.

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Northern Gulf Petroleum International Pte Ltd (“NGPI”) is a private dormant Singaporean company and a wholly owned subsidiary of Northern Gulf Petroleum Holdings Limited, which holds certain petroleum concessions located in the Gulf of Thailand.

On 16 September 2016, NGPI lodged a proportional takeover offer (“Takeover Offer”) with the Australian Securities and Investment Commission (“ASIC”) for 50.1% of Kingsgate Shares at an offer price of 4.2 cents per share (“Offer Price”) equivalent to A\$4.7 million. Therefore, the Takeover Offer values 100% of the equity value of Kingsgate at approximately A\$9.4 million.

The Takeover Offer is conditional on obtaining Foreign Investment Review Board (“FIRB”) approval. Shareholders of Kingsgate can only accept the Takeover Offer in respect to 50.1% of the Kingsgate Shares they hold. The Takeover Offer is not subject to a minimum acceptance condition.

The Takeover Offer does not extend to holders of Kingsgate ADRs or Kingsgate Shares issued as a result of the conversion of, or exercise of options or deferred rights³.

As stated in section 3 of the Bidder’s Statement, NGPI’s intention is to seek to engage with the Thailand Government to have the Metallurgical Licence renewed for a period of three years to five years and hence being able to continue gold production at the Chatree Mine. NGPI also intends to replace some of the board members of Kingsgate with nominees of NGPI, conduct a strategic review of Kingsgate’s business and operations⁴, and to maintain Kingsgate as a listed entity on the ASX.

The Directors of Kingsgate (“the Directors”) have unanimously recommended that Kingsgate Shareholders reject the Takeover Offer and have advised Kingsgate Shareholders to take no action in respect of the Takeover Offer.

Purpose of the report and approach

Whilst there is not a legal requirement for the preparation of an independent expert’s report in conjunction with the Takeover Offer, the Directors have decided to commission an independent expert’s report to assist Kingsgate Shareholders in assessing the merits of the Takeover Offer.

Grant Thornton Corporate Finance has selected the market value of net assets as the primary method to assess Kingsgate’s equity value in relation to the Takeover Offer. The market value of net assets is based on the sum of the parts of Kingsgate’s producing, development and exploration assets, and other assets and liabilities.

For the purpose of this report, an independent technical specialist, SRK Consulting (Australasia) Pty Limited (“SRK”), was engaged by Grant Thornton Corporate Finance to prepare an independent technical report (“the SRK Report”) in relation to Kingsgate’s producing and development assets. SRK’s report is included as Appendix F to this report.

³ As at the date of this report, Kingsgate has 1,500,000 unlisted options on issue and 111,660 deferred rights which vested on 1 July 2016.

⁴ The outcome of this review may result in changes to the strategy and structure of the current operations.



Summary of opinion

Grant Thornton Corporate Finance has concluded that the Takeover Offer is NOT FAIR AND NOT REASONABLE to Kingsgate Shareholders.

Fairness assessment

In forming our opinion in relation to the fairness of the Takeover Offer, Grant Thornton Corporate Finance has compared the fair market value per share of Kingsgate on a controlling and 100% basis to the Offer Price of 4.2 cents per Kingsgate Share. The following table summarises our fairness assessment:

Fairness assessment	Section Reference	Low	High
Fair market value of Kingsgate (on a control basis) (cents)	5	27.9	42.0
Offer Price (cents)		4.2	4.2
Premium/ (discount) (cents)		(23.7)	(37.8)
Premium/ (discount) (%)		-85.0%	-90.0%

Source: GTCF calculations

The Offer Price of 4.2 cents per Kingsgate Share is materially below our assessed valuation range of Kingsgate Share on a control and 100% basis. Accordingly, we conclude that the Takeover Offer is **NOT FAIR** to Kingsgate Shareholders.

Kingsgate Shareholders should be aware that our assessment of the value per Kingsgate Share does not reflect the price at which Kingsgate Shares will trade if the Takeover Offer lapses and once trading on the ASX is resumed on 17 October 2016. The price at which Kingsgate Shares will ultimately trade depends on a range of factors including the future of the Chatree Mine, liquidity of Kingsgate Shares, macro-economic conditions, gold and silver prices, exchange rate and the progress made with the development of the Nueva Esperanza Project.

Our valuation assessment of the Chatree Mine and hence of Kingsgate may materially change over the next three months depending on the outcome of the on going discussions with the Thailand Government on the Metallurgical Licence and the shut-down of the Chatree Mine. We note that Kingsgate’s Thai subsidiary has outstanding gross debt of A\$67.1 million as at 30 September 2016⁵ and the support of the current lenders may be withdrawn if gold production at the Chatree Mine up to 31 December 2016 were to cease or was materially disrupted (e.g. due to operational factors or further adverse decisions by the Thailand Government)⁶. If these circumstances eventuate, our opinion on the Takeover Offer may change. Kingsgate Shareholders should be aware that under ASIC Regulatory Guide 111 “Content of expert reports” (“RG 111”), Grant Thornton Corporate Finance is obliged to issue a supplementary report if a material change in circumstances arises after the release of our report.

⁵ The net debt is A\$40.4 million based on cash resources at Kingsgate’s Thai subsidiary of A\$26.7 as at 30 September 2016.

⁶ The debt facility of Akara Resources is non-recourse back to Kingsgate. However, Kingsgate is also a borrower under an inter-company loan with Akara Resources. As set out in the Target’s Statement, the net amount outstanding under this loan equals approximately \$62 million. Akara Resources must give Kingsgate at least 180 days’ notice to seek repayment of this inter-company loan.



We note the following key assumptions in relation to our valuation assessment of Kingsgate between 27.9 cents and 42.0 cents as at 30 September 2016:

- We have only considered in our valuation assessment of Kingsgate the cash flows generated by the Chatree Mine up to 31 December 2016 which, based on the average gold price over the last three month period and the current gold price, are greater than the obligations of the Company towards its financiers and other stakeholders, including employees. Refer to section 5.1.5 for details.
- Given the decision of the Thailand Government to cease gold mining in Thailand after 31 December 2016, in the valuation of the Chatree Mine, we have conservatively not attributed any value to the remaining mineral resources after 31 December 2016 (estimated at circa 3.5 Moz of contained gold equivalent) and the freehold land owned by Kingsgate. Refer to section 5.1.5 for details.
- Kingsgate’s Thai subsidiary is yet to agree with the Thailand Government a restoration and rehabilitation plan for the Chatree Mine after 31 December 2016. In our valuation assessment, we have assumed that the Thailand Government will not require Kingsgate to fully restore and rehabilitate the mining area to a level that the cost of re-commencing gold production in the future⁷ will not be economically viable. Specifically, we have adopted in our valuation assessment of the Chatree Mine, the restorations and rehabilitation expenses assessed by SRK between US\$5.2 million and US\$7.2 million based on the care and maintenance plan prepared by the Company. Refer to section 5.1.2 for details.
- The discount rate adopted to assess the net present value of the cash flows of the Chatree Mine only reflects the risk to realise the cash flows up to 31 December 2016 based on the current mine plan and assuming that the current circumstances remain unchanged up to 31 December 2016 (i.e. value in use). Kingsgate Shareholders should be aware that given the residual short mine life of the Chatree Mine, the net present value of the cash flows is not sensitive to changes in the discount rate. Accordingly, the discount rate adopted in the valuation assessment of the Chatree Mine is not able to reflect the risk associated with gold production at the Chatree Mine up to 31 December 2016 being materially adversely affected by market conditions (e.g. significant reduction of the gold price from the current level) or further adverse decisions of the Thailand Government. Refer to Appendix B for details.
- We have assumed that any residual surplus cash in Kingsgate’s Thai subsidiary after all the external debt is repaid and other obligations met will be redeployed in Thailand rather than being repatriated to Australia and accordingly Kingsgate’s Thai subsidiary will not incur Thailand withholding tax.

⁷ If authorised by the Thailand Government.

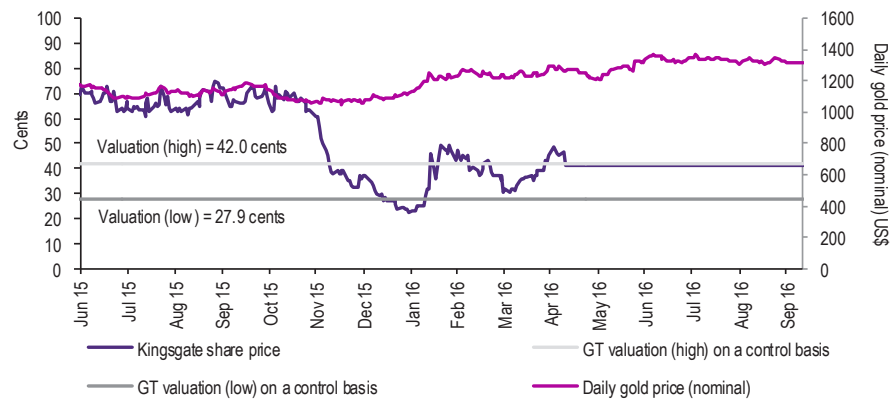


- The market value of the Nueva Esperanza Project is sensitive to small changes in long term gold and silver prices. We have undertaken a robust benchmark analysis and review of the information available including consensus estimates and broker reports. We have assessed the long term real gold price between US\$1,175 per ounce and US\$1,225 per ounce and the long term real silver price between US\$18.75 per ounce and US\$19.25 per ounce. Refer to section 5.2.2 and 5.2.5 for details.
- Our valuation assessment of the Nueva Esperanza Project takes into account the inherent uncertainty and risks associated with the valuation of this mining project which is at an early stage of development. The assessed discount rate of 9.5% real (mid-point) adopted to assess the net present value of future cash flows for the Nueva Esperanza Project includes a specific risk premium allowance to take into account the early stage of development and the unfunded nature of the Nueva Esperanza Project. In section 5.2.5, we have shown the potential uplift in the market value of the Nueva Esperanza Project if the specific risk premium assessed between 4% and 5% is removed from our calculation of the discount rate to reflect the cost of capital of a large diversified silver producer.

Comparison with trading prices

In our valuation assessment of Kingsgate, we have not relied on trading prices given that trading in Kingsgate Shares have been voluntarily suspended since 13 May 2016. However, we have set out in the graph and table below a comparison between our valuation assessment of Kingsgate as at 30 September 2016 and the trading prices before the voluntary suspension on 13 May 2016.

GT valuation range compared with historical share price



Source: Capital IQ and GTCF calculations



VWAP before voluntary suspension	
Period (trading days)	VWAP (A\$)
Prior to voluntary suspension on 13 May 2016	
1 day	0.41
1 week	0.45
2 weeks	0.46
1 month	0.42
3 months	0.41

Source: Capital IQ and GTCF calculations

As outlined above, our valuation assessment on a control basis is not inconsistent with the trading prices and volume weighted average price (“VWAP”) before the voluntary suspension on a minority basis. We believe that this is not unreasonable due to the following:

- Since November 2015, the trading prices of Kingsgate have been adversely affected by allegations of contamination and health issues outside the Chatree Mine. Specifically, we note that the market capitalisation of the Company reduced from A\$152 million on 20 November 2015 to A\$51 million on 29 January 2016. The market capitalisation of the Company was A\$91 million the day before the voluntary suspension. As illustrated in the graph above, the reduction in the share price was not driven by the gold price but rather by factors specific to the Company⁸. In our opinion, the trading prices before the voluntary suspension were adversely affected by allegations of contamination and health issues outside the Chatree Mine as well as allegations of corruption.
- Given the uncertainty in relation to the future operations of the Chatree Mine and the high level of debt of Kingsgate and Kingsgate’s Thai subsidiary, it is not unreasonable to assume that the trading prices of Kingsgate before the voluntary suspension were attributing limited value to the Chatree Mine⁹ compared with the market value of the Chatree Mine embedded in the trading prices of Kingsgate before the allegations of contamination and health issues outside the Chatree Mine as well as allegations of corruption emerged. This is not inconsistent with our valuation assessment.
- Our valuation assessment of Kingsgate is on a 100% and control basis whilst the trading prices reflect parcel shareholdings trading¹⁰.

Overall, our valuation assessment of Kingsgate on a control basis is towards the low-end of the trading price on a minority basis before the voluntary suspension which seems reasonable based on the discussion above.

However, Kingsgate Shareholders should be aware that the short-term trading prices of Kingsgate when it resumes trading on the ASX on 17 October 2016 could be materially lower than our valuation assessment on a control basis, even after a minority discount is taken into account, due to the following:

⁸ The US\$ gold price increased from US\$1,076.4/oz to US\$1,116.4/oz over the period from 20 November 2015 to 29 January 2016.

⁹ After the Kingsgate’s Thai subsidiary net debt is taken into account.

¹⁰ The average historical premium for control paid in the Australian market on successful takeovers has been between 20% and 40%.



- Remaining uncertainties in relation to the potential outcomes and liabilities for the Chatree Mine which may lead investors to take a more pessimistic view on the market value of Kingsgate at least in the short term.
- Until the debt facilities are fully repaid (expected to occur by 31 January 2017), the financial circumstances of Kingsgate may quickly deteriorate if the gold production at the Chatree Mine is not consistent with the revised mine plan or further adverse decisions/orders are made by the Thailand Government.
- Potential limitations that institutional investors may have in their investment mandates to hold shares in Kingsgate which will effectively cease to be a gold producing company at the end of 2016.
- Level of short-selling¹¹ in the trading prices of Kingsgate.

Proportional takeover

The Takeover Offer is proportional and restricted to 50.1% of Kingsgate Shares held by each shareholder. In our assessment of the fairness of the Takeover Offer, in accordance with the requirements of RG111, we have assessed the fair market value of Kingsgate on a 100% and control basis.

For completeness, we have also presented in the table below the value that would be received by Kingsgate Shareholders if they accepted the Takeover Offer for 50.1% of their shares and they sell the balance on the market in the short term. We note that the calculations below are for illustrative purpose only.

Given that Kingsgate Shares are currently voluntarily suspended from trading on the ASX, for the purpose of our illustrative calculations only, we have assumed that the Kingsgate Shares will be sold on the market at a price equivalent to the mid-point of our valuation assessment after a minority discount of 23% is applied¹². Our calculations are shown below.

Illustrative calculation - Proportional Takeover	Section Reference	Low	High
Fair market value of Kingsgate (on a control basis) (cents)	5	27.9	42.0
Minority discount		23.0%	23.0%
Fair market value of Kingsgate (on a minority basis) (cents)	A	21.5	32.4
Offer Price for 50.1% of Kingsgate Shares	B	4.2	4.2
Illustrative consideration for Kingsgate Shareholders (cents)	A*0.499+B*0.501	12.9	18.3

Source: GTCF calculations

¹¹ A short sale is the sale of a security that it is not owned by the seller, but that is promised to be delivered. The shares are sold and the proceeds are credited to short investor account. At some point in the future, the investor must close the short position by buying back the same number of shares (called covering) and returning them to the broker. If the price of the stock drops, the investor can buy back the stock at the lower price and make a profit on the difference.

¹² Evidence from studies indicates that premiums for control on successful takeovers have frequently been in the range of 20% to 40% which implies a minority discount in the range of 16.7% to 29%. The minority discount is calculated based on the following formula: $\text{Minority discount} = 1 - (1 / (1 + \text{control premium}))$.



Whilst the calculation above is for illustrative purpose only, we note that the consideration received by the Kingsgate Shareholders under the proportional Takeover Offer is still materially below our assessment of the fair market value of Kingsgate between 27.9 cents and 42.0 cents on a control basis.

Reasonable assessment

For the purpose of assessing whether or not the Takeover Offer is reasonable to Kingsgate Shareholders, we have considered the following likely advantages, disadvantages and other factors associated with the Takeover Offer.

Advantages

We believe that the Takeover Offer is opportunistic and it does not reflect the fair market value of Kingsgate. Once Kingsgate Shares resume trading on the ASX on 17 October 2016, we believe that there are no advantages for Kingsgate Shareholders to accept the Takeover Offer as in our opinion, all other things being the same, the trading price of Kingsgate Shares is expected to trade above the Offer Price.

We will continue to monitor the developments of the Chatree Mine during the offer period and update Kingsgate Shareholders if there is a material change in circumstances which may lead us to materially revise our view on the fair market value of the Chatree Mine and Kingsgate.

Disadvantages

The Takeover Offer is not fair

The Takeover Offer is opportunistic and it does not reflect the fair market value of Kingsgate.

Proportional takeover

The Takeover Offer is proportional for 50.1% of the shares held by each Kingsgate Shareholder. By accepting the Takeover Offer, Kingsgate Shareholders will remain exposed, even if to a less extent, to the ongoing risks associated with holding an investment in Kingsgate including those related to uncertainty around the Chatree Mine and the development of the Nueva Esperanza Project, volatility in the gold and silver price/exchange rates and financing risks.

Reduced liquidity in trading prices

Should NGPI acquire a 50.1% interest in the share capital of Kingsgate, NGPI intends to reconstruct the board of directors so that the majority of the Directors are NGPI’s nominees and NGPI will gain effective control (other than special resolutions) of the Company. This may reduce the appeal of the Company to the market resulting in a reduction of trading volume and free float which may diminish the ability of Kingsgate Shareholders to sell their shares at fair market value.

Likelihood to receive a premium for control in the future

If all Kingsgate Shareholders accept the Takeover Offer, NGPI will be the largest shareholder of



Kingsgate holding approximately 50.1% of the issued capital and NGPI will control the operations and future strategies of the business. This situation will reduce the ability to receive a premium for control in the future.

Other factors

Forgoing the opportunity to sell their shares on the ASX

As discussed in the Bidder’s Statement, once Kingsgate Shareholders have accepted the Takeover Offer, they will not be able to revoke/withdraw their acceptance¹³ or dispose of their Kingsgate Shares on the ASX when trading resumes on 17 October 2016.

Kingsgate Shareholders who accept the Takeover Offer will forgo the possibility to sell their shares on the ASX after the voluntary suspension on Kingsgate Shares is lifted. We are of the opinion that it is likely, all other things being equal, that Kingsgate Shares may trade above the Offer Price.

Tax implications

Kingsgate Shareholders accepting the Takeover Offer may crystallise a capital gains tax expense, however the taxation consequences for shareholders will vary according to their individual circumstances. If appropriate or required, Kingsgate Shareholders should seek independent financial and tax advice on the implications of approving the Takeover Offer.

Gold and silver price volatility

The assessed fair values for the Chatree Mine and the Nueva Esperanza Project are particularly sensitive to movements in gold and silver prices. Precious metals markets have exhibited a significant degree of volatility in recent times and there is a wide range of views from market analysts as to future gold and silver prices. Grant Thornton Corporate Finance’s forecast gold and silver price assumptions have been determined after consideration of consensus forecasts, broker reports and forward curves. However, a wide range of assumptions could credibly be adopted, which could impact assessed fair values either positively or negatively. Depending upon the views taken by individual shareholders in relation to these assumptions, it is possible that individual shareholders could reach a different conclusion on the appropriate range of values for the Chatree Mine and the Nueva Esperanza Project and hence for Kingsgate as a whole.

Directors’ recommendations and intentions

The Directors unanimously recommend that Kingsgate Shareholders reject the Takeover Offer.

We note that the Directors who hold Kingsgate Shares intend to reject the Takeover Offer in relation to those shares.

¹³ Except in limited circumstances set out in section 8 of the Bidder’s Statement.



Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Takeover Offer is **NOT REASONABLE** to Kingsgate Shareholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Takeover Offer is **NOT FAIR AND NOT REASONABLE** to the Kingsgate Shareholders.

Each Kingsgate Shareholder should decide whether or not to accept the Takeover Offer based on their own views of the value of Kingsgate and expectations about future market conditions, gold and silver prices, Kingsgate’s performance, and their individual risk profile and investment strategy.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision as to whether or not to approve the Takeover Offer is a matter for each shareholder of Kingsgate based on their own views of value of Kingsgate and expectations about future market conditions, Kingsgate’s performance, risk profile and investment strategy. If the Kingsgate Shareholders are in doubt about the action they should take in relation to the Takeover Offer, they should seek their own professional advice.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD

A handwritten signature in black ink, appearing to read "A. De Cian", enclosed in a thin black rectangular box.

ANDREA DE CIAN
Director

A handwritten signature in blue ink, appearing to read "H. Mitchell", enclosed in a thin blue rectangular box.

HARLEY MITCHELL
Director



13 October 2016

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance Pty Ltd (“Grant Thornton Corporate Finance”) carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Kingsgate to provide general financial product advice in the form of an independent expert’s report in relation to the Takeover Offer. This report is included in the Target Statement outlining the Takeover Offer.

2 Financial Services Guide

This Financial Services Guide (“FSG”) has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the report, Grant Thornton Corporate Finance’s client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the report, Grant Thornton Corporate Finance will receive from Kingsgate a fee of around A\$130,000 plus goods and services tax (“GST”), which is based on commercial rates plus reimbursement of out-of-pocket expenses in relation to the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.



5 Independence

Grant Thornton Corporate Finance is required to be independent of Kingsgate and NGPI in order to provide this report. The guidelines for independence in the preparation of an independent expert’s report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission (“ASIC”). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

“Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Kingsgate and NGPI (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Takeover Offer.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Takeover Offer, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Takeover Offer. Grant Thornton Corporate Finance’s out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 “Independence of expert” issued by ASIC.

We note that Grant Thornton Thailand is engaged by Akara Resources Public Company Limited (“Kingsgate’s Thai Subsidiary”) to review the business and legal structure of Akara Resources in order to assist to formulate a potential plan for the future operations of the Akara Resources business. We note that Grant Thornton Thailand is a completely separate firm from Grant Thornton Australia. The two companies are not financially integrated and they do not share profits, people, and infrastructure. Both firms are affiliated member firms of Grant Thornton International.

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Industry Complaints Services Complaints Handling Tribunal, No F-3986. All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and this FSG. Complaints or questions about the Target’s Statement should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.



Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.



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1 Purpose and scope of the report

1.1 Purpose

Section 640 of the Corporations Act requires that a target’s statement made in response to a takeover offer for securities in an Australian publicly listed company must be accompanied by an independent expert’s report if:

- the bidder’s voting power in the target is 30% or more; and
- for a bidder who is, or includes, an individual – the bidder is a director of the target company; or
- for a bidder who is, or includes, a body corporate – a director of the bidder is a director of the target company.

The independent expert’s report must state whether, in the opinion of the independent expert, the takeover offer is fair and reasonable to the target company’s independent shareholders and provide the reasons for forming that opinion.

As at the date of our report, we note that there is no legal requirement to prepare an independent expert’s report as NGPI does not hold an interest in Kingsgate and there is no common director between Kingsgate and NGPI. However, the Directors of Kingsgate have requested Grant Thornton Corporate Finance to prepare an independent expert’s report to assist Kingsgate Shareholders to assess the merits of the Takeover Offer and whether the Takeover Offer is fair and reasonable to the Kingsgate Shareholders for the purposes of Section 640 of the Corporations Act.

For the purpose of this Report, Grant Thornton Corporate Finance has engaged SRK to prepare an independent technical report (“the SRK Report”) in relation to the exploration and development assets owned by Kingsgate. The SRK Report is included as Appendix F of this Report.

1.2 Basis of assessment

The Corporations Act does not define the meaning of “fair and reasonable”. In preparing this report, Grant Thornton Corporate Finance has had regard to RG 111 which establishes certain guidelines in respect of independent expert’s reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to section 640 of the Corporations Act and comments on the meaning of “fair and reasonable” are in the context of a takeover offer.

As the Takeover Offer is a takeover bid, Regulatory Guide 111 “Content of expert reports” requires the following assessment:

- An offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are subject to the offer. The comparison should be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company.



- An offer is considered reasonable if it is fair. If the offer is not fair it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a higher bid. ASIC has identified the following factors which an expert might consider when determining whether an offer is reasonable:
 - The offeror’s pre-existing entitlement, if any, in the shares of the target company.
 - Other significant shareholding blocks in the target company.
 - The liquidity of the market in the target company’s securities.
 - Taxation losses, cash flow or other benefits through achieving 100% ownership of the target company.
 - Any special value of the target company to the offeror, such as particular technology or the potential to write off outstanding loans from the target company.
 - The likely market price if the offer is unsuccessful.
 - The value to an alternative offeror and likelihood of an alternative offer being made.

Grant Thornton Corporate Finance has determined whether the Takeover Offer is fair to the Kingsgate Shareholders by comparing the fair market value range of Kingsgate Shares on a 100% basis with the value of the Offer Price, being 4.2 cents per Kingsgate Share.

In considering whether the Takeover Offer is reasonable to the Kingsgate Shareholders, we have considered a number of factors, including:

- Whether the Takeover Offer is fair.
- The implications to Kingsgate and Kingsgate Shareholders if the Takeover Offer lapses.
- Other likely advantages and disadvantages associated with the Takeover Offer as required by RG111.
- Other costs and risks associated with the Takeover Offer that could potentially affect the Kingsgate Shareholders.

1.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Takeover Offer with reference to the ASIC Regulatory Guide 112 “Independence of Experts” (“RG112”).

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Takeover Offer other than that of independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.



Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of these fees is in no way contingent upon the success or failure of the Takeover Offer.

1.4 Consent and other matters

Our report is to be read in conjunction with the Target’s Statement dated on or around 17 October 2016 in which this report is included, and is prepared for the exclusive purpose of assisting the Kingsgate Shareholders in their consideration of the Takeover Offer. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Target’s Statement.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Takeover Offer to the Kingsgate Shareholders as a whole. We have not considered the potential impact of the Takeover Offer on individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Takeover Offer on individual shareholders.

The decision of whether or not to accept the Takeover Offer is a matter for each Kingsgate Shareholder based on their own views of the value of Kingsgate and expectations about future market conditions, Kingsgate’s performance, their individual risk profile and investment strategy. If shareholders are in doubt about the action they should take in relation to the Takeover Offer, they should seek their own professional advice.



2 Profile of the gold and silver mining industry

Kingsgate is engaged in the exploration, development and mining of gold and silver deposits in Chile and Thailand. Set out below is a brief overview of the key trends in these sectors.

2.1 Overview

Gold is a precious metal used primarily in the fabrication of jewellery, electronics and other industrial applications. It is also an investment asset used as a store of value and for hedging purposes.

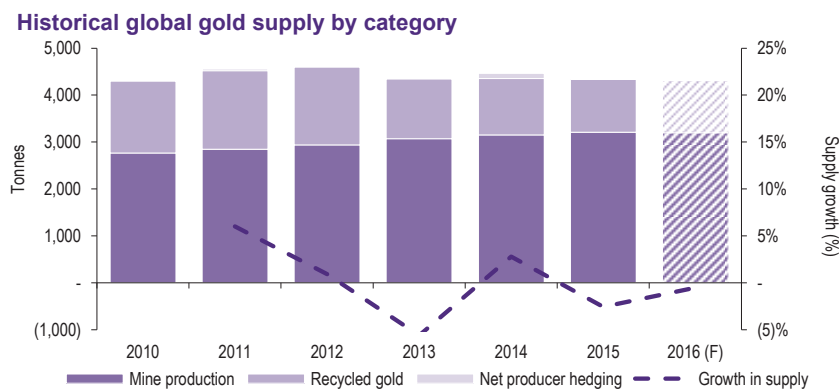
Silver is widely used in the electrical, electronics and medical industries due to its malleability, and high electrical and thermal conductivity characteristics. Other major uses of silver include coinage, film and jewelry. Silver prices have historically been highly correlated with gold prices and the demand for silver as an investment asset has increased materially in the last five years.

Gold and silver are actively traded on the international commodity markets and experience daily price fluctuations as determined by global supply and demand factors.

2.2 Supply and demand

Gold

The supply of gold is mainly sourced from mine production and the recycling of scrap gold. The graph below illustrates historical gold supply by category:



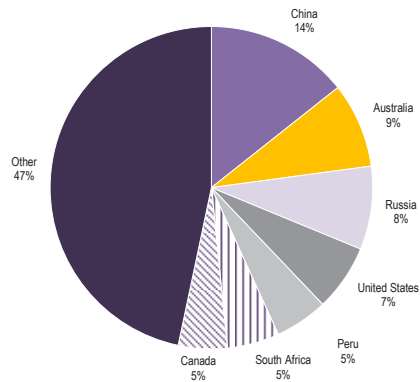
Source: Metal Focus, Gold Focus 2016

Global production of gold has remained relatively flat over the last three years. In 2015, mine production grew by 1.8% to 3,211 tonnes, reflecting the lowest growth rate over the five year period to 2015. The slowdown in global gold supply has been impacted by a 6.2% reduction in the recycling of scrap gold.



Gold mine production by country in 2015 is set out below:

2015 Gold mine production

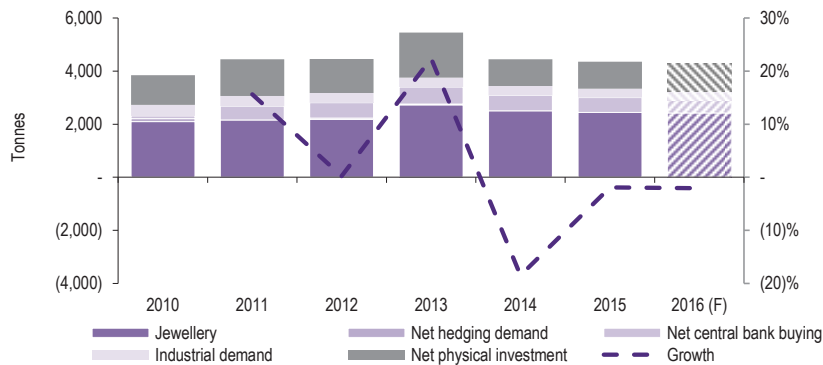


Source: Metal Focus, Gold Focus 2016

Forecasted gold mine production is expected to marginally decline in 2016. The reduction in production from the mature gold producing nations is largely offset by increased production from developing countries such as Burkina Faso, Guyana and Suriname.

Gold demand by category is illustrated below:

Historical global gold demand by category



Source: Metal Focus, Gold Focus 2016

Total gold demand decreased by 91 tonnes (1.9%) in 2015. The decline was driven by the reduction in consumption from China, Russia, Turkey and the Persian Gulf countries. This decline was partially offset by the increase in consumption from India. The only category that experienced growth was physical investment, with the main contributor being increased Chinese investment following the devaluation of the yuan.

The fabrication demand for gold has historically been driven by the demand for jewellery and industrial demand (“Primary Demand”). Jewellery accounted for the largest component of fabrication demand. The level of Primary Demand is highly seasonal as demand in India and China are strongly linked to traditional festivities.



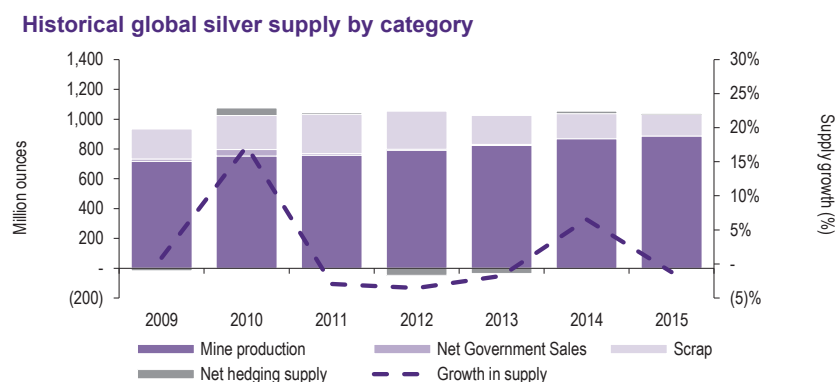
Investors generally consider gold as a relatively safe investment asset mainly because the price of gold has historically been negatively correlated to movements in the general global economy and other major financial assets. As a result, gold is often used for hedging and as a store of wealth. In recent history, volatility caused by the Global Financial Crisis (“GFC”), political unrest in the Middle East, foreign exchange fluctuations and the European Debt Crisis (“EDC”) have caused investors to sell off other riskier assets to purchase gold for its unique properties as an investment asset.

Increasing interest in gold as an investment asset has also led to an increase in the variety of gold investment products, such as gold exchange traded funds, which are publicly listed investment funds that hold gold as their primary asset.

In recent years, investment demand for gold has also included the net purchase of gold by central banks and official sector institutions¹⁴ (“Official Sector”). The Official Sector became net buyers of gold in 2010. In a number of developing countries experiencing rapid economic growth, the significant expansion of foreign exchange reserves has required central banks to increase gold holdings in order to hedge against adverse movements in foreign exchange reserve movements. Also, the GFC and the EDC have raised concerns in relation to the dominance of the Euro and the US dollar in foreign exchange reserves and have prompted many central banks to diversify reserve assets holdings through the purchase of gold.

Silver

Silver is mainly sourced from mine production and the recycling of scrap silver. The graph below illustrates historical silver supply by category:



Source: The Silver Institute, World Silver Survey 2016

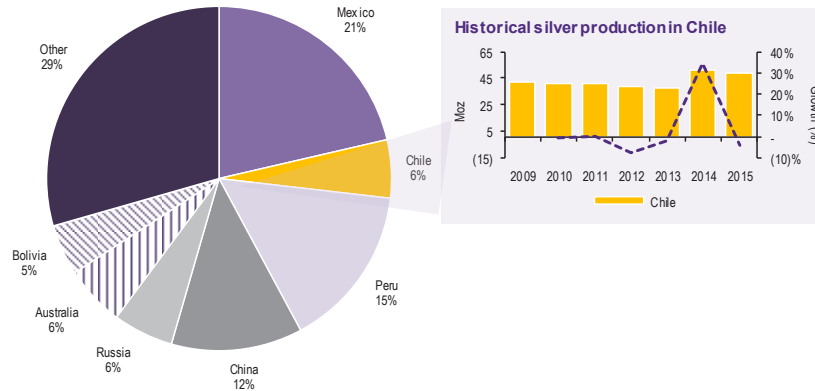
The global supply of silver has remained substantially unchanged over the last five years. The reduction in net government sales, recycling of scraps and producers’ hedging activities was offset by an increase in mine production over the same period.

¹⁴ Official sector institutions include all departments and agencies of national governments such as exchange authorities and fiscal agents that undertake activities similar to those of treasury, central bank or stabilisation fund



Global silver mine production grew by 2.1% in 2015, reaching a total of 886.7 million ounces (“Moz”). Silver mine production by country for 2015 is set out below:

2015 Silver mine production



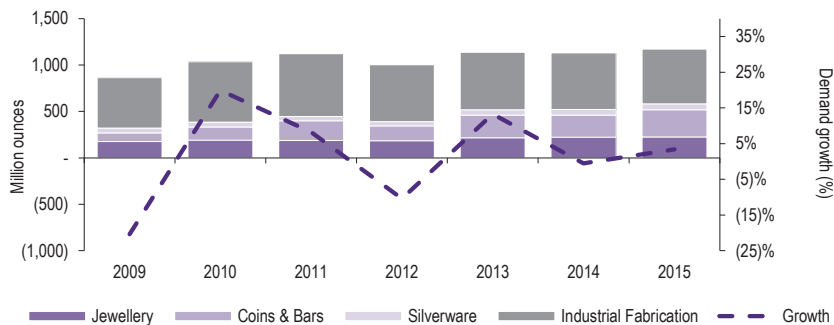
Source: The Silver Institute, World Silver Survey 2016 and GTCF

South America is the biggest producer of silver and contributes circa 33.4% of global production. In 2015, silver production in South American mines increased by 5.1% to 296.3 Moz, mainly driven by the increase in supply of approximately 13 Moz from Peru, reflecting a 10.6% increase from 2014. Over the same period, Chilean silver production reduced by 4.3% (2.2 Moz), driven by lower grade ores whilst Chinese production decreased by 3% due to small scale operations exiting the market.

Global silver production is forecasted to decline by approximately 2% in 2016 as several miners have announced and forecasted closures and cutbacks to zinc, lead and gold dominant mines (silver is often produced as a by-product of these minerals).

Silver demand by category is illustrated below:

Historical global silver demand by category



Note: Industrial fabrication includes Electrical & Electronics, Brazing Alloys & Solders, Photography, Photovoltaic, Ethylene Oxide and Other Industrial.

Source: The Silver Institute, World Silver Survey 2016 and GTCF



Total silver demand increased by 3.4% (38 Moz) in 2015. The largest contributor to the growth in consumption in 2015 was the 23.8% increase in demand for coin and bar investment, which was partially offset by a 3.7% reduction in fabrication demand driven by the economic slowdown in the Chinese market and stagnant growth in the global economy. As a result, the silver market realised a physical deficit for the third consecutive year in 2015. Specifically, investors accumulated a large amount of coins and bars to take advantage of the silver price reduction whilst various mines around the world, especially in the US and Canada, replenished their physical inventories.

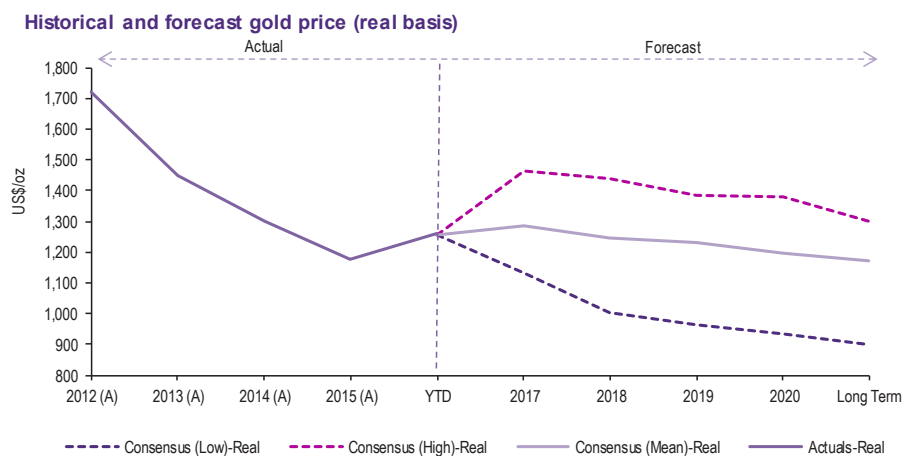
Fabrication demand decreased in 2015 as global industrial production grew at its lowest level since 2009. The increase in silver demand from photovoltaic and ethylene oxide was more than offset by lower demand from the electronic industry.

Silver jewellery fabrication increased slightly in 2015 which was mainly driven by a 16% annual rise from India as low prices stimulated consumption and the replenishment of industrial inventory.

2.3 Historical and forecast price of gold and silver

Gold

Set out below are the real historical and forecast prices of gold since 2012:



Note: Prices have been adjusted to a real basis based on broker forecasts for US consumer price index, with 2016 as the base year.

Source: S&P Capital IQ, Consensus Forecast and GTCF Calculations

Prices peaked at over US\$1,895 per ounce during 2011 due to ongoing concern over the US and the EDC. During 2012-14, gold prices began declining as economic conditions improved, reducing the relative attractiveness of gold as an investment asset. As at 6 October 2016, the spot price of gold was US\$1,270 per ounce.

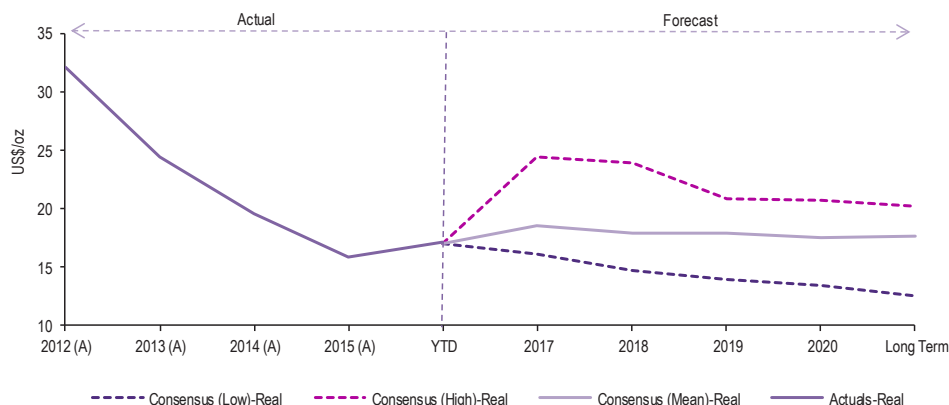
The price of gold is forecasted to gradually decrease in the short to medium term in line with the expected recovery and stabilisation of the global economy and financial markets. As gold is regarded as a store of value, its price is often negatively correlated to other economic indicators.



Silver

Set out below are the real historical and forecast prices of silver since 2012:

Historical and forecast silver prices (real basis)



Note: Prices have been adjusted to a real basis based on broker forecasts for US consumer price index, with 2016 as the base year.

Source: S&P Capital IQ, Consensus Forecast and GTCF Calculations

Silver prices peaked at US\$48.6/ounce (nominal) in 2011, with historically high price levels continuing into 2012, driven by strong global silver demand as a result of its extensive use across various industries and speculative investments. From 2013 onwards, silver prices gradually declined due to slower demand growth, but remained above historic price levels. As at 6 October 2016, the spot price of silver was US\$17.9/ounce.

The outlook for silver remains stable as investors perceive the commodity as a safe haven asset on the back of lower than expected US economic data, continued slowdown in the Chinese market, and general weakness in the equity markets in 2016. However, the expected recovery and stabilisation of the global economy and financial markets could put downward pressure on silver prices over the medium term.



Notwithstanding the gold and silver prices denominated in USD have been volatile over the last five years, the A\$/US\$ exchange rate has acted as a hedge for Australian gold and silver producers. As outlined in the graph below, the A\$ denominated gold price and silver price have materially outperformed the US\$ denominated gold and silver prices.

Historic nominal gold and silver prices (AUD)



Source: S&P Capital IQ and GTCF

Historically, there has also been a high correlation between the gold price and silver price as the underlying demand for both commodities have similar drivers (i.e. store of wealth and safe havens). The graph below illustrates the gold/silver ratio over the last thirty years.

Gold/silver price ratio



Source: IndexMundi and GTCF



As set out in the graph above, the long term historical ratio between an ounce of gold and silver has been around 66 times. However at the beginning of 2016, an ounce of gold was worth as much as 77 times an ounce of silver and this ratio rose to 83 times in February 2016. However, more recently the ratio has returned in line with the historical average which indicates that some of the premium historically enjoyed by gold has evaporated. A potential positive interpretation of the recent trend is an improvement in the outlook for the global economy given that the demand for silver and in turn, its price is less anti-cyclical than gold given its greater industrial use.

2.4 Chile and Thailand’s Mining Industry

Chile

The mining industry is a major driver of the Chilean economy, with the mining sector representing approximately 10% of Chile’s gross domestic product (“GDP”) in 2015¹⁵. Chile is the world’s largest producer of copper, with copper production representing 90% of GDP attributable to the mining sector. In 2015, Chile experienced GDP growth of 2.1%, where the rest of Latin America experienced a contraction in their economy¹⁶.

According to the Fraser Institute¹⁷, Chile is currently rated as the 11th most attractive jurisdiction in the world in terms of investment attractiveness and the most attractive in the Latin America and Caribbean region. The country is viewed as having well defined mining and environmental regulations governing the mining sector. Being the first country in Latin America to join the Organisation for Economic Co-Operation and Development (“OECD”) in 2010, Chile has further converged with OECD countries’ stringent standards and policies. The principle legislation that governs the Chilean mining industry is the Mining Code which includes the terms of concessions, which needs to be complied with in order to gain the right to mine in Chile. The concession system is administered by the Ministry of Mining.

Chile is among the world’s top silver producing countries. Silver is produced as a by-product of gold and copper. A third of the silver production comes from Codelco’s Ministro Hales mine located on the outskirts of Calama in Northern Chile.

In September 2014, the Chilean government passed a tax reform aimed at raising public funds to reform the education system. Chile’s National Congress approved a gradual increase in the corporate tax rate from 20% to 25% / 27% in 2017, depending on which regime the taxpayer opts for.

Thailand

Thailand’s economy has been negatively impacted by political uncertainty over the last decade. Thailand’s GDP grew by 2.8% in 2015¹⁸, which is lower than the 5% average annual growth experienced after the Asian crisis during 1999-2005¹⁹. Two coups have occurred over the last decade, in 2006 and 2014 respectively, causing significant political uncertainty. In August 2016, a change in the constitution giving the military continuing influence over the country was approved.

¹⁵ Central Bank of Chile

¹⁶ The World Bank

¹⁷ Fraser Institute Survey of Mining Companies 2015- a survey that rates 109 jurisdictions according to their geologic and policy attractiveness for minerals and metals.

¹⁸ Bank of Thailand

¹⁹ The World Bank



The mining and quarrying sector represented approximately 3% of GDP in 2015²⁰. The Ministry of Industry is the principal government agency that oversees the mining sector. The Department of Primary Industries and Mines administers the Minerals Act and issues mining regulations. Key legislations are the Minerals Act B.E.2510, the Mineral Royalty Rates Act B.E. 2509, and their related Ministerial Regulations. The Ministry of Natural Resources and Environment is responsible for conserving, preserving, rehabilitating and developing natural mineral resources.

The Thailand government announced on 10 May 2016 that all gold production in Thailand must cease by 31 December 2016.

²⁰ Office of The National Economic and Social Development Board



3 Profile of Kingsgate

3.1 Company overview

Kingsgate is currently focussed on the production, development and exploration of gold and silver in Thailand and Chile. The Company’s existing portfolio includes the following key projects:

- *The Chatree Mine* – is located in the Thailand and produced 97,510 ounces of gold and 678,529 ounces of silver in FY16. The Chatree Mine had mineral resources of 216 million tonnes (“Mt”) as at 30 June 2016²¹. The Thailand Government ordered on 10 May 2016 to shut down all gold mine operations and production in Thailand. As a result, the Metallurgical Licence, which is required to operate the processing plant, has only been renewed up to 31 December 2016.
- *The Nueva Esperanza Project* – 100% owned gold and silver project located in Chile with Pre-Feasibility Study (“PFS”) recently completed and the Definitive Feasibility Study (“DFS”) currently underway.

Set out below is a brief history of the Company.

- Kingsgate was listed in 1988 and gold production at its Chatree Mine in Thailand commenced in 2002. Approximately 1.8 million ounces of gold have been produced since commencement.
- The Company expanded into South America via the acquisition of the Arqueros Project in Chile in 2009, followed by further high sulphidation epithermal project acquisitions in 2011, and the consolidation of these projects into the Nueva Esperanza Project.
- The Company released a Pre-Feasibility Study for the Nueva Esperanza Project in April 2016. The project aims to deliver 91,000 ounces of AuEq60²² per annum on average for 11.6 years at a life of mine (“LOM”) average cash cost of US\$642²³ per ounce and an average all-in cost of US\$849²⁴ per ounce.

3.2 Akara Resources Public Company Limited – the Chatree Mine

Akara Resources is the Thai subsidiary of Kingsgate and it owns and operates the Chatree Mine, the only operating gold mine in Thailand.

²¹ Based on 30 June 2015 data.

²² Gold equivalent: $\text{AuEq (g/t)} = \text{Au (g/t)} + \text{Ag (g/t)} \div 60$. Calculated from long term historical prices of US\$1,200/oz of gold and US\$19 for silver and combined life of mine average metallurgical recoveries of 80% Au and 84% Ag estimated from test work by Kingsgate. It is Kingsgate’s opinion that all elements included in the metal equivalents calculation have a reasonable potential to be recovered and sold. Although gold is not the dominant metal, gold equivalent values are reported to allow comparison with Kingsgate’s other projects. Nueva Esperanza silver equivalent: $\text{AgEq (g/t)} = \text{Ag (g/t)} + \text{Au (g/t)} \times 60$.

²³ Excluding royalties

²⁴ Excluding royalties



The Chatree Mine is located approximately 280 kilometres north of Bangkok and it comprises of the mineralisation field in the South, which began commercial production in November 2001, and the mineralisation field in the North, which began production in November 2008.

The mine complex also includes a processing plant (“Chatree Processing Plant”) which has been operating since 2001. The Chatree Processing Plant has an operating capacity of 6.2 Mt per annum following various upgrades to the initial name-plate capacity of 1 Mt per annum.

Kingsgate’s Thai subsidiary owns the freehold where the mine operations, Chatree Processing Plant and mineral resources are located.

Kingsgate’s Thai subsidiary received from the Thailand Government a number of licences to operate the Chatree Mine including:

- Four mining licences expiring in June 2020 and 9 mining licences expiring in July 2028.
- The Metallurgical Licence to operate the Chatree Processing Plant which, based on the communication received from the Thailand Government in May 2016, has been renewed up to 31 December 2016.

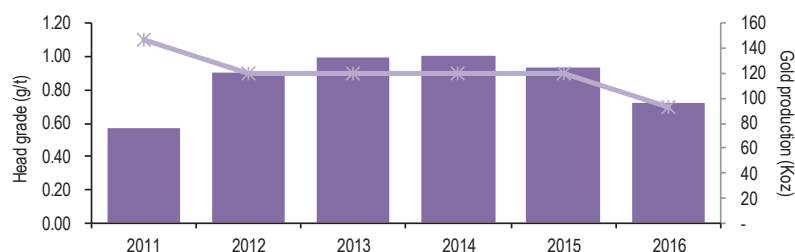
3.2.1 Historical production

June 2016 quarter gold production at Chatree was 23,711 ounces at a total cash cost of US\$902 per ounce. Gold sales for the quarter were 24,435 ounces at an average gold price of US\$1,211 per ounce. The all-in sustaining cash cost for the quarter was US\$1,075 per ounce. Silver production was 164,410 ounces for the quarter.

In FY16, the Chatree Mine produced 97,510 ounces of gold and 675,579 ounces of silver. The Chatree Processing Plant treated 5.5 Mt at a head grade of 0.70 grams per tonne gold with a recovery of 79.8%. Total cash cost for the year were US\$895 per ounce (after royalty). The total production cost was US\$1,225 per ounce.

Set out below, we have outlined historical gold production at the Chatree Mine.

Historical gold production at the Chatree Mine



Source: ASX Corporate Presentation September 2016, FY16 Annual Report and FY15 Annual Report

Notwithstanding mining at the Chatree Mine will come to a halt on 31 December 2016 due to the expiry of the Metallurgical Licence, Kingsgate’s Thai subsidiary will still own significant mineral



resources²⁵. As outlined in the table below, Kingsgate’s Thai subsidiary had total contained mineral resources of 3.5 Moz as at 30 June 2016.

Chatree Project Resources As at 30 June 2016	Tonnes (Mt)	Grade		Contained resources	
		Au (g/t)	Ag (g/t)	Au (Moz)	Ag (Moz)
Measured	75.8	0.7	6.8	1.7	16.5
Indicated	49.8	0.6	5.6	1.0	8.9
Inferred	40.6	0.6	4.5	0.8	5.9
Total resources	166.2	0.7	5.9	3.5	31.3

Source: ASX Announcement 7 October 2016 – Ore reserves and mineral resources as at 30 June 2016

Kingsgate has confirmed to Grant Thornton that it is not aware of any new information or data that materially affects the information included in the 7 October 2016 announcement and confirmed that all material assumptions and technical parameters underpinning the estimates in that announcement continue to apply and have not materially changed.

The Company has recently prepared a revised mine plan assuming production will come to an end on 31 December 2016 in conjunction with the expiry of the Metallurgical Licence. Over the period October to December 2016, Kingsgate’s Thai subsidiary expects to sell 51,061²⁶ ounces of gold and 392,212 ounces of silver.

The gold and silver production and the financial performance of the Chatree Mine in the period between 1 July 2016 and 30 September 2016 was consistent with the revised mine plan.

3.2.2 Metallurgical Licence

The Thailand Government commissioned an independent report in 2015 to conduct a complete review of the technical, operation and environmental and social aspects of the Chatree Mine. The report was presented to the relevant Thailand Ministers on 22 April 2016 and confirmed that the Chatree Mine is operated in compliance with best practice national and international standards.

The independent report was commissioned before the expiry of the Metallurgical Licence to operate the Chatree Processing Plant on 13 May 2016.

On 10 May 2016, the Thailand Government announced and took actions to cease all gold mining in Thailand²⁷ by 31 December 2016 without providing detailed reasons for the decision. As a result, the Metallurgical Licence was only renewed up to 31 December 2016 which will prohibit Kingsgate’s Thai subsidiary from continuing gold production at the Chatree Mine after this date.

In June 2016, Kingsgate’s Thai subsidiary was initially required to provide a full disclosure and remediation plan for the Chatree Mine within 30 days, however this order was rescinded less than a month after it was issued.

The Thailand Minister of Industry (“MOI”) has also recently advised Kingsgate’s Thai subsidiary that the health and environmental committee investigation into the operations of the Chatree Mine underway since October 2015, is expected to only conclude its findings in October 2016.

²⁵ Kingsgate’s Thai subsidiary owns the freehold of the land where the mineral resources are located.

²⁶ Includes gold-in-circuit

²⁷ Chatree Mine is the only producing mine in Thailand.



As a result of the setback with the Thailand Government, Kingsgate’s Thai subsidiary has implemented a revised mine plan up to 31 December 2016 that is expected to generate sufficient cash-flow to repay all its liabilities and meet its obligations.

Kingsgate continues to pursue a range of potential remedies for the situation, which includes both legal and diplomatic options.

3.3 Nueva Esperanza Project

The Nueva Esperanza Project is wholly owned by Kingsgate and it is a gold and silver project located in the Domeyko Cordillera of the Atacama region in Chile. The project comprises contiguous mining concessions with a total area of 9,326 hectares of which Kingsgate owns 4,020 hectares. A component of the ore bodies underpinning the Nueva Esperanza Project was previously mined.

On 13 April 2016, Kingsgate announced the completion of the PFS for the Nueva Esperanza Project. The PFS was completed as an optimisation of previous feasibility studies²⁸ based on updated ore reserves and plant layout. The Nueva Esperanza Project will be mined as an open pit operation with a 2 Mt per annum agitated leach process plant.

Set out below is a summary of the key results of the PFS:

- The Nueva Esperanza Project is a gold and silver deposit with 73% of the revenue generated from silver. The PFS indicates that 47 million of ounces of silver and 275,000 ounces of gold will be recovered over the life of the project.
- Average production of 91,000 ounces AuEq60²⁹ for 11.6 years at a LOM average cash cost, including royalties, of US\$706 per ounce AuEq60 and an average all-in cost of US\$913 per ounce. Net smelter royalties of circa 10% are paid to the previous owners of the project.
- Payback period is estimated at 3 years with an average production for the first five year of 135,000 AuEq60 and an average all-in cost of US\$840 per ounce.
- The average combined recovery over the LOM is 80% for gold and 84% for silver.
- The project has an existing and approved environmental impact study obtained back in 2012. However it is in the process of being modified to take into account the revised PFS.
- Initial capital expenditure estimate at US\$206 million³⁰. Existing gravel roads currently provide access to the site. Power is available from the grid and the cost to build a spur line is included

²⁸ Kingsgate completed two previous feasibility studies on the Nueva Esperanza Project in 2012 and 2014

²⁹ Gold equivalent: $AuEq(g/t) = Au(g/t) + Ag(g/t) \div 60$. Calculated from long term historical prices of US\$1,200/oz of gold and US\$19 for silver and combined life of mine average metallurgical recoveries of 80% Au and 84% Ag estimated from test work by Kingsgate. It is Kingsgate’s opinion that all elements included in the metal equivalents calculation have a reasonable potential to be recovered and sold. Although gold is not the dominant metal, gold equivalent values are reported to allow comparison with Kingsgate’s other projects. Nueva Esperanza silver equivalent: $AgEq(g/t) = Ag(g/t) + Au(g/t) \times 60$.

³⁰ As discussed in section 5.2.1, the initial capital expenditure has been recently revised down.



in the capital expenditure. The Company also has in place a contract to purchase water from a nearby borefield.

- Closure and rehabilitation costs estimated at US\$8 million.

The production case underpinning the PFS is based 75% on ore reserves which provide for more than 85% of the total metal in the PFS. We note that the mine plan for the PFS contains 1.3 Mt of inferred mineral resources and 4.6 Mt of existing low grade stockpiles that are processed in the last three years of the mine plan.

Set out below is a summary of the mineral resources and ore reserves.

Nueva Esperanza Project Mineral Resources & Ore Reserves As at 30 June 2016	Tonnes (Mt)	Grade		Contained resources	
		Au (g/t)	Ag (g/t)	Au (Moz)	Ag (Moz)
Measured	1.6	0.0	93.0	0.001	4.8
Indicated	27.2	0.5	73.0	0.40	63.8
Inferred	10.6	0.3	43.0	0.09	14.8
Total resources	39.4	0.4	65.7	0.5	83.4
Reserves¹	17.1	0.5	87.0	0.3	47.8

Note (1): Incorporated in mine model per PFS

Source: PFS, ASX Announcement 7 October 2016 – Ore reserves and mineral resources as at 30 June 2016

Based on the results of the PFS, the Company is progressing with a feasibility study, permitting and an extensive drilling program to increase the mineral resources. Based on discussions with SRK, we have assumed that construction period will commence in the second half of 2018 and first doré at the end of 2019.

3.4 Other assets

Over the last six months, Kingsgate has executed the sale of the following assets:

- On 22 February 2016, Kingsgate announced the execution of an agreement to sell the Challenger mine to a 50/50 joint venture between Diversified Minerals Pty Ltd and WPG Resources Limited for a consideration of A\$1 million³¹. The consideration is payable over four quarterly instalments with circa A\$500,000 remaining outstanding as at the date of this report³². The parties have also agreed that Kingsgate will be paid a royalty of A\$25 per ounce of gold recovered from the South South West (“SSW”) envelope. The royalty will be payable only after the first 30,000 ounces of gold are recovered from the SSW. No resource currently exists in the SSW envelope.
- On 25 February 2016, Kingsgate announced the execution of an agreement to sell an effective 85% interest in the Bowdens Silver Project (“Bowdens Project”) to Silver Mines Limited for a total consideration of A\$20 million. On 30 June 2016, Kingsgate announced completion of the

³¹ The transaction completed on 15 March 2016.

³² The consideration is expected to be fully paid by 31 March 2017.



transaction and that an agreement had been reached to also sell to Silver Mines Limited the remaining 15% in the Bowdens Project for an additional consideration of A\$5 million payable by 30 September 2016. On 30 September 2016, Kingsgate announced that the terms of the remaining 15% acquisition had been amended so that Kingsgate received a non-refundable payment of A\$1 million on 30 September 2016 with the remaining circa A\$4 million to be paid by 30 December 2016³³.

3.5 Financial information

3.5.1 Income Statement

The audited statement of profit or loss of Kingsgate for the periods ending 30 June 2015 and 30 June 2016 are set out in the table below.

Consolidated statement of profit and loss for the period ended (in A\$'000)	30-Jun-15 Audited	30-Jun-16 Audited
Continuing operations		
Sales revenue	194,808	174,412
Cost of sales	(173,203)	(184,867)
Gross (loss)/profit	21,605	(10,455)
Exploration expenses	(1,138)	(552)
Corporate and administration expenses	(17,580)	(17,449)
Other income and expenses	755	(2,612)
Foreign ex change gain	2,699	3,655
Share of loss in associate	(112)	-
Impairment losses - Chatree Gold Mine	(115,650)	(227,564)
Impairment losses - exploration assets	(9,888)	(461)
Loss before finance costs and income tax	(119,309)	(255,438)
Finance income	777	406
Finance costs	(14,823)	(12,359)
Net finance costs	(14,046)	(11,953)
Loss before income tax	(133,355)	(267,391)
Income tax benefit/(expense)	(651)	3,209
Loss from continuing operations after income tax	(134,006)	(264,182)
Discontinued operations		
Profit/(loss) from discontinued operations after income tax	(13,637)	34,731
Loss for the year	(147,643)	(229,451)
Other comprehensive income		
Change in fair value of employee provision (net of tax)	838	201
Exchange differences on translation of foreign operations (net of tax)	60,764	(3,000)
Total other comprehensive (loss)/income for the year	61,602	(2,799)
Total comprehensive loss for the year	(86,041)	(232,250)

Source: Kingsgate financial statements FY15 and FY16, and GTCF calculations

³³ If Silver Mines Limited does not pay the A\$4 million, at an interest rate of 10% p.a., by 30 December 2016, the parties will form an 85%/15% unincorporated joint venture.



We note the following in relation to the consolidated statement of profit and loss for the period ending 30 June 2016:

- The operation of the Chatree Mine generated revenue of circa A\$174 million producing 97,510 ounces of gold and 675,579 ounces of silver. The process plant treated 5.5 Mt at a head grade of 0.70 grams of gold per tonne gold with a recovery of 79.8%.
- The Chatree Mine generated a loss at gross profit level (including depreciation) of circa A\$10.5 million mainly due to operational difficulties experienced during the year arising from harder than scheduled ore from the stockpiles and reduced truck and excavator availability.
- Cost of sales includes depreciation for the Chatree Mine of circa A\$44.4 million. Accordingly, the Chatree Mine generated a positive EBITDA³⁴ of A\$29.8 million before corporate costs or of A\$17.0 million after corporate costs and other exploration expenses in relation to the Nueva Esperanza Project.
- An impairment charge of A\$227.6 million was made against the carrying value of the Chatree Mine, predominately a reflection of the shortened mine life arising from the extension of the Metallurgical Licence only to 31 December 2016.
- Discontinued operations refer to the sale of the Challenger mine and Bowdens Project.

³⁴ Earnings before interest, tax, depreciation and amortisation



3.5.2 Balance Sheet

The audited statements of financial position of Kingsgate as at 30 June 2015 (“FY15”) and 30 June 2016 (“FY16”) are set out in the table below.

Statement of financial position (in A\$'000)	FY15 Audited	FY16 Audited
Current assets		
Cash and cash equivalents	55,472	36,314
Restricted cash	-	7,004
Receivables	19,139	12,273
Inventories	47,147	26,060
Available-for-sale financial assets	-	540
Other assets	9,619	10,919
Total current assets	131,377	93,110
Non-current assets		
Restricted cash	6,601	-
Receivables	-	4,015
Inventories	55,711	-
Available-for-sale financial assets	1,350	-
Property, plant and equipment	188,494	44,278
Exploration, evaluation and development	143,035	96,972
Other assets	18,442	14,130
Total non-current assets	413,633	159,395
Total assets	545,010	252,505
Current liabilities		
Payables	27,344	21,313
Borrowings	67,552	98,097
Provisions	3,625	10,555
Total current liabilities	98,521	129,965
Non-current liabilities		
Payables	7,171	4,074
Borrowings	75,071	-
Deferred tax liabilities	388	119
Provisions	39,226	25,983
Total non-current liabilities	121,856	30,176
Total liabilities	220,377	160,141
Net assets	324,633	92,364
Equity		
Contributed equity	677,109	677,042
Reserves	53,700	50,949
Accumulated losses	(406,176)	(635,627)
Total equity	324,633	92,364

Source: Kingsgate financial statements FY15 and FY16, and GTCF calculations



We note the following in relation to the consolidated statement of financial position for Kingsgate for FY16:

- Restricted cash of A\$7 million refers to the minimum cash balance³⁵ required to be retained in Kingsgate’s Thai subsidiary based on the terms of its debt facilities. We understand that this restricted cash amount has now been classified as available cash following early scheduled repayment of a component of the outstanding debt balance.
- Current and non-current receivables mainly include the outstanding amount due to the Company in relation to the sale of the Challenger Mine and the Bowdens Project and VAT³⁶ refunds from both the Thailand and Chilean Governments.
- Inventories include raw materials for A\$12.7 million and gold bullion of A\$6.5 million. The recoverable amount of the stockpiles of A\$69.8 million was almost entirely impaired given that Kingsgate is currently expected to cease operations at the Chatree Mine by 31 December 2016. We note that the stockpiles include 6.74Mt of marginal ore.
- Other current assets comprise cash held on deposit with financial institutions that is restricted for use to rehabilitate the Chatree Mine and A\$4 million of security deposits.
- Property, plant and equipment decreased by 76.5% to A\$44.3 million in FY16, predominately reflecting impairment of the Chatree Mine and the sale of Challenger Mine and Bowdens Project.
- Current liabilities exceeded current assets by A\$36.9 million, predominately due to the reclassification of external borrowings of Kingsgate’s Thai subsidiary as current liabilities due to the Thailand Government’s decision that operations should cease at the Chatree Mine by 31 December 2016.

³⁵ Or US\$5 million.

³⁶ Value-added tax



3.5.3 Kingsgate financial position

Set out below is a summary of the Company’s external debt facilities and other debt instruments as at 30 June 2016 and 30 September 2016.

Facility/ instrument	Outstand. Amount 30/06/16	Outstand. Amount 30/09/16	Security	Other information
Multi-currency loan facilities	A\$75.3m	A\$67.1m	As security against the facility the lender has a fixed and floating charge over the land, buildings, plant and equipment in Thailand owned by Akara Resources and its material subsidiaries. The debt facility is non-recourse back to Kingsgate. However, Kingsgate is also a borrower under an inter-company loan with Akara Resources. As set out in the Target’s Statement, the amount outstanding under this loan equals \$67.1 million. Akara Resources must give Kingsgate at least 180 day notice to seek repayment of this inter-company loan.	Based on discussions with the Company and review of information available, the revised mine plan of the Chatree Mine is expected to generate sufficient cash flows to repay in full all debt facilities and pay or provide for other obligations by 31 December 2016. As at the date of this report, Kingsgate’s Thai subsidiary has the support of its lender.
Revolving credit facility	A\$10m	A\$5m	Kingsgate has a revolving credit facility with A\$10 million drawn against this facility as at 30 June 2016. A debt repayment of A\$5 million was made at the end of July 2016, resulting in a balance of A\$5 million due for repayment at the end of January 2017. As security against the facility the lender has a fixed and floating charge over Kingsgate assets including shares in its material subsidiaries.	NA
Preference Shares	A\$10.2m	A\$10.2m	None	The Preference Shares are classified as debt under Australian accounting standards and are issued by Kingsgate’s Thai subsidiary. The holder of the preference shares is entitled to a fixed cumulative dividend at 20% per annum on the value of their paid-up capital. The holder of the Preference Shares has the option to put back the shares to Kingsgate at par value with 180 days-notice. In the event this option is exercised, Kingsgate is bound to pay par value as consideration to the holder of these shares.

As set out in the table above, the consolidated gross debt of Kingsgate was A\$98.1 million as at 30 June 2016 and A\$82.4 million as at 30 September 2016. The Company also had cash resources, excluding restricted cash, of A\$48.1 million as at 30 September 2016. Accordingly, the net debt was A\$34.3 million as at 30 September 2016

We note that the financial statements of the Company have been prepared on a going concern basis however the audited accounts include an emphasis of matter on the ability of the business to continue as a going concern which is subject to the following:



- The Company being successful in generating sufficient cash from the operations of the Chatree Mine until 31 December 2016 to repay its liabilities when they fall due.
- Continued support from the Company’s lenders.

3.5.4 Capital Structure

As at the date of our report, Kingsgate has the following securities on issue:

- 223,584,937 fully paid ordinary shares (“Kingsgate Shares”).
- 111,660 deferred rights which vested 1 July 2016, however the corresponding ordinary shares can only be issued once trading is re-instated on 17 October 2016.
- 1,500,000 unlisted incentive options with an exercise price between A\$0.40 and A\$0.60.

The top 20 shareholders of Kingsgate as at 30 September 2016 are set out below.

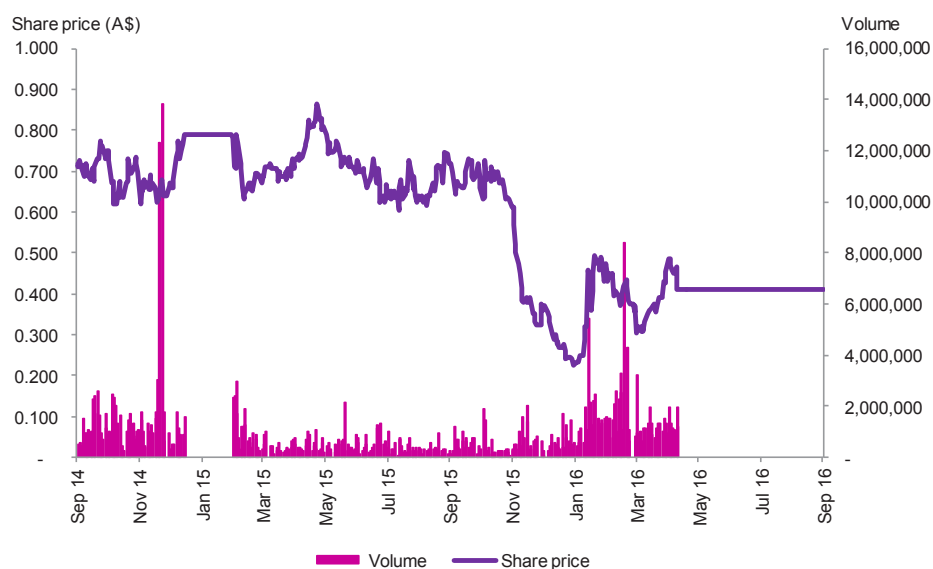
Top 20 shareholders as at 30 September 2016			
Rank	Name	Number of shares	Interest (%)
1	HSBC Custody Nominees (Australia)	31,699,917	14.18%
2	J P Morgan Nominees Australia Ltd	27,537,890	12.32%
3	BNP Paribas Noms Pty Ltd	16,771,768	7.50%
4	Citicorp Nominees Pty Ltd	16,524,993	7.39%
5	Merrill Lynch (Australia) Nominees Pty Ltd	13,460,715	6.02%
6	National Nominees Ltd	8,799,142	3.94%
7	Arinya Investments Pty Ltd	4,996,944	2.23%
8	Mr Bruce Clayton Bird	3,207,110	1.43%
9	Lujeta Pty Ltd	2,068,063	0.92%
10	Mrs Elizabeth Aprieska	1,412,590	0.63%
11	Mr Ali Beydoun	1,300,000	0.58%
12	Christopher Komor	1,097,462	0.49%
13	Yandal Investments Pty Ltd	1,000,000	0.45%
14	Mr Peter Chapman	837,058	0.37%
15	Maminda Pty Ltd	792,833	0.35%
16	Bahulu Holdings Pty Ltd	641,822	0.29%
17	ABN AMRO Clearing Sydney	547,045	0.24%
18	SFB Investments Pty Ltd	500,000	0.22%
19	Mr Chen Chen	430,000	0.19%
20	Mediflex Industries Australia	420,000	0.19%
Top 20 shareholders total		134,045,352	59.95%
Remaining shareholders		89,539,585	40.05%
Total share outstanding		223,584,937	100.00%

Source: Kingsgate management and GTCF calculations



The daily movements in Kingsgate’s share price and volumes for the period from September 2014 to September 2016 are set out below:

Daily movements of Kingsgate’s share price and volume traded



Source: S&P Capital IQ and GTCF calculations

We note the following non-exhaustive list of announcements by the Company with regard to the share price history since September 2014.

Date	Comments
16 September 2016	Kingsgate received the conditional Takeover Offer from NGPI for 50.1% of the issued shares in the Company at an offer price of 4.2 cents per share.
16 June 2016	Kingsgate was advised that an urgent order to overturn the resolution to only renew the Metallurgical Licence at the Chatree Mine until 31 December 2016 was issued by the Thailand Cabinet Secretariat.
13 May 2016	Kingsgate shares were placed on voluntary suspension of trading from 13 May 2016.
11 May 2016	Kingsgate requested a trading halt in its securities as the Company expected to make an announcement regarding the uncertainty around the renewal of the Metallurgical Licence for the Chatree Mine in Thailand.
30 March 2016	Kingsgate made an announcement regarding the revised mine plan of FY16 gold production forecast to be in the range of 95,000 to 105,000 ounces (previously 125,000 to 135,000 ounces).
15 December 2015	Kingsgate announced that preliminary assay results from a drilling campaign have shown new gold discovery at Nueva Esperanza Project, Chile.
10 December 2015	Kingsgate has concluded that the agreement with Diversified Minerals Pty Ltd and WPG Resources Limited represents the best potential outcome for all stakeholders with significantly less risk when compared to the open offer for Challenger Gold Mine.
4 November 2015	Marmota Energy Limited extended an open offer to Kingsgate and its shareholders for the Challenger Gold Mine and related assets at a price of \$2 million, twice the price offered by WPG Resources Limited.



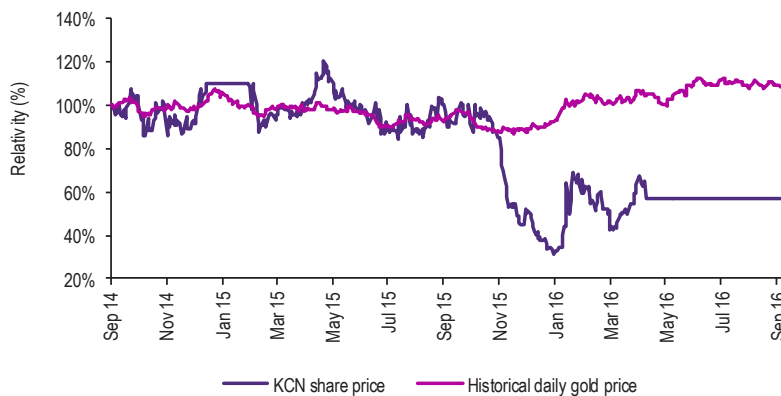
Date	Comments
30 October 2015	Kingsgate announced the execution of an option agreement to sell its 100% owned Challenger Gold Mine in South Australia to a 50/50 joint venture between Diversified Minerals Pty Ltd and WPG Resources Limited, at the end of the current life-of-mine plan and exhaustion of reserves in February 2016.
23 October 2015	Kingsgate released its annual financial report for FY15 to its shareholders. It was noted that the 44-day suspension of the Chatree Mine in January to February 2015 could be the key contributor to Kingsgate’s after tax loss of \$147 million for FY15, compared to the previous year’s loss of \$97.6 million in FY14.
2 October 2015	Thailand and Australian media reported Kingsgate’s alleged corrupt conduct in terms of obtaining a gold mining concession. Kingsgate clarified in response that the Company was not aware of any basis for an investigation.
27 February 2015	Kingsgate announced that the temporary suspension order on the Chatree Mine had been lifted and operations resumed on 27 February 2016.
14 January 2015	Kingsgate requested a trading halt in its securities as the Company expected to make an announcement regarding the uncertainty around an order to temporarily cease operations at the Chatree Mine in Thailand.

Source: ASX announcements and various news articles

Since November 2015, the trading prices of Kingsgate have been adversely affected by negative rumours on contamination and health issues outside the Chatree Mine and the risks surrounding the renewal of the Metallurgical Licence. Specifically, we note that the market capitalisation of the Company reduced from A\$152 million on 20 November 2015 to A\$51 million on 29 January 2016.

As set out in the graph below, the reduction in the share price was largely driven by factors specific to the Company given that the US\$ gold price increased from US\$1,076.4 per ounce to US\$1,116.4 per ounce over the same period, from 20 November 2015 to 29 January 2016.

Historical share price and daily gold price movements



Source: S&P Capital IQ and GTCF calculations



The volume weighted average price (“VWAP”) analysis for Kingsgate’s shares prior to the voluntary trading suspension announcement is set out in the table below.

Month end	Volume traded ('000)	Monthly VWAP (\$)	Total value of shares traded (\$'000)	Volume traded as % of total shares
Mar 2015	23,150	0.7013	16,236	10.4%
Apr 2015	8,697	0.7005	6,092	3.9%
May 2015	10,381	0.7966	8,270	4.6%
Jun 2015	11,210	0.7325	8,211	5.0%
Jul 2015	13,317	0.6726	8,957	6.0%
Aug 2015	7,885	0.6544	5,160	3.5%
Sep 2015	6,549	0.6778	4,439	2.9%
Oct 2015	11,836	0.6792	8,040	5.3%
Nov 2015	8,373	0.6703	5,613	3.7%
Dec 2015	13,761	0.4022	5,535	6.2%
Jan 2016	13,131	0.2733	3,589	5.9%
Feb 2016	32,090	0.4029	12,929	14.4%
Mar 2016	42,350	0.4040	17,111	18.9%
Apr 2016	21,642	0.3683	7,970	9.7%
May 2016	9,430	0.4632	4,367	4.2%
Min				2.93%
Max				18.94%
Average				6.97%
Median				5.29%

Source: S&P Capital IQ and GTCF calculations

The share price history for Kingsgate’s shares prior to the voluntary trading suspension announcement is set out in the table below.

Month ended	Share Price			Average weekly volume '000'
	High \$	Low \$	Close \$	
Aug 2015	0.730	0.605	0.640	1,877
Sep 2015	0.765	0.615	0.720	1,488
Oct 2015	0.745	0.630	0.660	2,690
Nov 2015	0.730	0.610	0.610	1,994
Dec 2015	0.630	0.320	0.370	2,992
Jan 2016	0.370	0.220	0.225	3,126
Feb 2016	0.535	0.225	0.430	7,640
Mar 2016	0.480	0.300	0.305	9,207
Apr 2016	0.460	0.300	0.455	5,153
May 2016	0.495	0.410	0.410	2,143

Source: S&P Capital IQ and GTCF calculations



4 Valuation methodologies

4.1 Introduction

In accordance with our adopted valuation approach set out in Section 4.2, our fairness assessment involves comparing the Offer Price of 4.2 cents per Kingsgate Share to the fair market value of a Kingsgate Share on a control basis.

Grant Thornton Corporate Finance has assessed the value of Kingsgate Shares using the concept of fair market value. Fair market value is commonly defined as:

“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.”

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

4.2 Potential valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow (“DCF”) method.
- Application of earnings multiples to the estimated future maintainable earnings or cash flows.
- Amount available for distribution to security holders on an orderly realisation of assets.
- Quoted price for listed securities, when there is a liquid and active market.
- Any recent genuine offers received by the target.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG 111 does not prescribe which of the above methodologies an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert’s skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.



4.3 Selected valuation methodology

Grant Thornton Corporate Finance has selected the market value of net assets as the primary method to assess Kingsgate’s equity value in relation to the Takeover Offer. The market value of net assets is based on the sum of the parts of Kingsgate’s producing, development and exploration assets, and other assets and liabilities.

The Chatree Mine

The Chatree Mine is the main operating asset of Kingsgate. The market value of the Chatree Mine has been assessed having regard to the DCF approach due to the following:

- The Chatree Mine will cease its operations on 31 December 2016 and Kingsgate Management has prepared a detailed mine plan which is expected to generate sufficient cash to settle all outstanding debt facilities and obligations for rehabilitation costs, employees entitlements and terminations.
- Given the limited residual life of the Chatree Mine, other valuation methodologies based on the market approach (i.e. earnings multiples or in-situ reserves and mineral resources) are not applicable.
- Grant Thornton Corporate Finance has engaged SRK to independently review the technical assumptions in relation to the forecast operations of the Chatree Mine.

The Nueva Esperanza Project

The Nueva Esperanza Project is the key development asset of Kingsgate. The market value of the Nueva Esperanza Project was assessed having regard to the DCF approach. We believe this methodology to be appropriate due to the following:

- The Nueva Esperanza Project has been subject of two feasibility studies (2012 and 2014). During the 2012 study, the project was granted its Environmental Impact Statement (“EIS”). In March 2016, Kingsgate completed a revised PFS as an optimisation of previous feasibility studies incorporating an updated ore reserve, revised plant layout and updated economic analysis.
- Kingsgate advised that proved and probable ore reserves provide more than 75% of the total tonnage and more than 85% of the total metal underpinning the forecast production target and financial projections.
- The DCF method is the most appropriate approach in valuing assets with a finite life such as mineral assets. This reflects the fact that the reserves deplete over time, and the significant level of capital and time required for the development of mineral assets.
- The DCF method is one of the most commonly used methodologies for the valuation of mineral assets.
- Grant Thornton Corporate Finance has engaged SRK to independently review the technical assumptions in relation to the long term financial model.



In the valuation assessment of Nueva Esperanza Project’s other exploration assets (i.e. mineral resources not included in the PFS plus other exploration potential), we have had regard to SRK’s assessed valuation based on the resource multiples implied by transactions of similar projects and the Kilburn methodology.

4.3.1 Cross check

Prior to reaching our valuation conclusions, we have considered the reasonableness of our valuation of Kingsgate’s shares having regard to the market approach based on a multiple of mineral resources for the Company as a whole.

4.3.2 Independent technical specialist

For the purposes of this report, Grant Thornton Corporate Finance has engaged SRK to review and express an opinion on the reasonableness of the technical assumptions included in projections for the Chatree Mine and the Nueva Esperanza Project.

SRK has also been engaged to prepare a valuation of the other mineral resources of the Nueva Esperanza Project not included in the PFS and the other exploration potential.

SRK engagement was completed in accordance with the VALMIN Code³⁷. A copy of the SRK Report is included as Appendix F to this Report.

³⁷ The VALMIN Code is binding on members of the Australasian Institute of Mining and Metallurgy when preparing public independent expert reports required by the Corporations Act concerning mineral and petroleum assets and securities. The purpose of the VALMIN Code is to provide a set of fundamental principles and supporting recommendations regarding good professional practice to assist those involved in the preparation of independent expert reports that are public and required for the assessment and/or valuation of mineral and petroleum assets and securities so that the resulting reports will be reliable, thorough, understandable and include all the material information required by investors and their advisers when making investment decisions.



5 Valuation assessment of Kingsgate (on a control basis)

As discussed in section 4.3, Grant Thornton Corporate Finance has adopted the market value of net assets methodology to assess the equity value of Kingsgate.

Set out below is a summary of our valuation assessment of Kingsgate on a control basis as at the date of this report.

Valuation summary	Section Reference	Low	High
Kingsgate (A\$'000s)			
The Chatree Mine (including rehabilitation and redundancies costs)	5.1	43,915	51,532
The Nueva Esperanza Project	5.2	74,809	98,767
Outstanding consideration for the sale of the Challenger Mine and Bowdens Project	5.3	4,700	4,700
Net present value of corporate costs	5.5	(26,707)	(26,707)
Consolidated net debt	5.6	(34,278)	(34,278)
Equity value of Kingsgate on a control basis		62,439	94,014
Number of Kingsgate Shares (000's)	5.7	223,697	223,697
Value per Kingsgate Shares on a control basis (cents)		27.9	42.0

Source: GTCF calculations, SRK report

Kingsgate Shareholders should be aware that our assessment of the value per Kingsgate Share does not reflect the price at which Kingsgate Shares will trade if the Takeover Offer lapses and once trading on the ASX recommences on 17 October 2016. The price at which Kingsgate Shares will ultimately trade depends on a range of factors including the future of the Chatree Mine, liquidity of Kingsgate Shares, macro-economic conditions, gold and silver prices, exchange rate and the progress made with the development of the Nueva Esperanza Project.

Kingsgate Shareholders should also be aware that under ASIC Regulatory Guide 111 “Content of expert reports” (“RG 111”), Grant Thornton Corporate Finance is obliged to issue a supplementary report if a material change in circumstances arises after the release of our Report, including potential developments on the Chatree Mine.

5.1 The Chatree Mine

Subsequent to the Thailand Government’s decision on 10 May 2016 to cease operations at the Chatree Mine by 31 December 2016, a revised mine plan was implemented in order to meet Kingsgate’s financial and rehabilitation liabilities and other obligations, including employee entitlements. Management of Kingsgate have provided a financial model (“the Chatree Financial Model”) in relation to Chatree’s current planned LOM until 31 December 2016. The Chatree Financial Model has been approved by the Board of Kingsgate and provided to Kingsgate’s financiers. The Chatree Financial Model is based on ungeared, real and post-tax cash flows.

Grant Thornton Corporate Finance has engaged SRK, to review and express an opinion on the reasonableness of the technical assumptions included in the Chatree Financial Model in relation to, among other things, production profile, operating expenditure and rehabilitation costs.

We note the assumptions adopted by Grant Thornton Corporate Finance in the valuation of the Chatree Mine, based on the Chatree Financial Model, do not represent projections by Grant Thornton Corporate Finance, but are intended to reflect the assumptions that could reasonably be



adopted by industry participants in their pricing of a similar asset. We note that the assumptions used in the DCF valuations are inherently subject to considerable uncertainty. It should be noted that the Management of Kingsgate’s Thai subsidiary and Kingsgate are in ongoing discussions with the Thailand Government in relation to the operations of the Chatree Mine. The value of the Chatree Mine could vary materially (upwards or downwards) depending on the outcome of these discussions, or future actions taken by Kingsgate or the Thailand Government.

5.1.1 Operating assumptions

The key operating assumptions underpinning the forecast cash flows relating to the Chatree Mine between 1 October 2016 and 31 December 2016 are set out below.

Key assumptions summary	Units	The Chatree Mine
Life of mine (LOM)	Months	3.00
LOM strip ratio	Bcm	1.24
Milled tonnes	t	1,184,223
Mill grade	g/t	1.35
Gold recovery	%	82.3%
Total gold sales ¹	oz	51,061
Total silver sales	oz	392,212
Total operating costs (excluding rehabilitation costs and debt repayments)	AUD	38,181,798

Note (1): Includes the gold in circuit

Source: The Chatree Financial Models and SRK Report

SRK has indicated that the technical assumptions adopted in the Chatree Financial Model are reasonable.

5.1.2 Restoration and rehabilitation costs

In our assessment of the net present value of the future cash flows generated by the Chatree Mine, we have also considered the restoration and rehabilitation costs to be incurred by Kingsgate’s Thai subsidiary after 31 December 2016.

In our assessment of the restoration and rehabilitation costs, we have considered the following:

- In Kingsgate’s audited accounts as at 30 June 2016, the total restoration and rehabilitation provisions were A\$30.2 million. However, this cost estimate was based on the EIA approved by the Thailand Government in 2007/2008 to allow exploration and mining of the Chatree Mine north deposits.
- As disclosed in the Kingsgate quarterly activities report released to the market on 29 July 2016, in June 2016 Kingsgate’s Thai subsidiary was ordered to provide a full closure and remediation plan for the Chatree Mine within 30 days, however the order was rescinded less than a month after it was issued. The approach adopted by the Thailand Government seems to indicate that the restoration and rehabilitation costs previously agreed to are no longer relevant.
- As set out in section 3 of the Bidder’s Statement, the intention of NGPI is to have the Metallurgical Licence renewed for a period of 3 to 5 years. Were this to occur, Kingsgate would not incur any restorations or rehabilitation expenses in the short term.

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- Given the Chatree Mine has been successfully operating for a long period of time and there are still significant in-situ mineral resources (estimated at 3.5 Moz of contained gold equivalent), we believe it is reasonable to assume that the Thailand Government will not require Kingsgate to fully restore and rehabilitate the area to a level that the cost of re-commencing gold production in the future will not be economically viable. In addition, under these circumstances, the market value of the freehold land held by Kingsgate may increase materially.
- Kingsgate has prepared a care and maintenance plan for the site totalling US\$5.2 million which will ensure preservation of the site, plant and equipment and that production can be recommenced at short notice.
- As discussed in section 5.1.5, our valuation assessment does not include the market value of certain assets which may be realised under a full closure and rehabilitation of the Chatree Mine.

Based on the above commercial discussions, we have adopted in our valuation assessment, the restorations and rehabilitation expenses assessed by SRK to be between US\$5.2 million and US\$7.2 million. This is based on the care and maintenance plan prepared by the Company. SRK expects these costs to be incurred over the period 2017 to 2022.

5.1.3 Redundancies and employees entitlements

The Chatree Financial Model accounts for the liabilities associated with the termination of the personnel employed in the Chatree Mine and the payment of all employee entitlements. The amount included in the Chatree Financial Model is consistent with the estimates in the audited accounts which we have adopted for the purpose of our valuation assessment.

5.1.4 Other economic assumptions

In the following table we have summarised the main economic assumptions adopted in the valuation of the Chatree Mine.

Assumption	Grant Thornton comment
Gold and silver prices	Based on the short remaining LOM (3 months), we have adopted gold and silver price assumptions in the range of US\$1,260 to US\$1,327 per ounce of gold and US\$18.0 to US\$19.5 per ounce of silver. The low end of the selected range is consistent with the spot prices on or around 10 October 2016 whilst the high end of the range is calculated based on the average over the last three months.
Exchange rate	We have adopted an exchange rate of US\$ 0.76 and THB 26.48 which are consistent with current and average exchange rates over the last three months.
Tax rate	It is anticipated that there will be no tax payable by Kingsgate’s Thai subsidiary in FY17 as a result of available tax losses. In addition, based on the agreement with the Thailand Government, Kingsgate’s Thai subsidiary is still currently benefiting from a tax holiday on income derived from processing plant No. 2 until 1 November 2020 ³⁸ .

³⁸ The tax savings are limited to the capital cost of the treatment plant. Kingsgate has advised that the cap on the tax savings is yet to be achieved.



Assumption	Grant Thornton comment
Working capital	Movements in working capital have been included in the Chatree Financial Model on a monthly basis to take into consideration the timing differences between revenue/expense recognition and collections/payments.
Discount rate	The cash flow assumptions associated with the Chatree Mine have been prepared on a real, ungeared and post-tax basis. Accordingly, Grant Thornton Corporate Finance has applied a real, post-tax weighted average cost of capital (“WACC”) of 7.0% to value the Chatree Mine. Refer to Appendix B for further details.

5.1.5 Other assets not included in the valuation assessment

Our valuation assessment of Kingsgate’s Thai subsidiary and the Chatree Mine does not include the following assets:

- Kingsgate owns the freehold land where the mine operations are carried out, including where the Processing Plant and in-situ mineral resources are located. Kingsgate is currently in the process of selling the excess land.
- After the operations cease on 31 December 2016, Kingsgate’s Thai subsidiary will have in-situ mineral resources of circa 3.5 Moz of contained gold equivalent. Whilst the expiry of the Metallurgical Licence will not allow the company to exploit these mineral resources in the short-term, they have significant optionality value if gold production can be re-commenced in the future. We note that the intention of NGPI is to have the Metallurgical Licence renewed for a period of 3 years to 5 years.
- Kingsgate’s Thai subsidiary owns the Processing Plant and large components of it could be sold on the market as scrap metal. We note that, as indicated by Kingsgate’s mining contractor, certain parts of the Processing Plant could be shipped to Chile for use at the Nueva Esperanza Project (refer to Section 5.2 for details). These cost savings in the upfront capital expenditure of the Nueva Esperanza Project have been reviewed by SRK and adopted in our valuation assessment.

Given the short timeframe available to prepare this report, we have not been able to commission independent studies in relation to the market value of the freehold land and the scrap value of the Processing Plant. In addition, given the current uncertainties with the future of the Chatree Mine, we have conservatively not attributed any value to the remaining in-situ mineral resources as at 31 December 2016.



5.1.6 Summary value

We have set out below a summary of our valuation assessment of the Chatree Mine based on the net present value of cash flows up to 31 December 2016. We have also undertaken a sensitivity analysis based on the gold and silver prices.

Chatree Mine DCF method - Sensitivity analysis	Low (A\$'000)	High (A\$'000)
Grant Thornton Corporate Finance selected range	43,915	51,532
Gold price		
Decrease 5%	39,570	46,960
Increase 5%	48,260	56,104
Silver price		
Decrease 5%	43,436	51,015
Increase 5%	44,394	52,049

Source: GTCF

As illustrated above, the Chatree Mine value is sensitive to small changes in gold price. However, we note that even if the gold price reduces by a further 5% from the spot price on or around 10 October 2016 (low-end range), all other things being equal, Akara Resources will generate sufficient cash flows to repay its external debt and meet other obligations included in our valuation assessment.

5.2 The Nueva Esperanza Project

Management of Kingsgate have prepared a financial model (“PFS Financial Model”) in relation to the Nueva Esperanza Project having regard to the planned LOM under the PFS. The Nueva Esperanza Project is expected to deliver an average 91,000 ounces per annum AuEq60³⁹ for 11.6 years.

Similar to our valuation assessment of the Chatree Mine, Grant Thornton Corporate Finance has assessed the net present value of the Nueva Esperanza Project using a DCF approach based on ungeared, real and post-tax US\$ cash flows. SRK has reviewed and amended, as required, the technical assumptions underlying the PFS Financial Model.

The market value of the exploration potential and mineral resources not included in the PFS Financial Model has been estimated separately by SRK.

³⁹ Gold Equivalent: $AuEq (g/t) = Au (g/t) + Ag (g/t) \div 60$. Calculated from long term historical prices of US\$1,200/0z for gold and USD 19 for silver and combined life of mine average metallurgical recoveries of 80% Au and 84% Ag.



5.2.1 Operating assumptions

Set out below is a brief overview of the key operating assumptions used in the assessment of the Nueva Esperanza Project.

Key assumptions summary	Units	The Nueva Esperanza Project
Life of mine (LOM) (years)	Year	11.6
Tonnes Processed	t	23,118,843
Gold Grade Processed	g/t	0.42
Silver Grade Processed	g/t	76.63
Gold recovery (%)	%	87.50%
Silver Recovery (%)	%	81.73%
Total gold sales (oz)	oz	274,816
Total silver sales (oz)	oz	46,547,175
Total pre-production capex (US\$m)	USD('000)	174,774,000
All-in sustaining cash cost (ASC) (US\$/oz)	US/oz	14.7

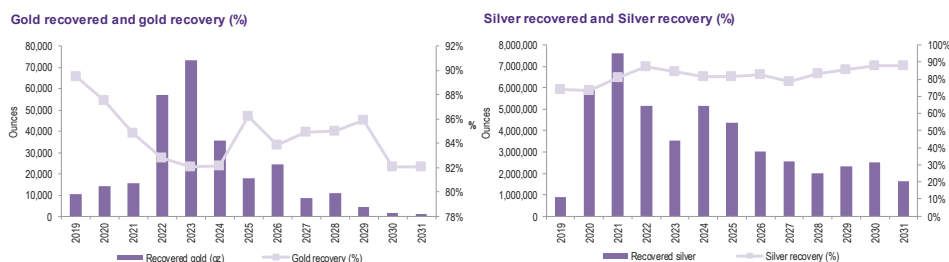
Source: The PFS Financial Models and SRK Report.

Based on the results of the PFS, the Company is progressing with a feasibility study, permitting and an extensive drilling program to increase the mineral resources. Based on discussions with SRK, we have assumed that construction period will commence in the second half of 2018 and first doré at the end of 2019.

SRK was materially satisfied that the technical assumptions adopted in the PFS Financial Model are reasonable.

Production profile of the Nueva Esperanza Project

The projected production profile for the Nueva Esperanza Project over the production schedule is presented in the graph below.



Source: The Financial Model

We note the following in relation to the above graphs:

- LOM metal production is estimated to be 275 Koz of gold and 47 Moz of silver.
- The plant will treat a total of 23 Mt over the LOM.

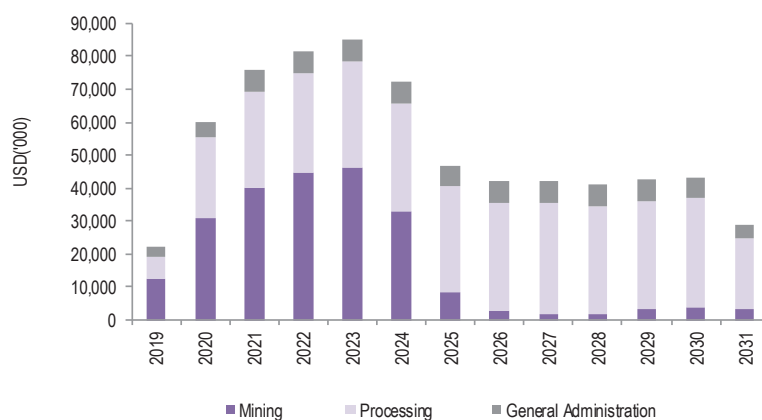


- The project is expected to have higher production in the first 5 years of operation than the remaining LOM.

Operating costs

Operating costs have been grouped in the graph below for ease of comparison between mining costs, processing costs and general administration costs. The following graph summarises the forecast operating expenses (real terms) over the projected mine life.

Operating expenditure



Source: The Financial Model

In relation to the above cost breakdown, we note the following:

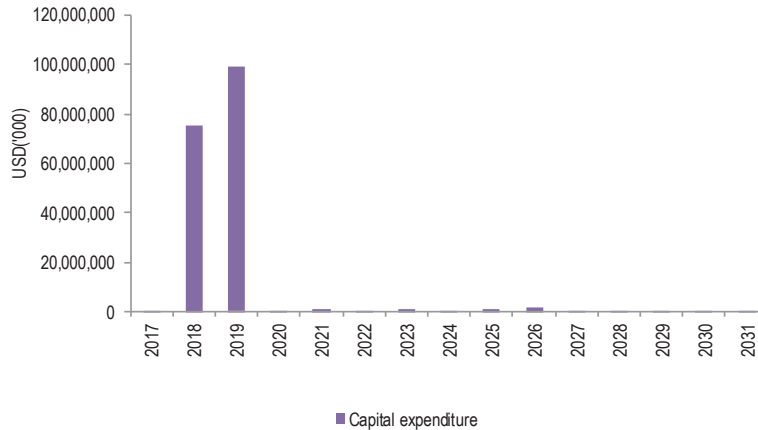
- The operating cost estimate uses prices obtained in the third quarter (“Q3”) of 2015. The estimate has an accuracy of $\pm 25\%$ and includes a contingency allowance of 15%.
- The mining operating costs were calculated from quotes prepared by three Chilean mining contractors. The quote selected was compiled in February 2014 and was internally adjusted to reflect fuel, exchange rate and inflation to represent Q3 2015.
- The processing costs includes all operating costs directly associated with the processing of Teterita, Chimberos and Arqueros ores from primary crushing, tailing treatments, dry tailings stacking and water supply.
- The general administration cost estimate covers the general and administration costs associated with community relations, camp hire costs, communications, insurances, health, safety, environment, accounting, etc.



Capital expenditure

The forecast capital expenditure (real terms) over the projected mine life is summarised below:

Capital expenditure



Source: The PFS Financial Models

- The capital cost estimate was developed to cover the construction of a new 2.0Mtpa processing plant along with the associated infrastructure.
- The capital costs were based on third party estimates and some vendor budget quotations and include a contingency of approximately 15%.
- After the completion of the PFS, the estimated construction cost of US\$206 million was revised downwards to US\$188 million to reflect more up-to-date quotes received by contractors. The potential cost savings are in relation to infrastructure and tailings storage.
- As stated in the SRK report, an additional cost reduction of US\$13 million has been applied to account for salvaging of certain mechanical equipment from the Chatree Mine, reducing the final capital costs used in the PFS Financial Model to US\$175 million. SRK has considered this approach to be reasonable on the basis that the future operation of the Chatree Mine is not compromised.
- As set out in section 3.15 of the SRK Report, SRK has recommended to increase the sustaining capital expenditure to 2% of the plan operating costs per annum.

5.2.2 Economic assumptions

Gold and silver prices

For the purpose of forming a view on the appropriate gold and silver prices to use for the valuation, Grant Thornton Corporate Finance has had regard to historical spot prices and forecast prices prepared by various brokers.



Given the volatility in commodity markets, the current levels of precious metal prices relative to historical long run prices, and the widely varying views of industry analysts, assumptions regarding future gold and silver prices are inherently subject to considerable uncertainty. It should be noted that the value of the mineral assets could vary materially based on changes in precious metal price expectations.

The assumptions in relation to the gold and silver prices adopted by Grant Thornton Corporate Finance do not represent forecasts by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of precious metals assets and companies.

In our assessment of the gold and silver prices, we have considered the following:

- Broker forecasts released by Consensus Economics Inc., dated 19 September 2016 and additional forecasts contained in recent broker research reports.
- Historical movement in spot and forward prices of gold and silver.
- Other publicly available information.

The table below summarises the forecast gold and silver prices which we have adopted for the purposes of our valuation assessment.

Forecast gold and silver price (Real)	Forecast gold and silver price (US\$/oz)					Long term
	Spot ¹	2017E	2018E	2019E	2020 E	
Grant Thornton Corporate Finance assessed range (Gold)						
Low	1,258	1,250	1,250	1,200	1,200	1,175
High	1,258	1,300	1,300	1,250	1,250	1,225
Grant Thornton Corporate Finance assessed range (Silver)						
Low	18	18.5	18.5	18.5	18.0	18.75
High	18	19.0	19.0	19.0	18.5	19.25

Note (1): Spot price as at 12 October 2016

Source: Consensus Economics Inc. Forecast (September 2016), various broker reports and GTCF calculations

Set out in the graph below, we have plotted our mid-point assessment of the long term real gold and silver prices against the historical prices (real) for the last 7 years.



Historical real gold and silver price compared with GT selected long term price ranges



*Based on an average long term inflation rate of 1.91%

Source: United States Department of Labor, Bureau of Labor Statistics, GTCF calculations, S&P Capital IQ

Notwithstanding the discussions above, we note that significant uncertainties remain in relation to precious metals prices going forward. Some analysts have forecasted that the US\$ denominated gold price will gradually decrease in the short to medium term in line with the expected recovery and stabilisation of the global economy and financial markets given that the gold price is often negatively correlated to other economic indicators.

Conversely, other market participants are of the view that gold prices may trend upwards due to the following reasons⁴⁰:

- Significant volatility and uncertainty in global financial markets and increasing concerns in relation to European GDP growth expectations, debt levels and Brexit.
- The increasing interest in gold as an investment asset has led to an increase in the variety of gold investment products, in particular the significant increase in the number of gold exchange traded funds.
- High demand from emerging countries like China and India.

Given the above uncertainties, we have undertaken a number of sensitivity analyses in relation to the precious metal prices in our valuation assessment.

Exchange rate

The cash flows in the PFS Model are denominated in US\$. We consider this approach to be reasonable as all revenues to be generated by the Nueva Esperanza Project are driven by metal prices, which are generally transacted in US\$, and most of the costs quoted in the PFS are in US\$. We have adopted a US\$ discount rate to discount the future cash flows of the Nueva Esperanza Project and adopted a spot exchange rate as at 30 September 2016 to translate the valuation in A\$.

⁴⁰ Various brokers’ reports.



5.2.3 Other assumptions

Tax rate

Income tax has been calculated by applying a tax rate of 25% to the notional taxable income.

Kingsgate’s Chilean subsidiary (Kingsgate Chile NL) has approximately US\$8.6 million in accumulated gross tax losses. We have incorporated the historical and future tax losses in our valuation assessment of the Nueva Esperanza Project.

Working capital

Movements in working capital have been included in the Financial Models on a monthly basis to take into consideration the timing differences between revenue/expense recognition and collections/payments.

Discount rate

The cash flow assumptions associated with the Nueva Esperanza Project have been prepared on a real, ungeared and post-tax basis. Accordingly, Grant Thornton Corporate Finance has applied a real, post-tax weighted average cost of capital (“WACC”) of 9.5% to value the Nueva Esperanza Project. Refer to Appendix B for further details.

In our assessment of the WACC, we have applied a specific risk premium between 4% and 5% to reflect the unique characteristics of the Nueva Esperanza Project. This includes a country risk premium for Chile⁴¹, risks associated with the development of the project and the funding requirements (including potential dilution).

Refer to Appendix B for further details on the calculation of the WACC.

5.2.4 Mineral resources outside the LOM and exploration potential

Grant Thornton Corporate Finance has engaged SRK to assist in the valuation assessment of the fair market value of the resources outside the LOM and exploration potential of the Nueva Esperanza Project. We note the following:

- The current mine plan in the Financial Model is mainly based on the current ore reserves and it covers a discrete period of 11.6 years.
- The project comprises of contiguous mining concessions with a total area of 9,326 hectares.
- The tenements under the Nueva Esperanza Project are largely unexplored.
- The Nueva Esperanza Project has 34.7 Moz mineral resources of Ag equivalent outside of the LOM.

⁴¹ Estimated by Professor Aswath Damodaran of Stern School of Business at New York University.



SRK has undertaken its valuation assessment of the mineral resources outside the LOM having regard to the following methodologies:

- The market approach which involves comparing the transaction value of similar mineral properties transacted in the open market.
- The Yardstick method based on the current silver spot price.

The value of the exploration potential has been assessed based on the Kilburn geo-scientific analysis.

A summary of SRK’s valuation assessment of the mineral resources outside the LOM and exploration potential is set out in the table below.

SRK’s valuation range (A\$ million) ¹	Low	High
Resources not included in the PFS Model	13.7	18.3
Exploration potential	2.6	3.9
Total	16.3	22.2

*Note: Values translated to A\$ by adopting an exchange rate of 0.76
Source: SRK*

In our assessment of the fairness of the Takeover Offer, we have had regard to SRK’s low and high value of A\$16.3 million and A\$22.2 million. Refer to section 3.18 of the SRK Report for details.

5.2.5 Summary value of the Nueva Esperanza Project and sensitivity analysis

We have set out below a summary of our valuation assessment of the Nueva Esperanza Project based on the net present value of cash flows up to 31 December 2016.

Valuation summary	Low	High
The Nueva Esperanza Project (A\$’000s)		
Fair market value of the Nueva Esperanza Project (PFS)	58,493	76,530
Other resources and exploration potential	16,316	22,237
Equity value of the Nueva Esperanza Project on a control basis	74,809	98,767

Source: GTCF

The value of the Nueva Esperanza Project is highly sensitive to small changes in the silver price.

We have conducted below certain sensitivity analysis on the market value of the Nueva Esperanza Project to highlight the impact on the value caused by movements in certain key assumptions.

The following table summarises our results:



Nueva Esperanza Project	Low	High
DCF method - Sensitivity analysis	(A\$'000)	(A\$'000)
Grant Thornton Corporate Finance selected range	74,809	98,767
Gold price		
Decrease 5%	66,801	90,428
Increase 5%	82,811	107,106
Silver price		
Decrease 5%	53,844	77,311
Increase 5%	95,696	120,205
Opex		
Decrease 5%	91,764	115,724
Increase 5%	57,796	81,810
Capex		
Decrease 5%	85,357	109,315
Increase 5%	64,260	88,218

Source: GTCF

These sensitivities do not represent a range of potential values of the Nueva Esperanza Project, but they intend to show to Kingsgate Shareholders the sensitivity of our valuation assessment to changes in certain variables.

As discussed in detail in Appendix B, our assessment of the discount rate for the Nueva Esperanza Project includes a specific risk premium to take into account, among other things, the unfunded nature of the project and the potential dilution to be borne by existing shareholders to raise the required funds.

In the table below, we have shown the potential value uplift in the market value of the Nueva Esperanza Project if the specific risk premium assessed between 4% and 5% is removed from our calculation of the discount rate to reflect the cost of capital of a large diversified silver producer. Our calculations are set out in the table below.

Nueva Esperanza Project	Low	High
DCF method - Sensitivity analysis	(A\$'000)	(A\$'000)
Grant Thornton Corporate Finance selected range	74,809	98,767
Discount rate		
5.0%	136,193	166,290
5.5%	128,045	157,337
6.0%	120,269	148,790
6.5%	112,846	140,629
7.0%	105,759	132,835
7.5%	98,991	125,390
8.0%	92,526	118,276
8.5%	86,349	111,477
9.0%	80,448	104,979
9.5%	74,809	98,767
10.0%	69,419	92,827

Source: GTCF



5.3 Outstanding proceeds from the sales of the Challenger Mine and Bowdens Project

On 30 October 2015, Kingsgate announced the sale of 100% of the Challenger gold mine and certain exploration licences for a cash consideration of A\$1 million and a royalty of A\$25 per ounce on gold production from the SSW above 30,000 ounces. The transaction was completed on 15 March 2016. As at 30 September 2016, circa A\$0.5 million remained outstanding and is expected to be collected prior to 31 March 2017. We have not attributed any value to the potential royalty stream given that no mineral resources currently exist in the SSW area.

On 25 February 2016, Kingsgate announced the sale of an 85% interest in the Bowden’s Silver Project for a cash consideration of A\$20 million to Silver Mines Limited. On 29 June 2016, Kingsgate also announced the sale of the remaining 15% interest in the project for an additional consideration of A\$5 million. Circa A\$4 million (plus interest at a rate of 10% from 30 September 2016) is expected to be paid by 30 December 2016⁴².

5.4 Accumulated tax losses

All the assets and liabilities of Kingsgate as at 30 September 2016 have been incorporated or considered in our valuation assessment. The only exception is the accumulated Australian tax losses of Kingsgate. As at 30 June 2016, Kingsgate had circa A\$300 million of gross accumulated Australian tax losses. In our valuation assessment, we have not attributed any value to these tax losses given that under the fair market value concept it is unlikely that a pool of potential purchasers will be prepared to pay for them. In addition, as at the date of our report, Kingsgate does not have any income generating assets in Australia.

5.5 Corporate overhead costs

Kingsgate incurred total corporate cost of approximately A\$9.8 million in FY16. Due to the cessation of the Chatree Mine, Kingsgate is in the process of restructuring some of the corporate costs to re-align them to the new asset base. In our valuation assessment, we have estimated ongoing corporate costs on a normalised basis from FY18 onwards of A\$3 million. In our assessment of the net present value of the corporate costs, we have considered the following:

- FY17 budget prepared by the Company.
- One-off costs incurred in connection with the Chatree Mine and the Takeover Offer.
- The synergies and cost savings that could be available to a pool of potential purchasers in their valuation of Kingsgate on a 100% basis in accordance with the requirements of RG111.

The net present value of the corporate costs has been estimated at A\$26.7 million. For the purpose of our valuation, we have not considered the tax shield on annual corporate costs given that Kingsgate has a large amount of accumulated tax losses as at 30 June 2016.

⁴² If Silver Mines Limited does not pay the A\$4 million by 30 December 2016, the parties will form an 85%/15% unincorporated joint venture.



5.6 Net Debt

As at 30 September 2016, Kingsgate had a net debt position of A\$34.3 million. A summary of the net debt position is set out below:

- Cash available of A\$48.1 million (excluding restricted cash).
- Outstanding debt balance of A\$72.1 million.
 - The revolving credit facility of A\$5.0 million which is due for repayment at the end of January 2017.
 - The amortising multi-currency loan facility with an outstanding balance (in A\$ equivalent) of A\$67.1 million.
- Kingsgate Preference Shares with a face value of approximately A\$10.2 million.

We note that we have not considered the finance leases in our calculations of the net debt as we have been advised that Kingsgate can return the equipment to discharge in full its liabilities. For more details about the debt facilities refer to Section 3.5.3

5.7 Shares on issue

We have adopted 223.7 million shares on issue for Kingsgate (including the deferred rights vested 1 July 2016 that will convert into ordinary shares once trading on the ASX is resumed on 17 October 2016). For the purpose of our valuation we have not considered the dilution impact of the unlisted options as the value impact is not material.



6 Valuation cross-check – mineral resource multiples

As discussed in Section 4.3.1, we have considered the reasonableness of our Kingsgate valuation having regard to the mineral resource multiples observed for listed comparable companies.

This method provides a high-level indication of the market value as the mineral resource multiples may vary significantly between the different listed comparable companies due to size of the deposit, grade, availability of infrastructure, cost structure and level of development. In our selection of comparable companies, we have had regard to the following factors:

- Listed companies with its flagship project focused on silver and/or gold and located in the Americas.
- Status of development of the flagship project (i.e. pre-development/ development phase).
- Size of the company, including market capitalisation.
- Mineral resource and grade estimates, and key project operating parameters.

6.1.1 Kingsgate’s mineral resource multiples implied in our valuation assessment

Our assessment of Kingsgate based on the fair market value of net assets implies a total mineral resource multiple of between A\$0.41 per ounce and A\$0.62 per ounce times, and recoverable⁴³ resource multiple of between A\$0.73 per ounce times and A\$1.1 per ounce times on a silver metal equivalent basis. In our cross-check, we have only referred to the normalised enterprise value of Kingsgate going forward which comprises the market value of the Nueva Esperanza Project less the net present value of the corporate costs. We have summarised below our calculations.

Cross check - resource multiples	Reference	Low	High
Nueva Esperanza Project (A\$'000)	5	74,809	98,767
Less: Corporate overheads	5.5	(26,707)	(26,707)
Normalised Enterprise Value of Kingsgate (control basis) (A\$'000)		48,102	72,060
Resource multiple			
Adjusted contained resource silver metal ratio (oz '000)	Note 1,3	117,023	117,023
Implied resource multiple (EV/oz)		0.41x	0.62x
Recoverable resource multiple			
Adjusted recoverable silver metal ratio (oz '000)	Note 2,3	65,851	65,851
Implied resource multiple (EV/oz)		0.73x	1.09x

Source: ASX announcements and GTCF calculations

Note 1 – Silver metal ratio

For the purpose of our cross check, Grant Thornton Corporate Finance has estimated silver metal ratios for the total mineral resources attributable to the Nueva Esperanza. Our metal ratio calculation assumes 100% recovery for all metals and utilises the spot price of the relevant

⁴³ Recoverable resources ≈ mineable resource tonnage x grade x ownership% x recovery rate (as determined by latest pre-feasibility/ feasibility study)



commodities as at 30 September 2016⁴⁴. We note that our calculation of the metal ratios are for our valuation purposes only and does not attempt to reflect or estimate a reported metal equivalency under JORC Code 2012. We have assumed 100% recoverability in order to ensure the required level of comparability between Kingsgate and the selected comparable companies. We note that robust recovery rates which meet the standards of the JORC Code 2012 are often not available for all of the mineral assets of pre-development companies. In our opinion, the above approach is consistent with the valuation methodology that would be adopted by a pool of potential purchasers under the fair market value concept. This methodology is also consistent with the methodology adopted by SRK in relation to the analysis of transaction resource multiples.

Note 2 – Recoverable silver metal ratio

We have assessed the ‘recoverable silver metal ratio’ for Kingsgate based on the quantum of gold and silver that are expected to be produced over the life of the mine as indicated under the current PFS. Whilst the estimated recovery rates for each of the metals have been incorporated into the calculation for recoverable silver metal ratio (as opposed to the ‘silver metal ratio’ which assumes 100% recovery rate), we emphasise that our calculation does not attempt to reflect or estimate a reported metal equivalency under JORC Code 2012. As with our assessment of the silver metal ratio, we utilised the spot price of the relevant commodities as at 30 September 2016⁴⁵.

Note 3 – Adjusted silver metal ratio and silver equivalent

As discussed in Section 3.2.2, the Metallurgical Licence for the Chatree Mine has only been extended until the end of 2016, by which time all mining operations will be required to cease. The cash flows generated from the short remaining life of the Chatree Mine is also expected to be largely utilised for the repayment of outstanding debt/liabilities. Accordingly, we have excluded the mineral resources underlying the Chatree Mine from our assessed silver metal ratio and silver equivalent for Kingsgate.

With regard to the above, for the purpose of our cross-check, we have adopted an attributable silver resource metal ratio of 117.0⁴⁶ Moz and attributable recoverable silver equivalent of 66.0 Moz (all in relation to the Nueva Esperanza Project) for Kingsgate as a whole.

6.1.2 Mineral resource multiple of listed comparable companies

When considering the Enterprise Value (“EV”) to mineral resource multiples of the trading comparable companies, we note the following:

- The mineral resource multiples listed below have been calculated based on the market price for minority or portfolio share holdings and do not include a premium⁴⁷ for control, whereas our

⁴⁴ Silver metal ratio is calculated as the sum of contained mineral resources adjusted for the ratio of the resource price to the price of silver. For this purpose we have adopted the spot prices as at the 30 September 2016 (silver price at US\$19.2/oz and gold price at US\$1,317/oz).

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Evidence from Grant Thornton’s and other various studies in Australia indicates that premiums for control on successful takeovers have frequently been in the range of 20% to 40% and that the premiums vary significantly from transaction to transaction.



valuation assessment of Kingsgate set out in Section 5 has been undertaken on a 100% control basis.

- For the purpose of our valuation, we have calculated the attributable resources/ recoverable resources of each company based on their ownership interest in their respective JORC defined projects⁴⁸.

Set out below are the mineral resource multiples of the comparable companies that are engaged in gold and silver mining development and pre-development in the Americas (countries which we consider to have similarity in terms of geology and/or business risk). Refer to Appendix C for further descriptions of the comparable companies.

Resource Multiple Analysis	EV ⁽¹⁾ (AS\$m)	Location of key project	Interest in key project (%)	Mine type ⁽²⁾	Stage	Attributable contained resources ⁽³⁾ - Ag			Resources (on a silver metal ratio basis)				Resource (I+I+M) ⁽⁴⁾		Recoverable ⁽⁶⁾	
						Resource Tonnes	Ag grade	Contained resources	Ag	Au	Other	Inferred	Silver metal ratio ⁽⁵⁾	Multiple (minority)	Silver metal ratio ⁽⁵⁾	Multiple (minority)
						Mt	g/t	Moz	%	%	%	% ⁽⁵⁾	(Moz)	(AS/oz)	(Moz)	(AS/oz)
Tier 1 - Silver dominant & PEA/PFS/FS completed																
MAG Silver Corp.	1,398	Mexico	44%	O/U	PFS	19.1	247.7	152.6	45%	10%	45%	73%	338	4.13x	103	13.61x
Bear Creek Mining Corp.	268	Peru	100%	O	FS	138.3	80.8	359.3	50%	0%	50%	13%	715	0.38x	467	0.57x
Tier 1 Median									48%	5%	48%	43%	527	2.25x	285	7.09x
Tier 2 - Silver dominant & exploration stage																
Golden Arrow Resources	74	Argentina	100%	O	NA	67.1	66.9	144.0	59%	0%	41%	37%	246	0.30x	NA	NA
Koolenay Silver Inc	69	Mexico	100%	O/U	NA	70.1	49.0	110.0	49%	2%	50%	14%	226	0.31x	NA	NA
Levon Resources Ltd.	44	Mexico	100%	O	NA	940.6	16.7	532.9	39%	7%	54%	100%	1,374	0.03x	NA	NA
Defiance Silver Corp.	41	Mexico	100%	O	NA	2.9	182.4	16.9	95%	5%	0%	100%	18	2.30x	NA	NA
Silver Bull Resources	31	Mexico	100%	O/U	NA	59.2	50.0	91.1	24%	0%	76%	1%	383	0.06x	NA	NA
Tier 2 Median									49%	2%	50%	37%	246	0.30x	NA	NA
Tier 3 - Gold dominant																
Lundin Gold Inc.	671	Ecuador	100%	U	FS	35.4	12.2	13.9	2%	98%	0%	23%	664	1.01x	307	2.19x
Continental Gold Inc.	514	Colombia	100%	U	FS	28.5	31.1	28.7	4%	96%	0%	50%	644	0.80x	246	2.09x
Belo Sun Mining Corp	417	Brazil	100%	O/U	FS	-	-	-	0%	100%	0%	19%	419	1.00x	239	1.74x
Chesapeake Gold Corp.	211	Mexico	100%	O	PFS	1,211.2	13.5	528.3	25%	64%	11%	4%	2,149	0.10x	1,197	0.18x
Luna Gold Corp.	158	Brazil	100%	O/U	PFS	-	-	-	0%	100%	0%	23%	142	1.11x	130	1.22x
Austral Gold Limited	115	Chile	100%	O/U	NA	7.0	87.8	15.3	18%	82%	0%	59%	86	1.34x	13	9.18x
Sandspring Resources	66	Guyana	100%	O	PFS	369.8	0.6	6.6	1%	91%	9%	28%	756	0.09x	254	0.26x
Atacama Pacific Gold	35	Chile	100%	O/H/L	PFS	-	-	-	0%	100%	0%	10%	401	0.09x	203	0.17x
Telson Resources Inc.	27	Mexico	100%	O/U	PEA	12.2	33.7	13.3	12%	40%	48%	35%	114	0.24x	NA	NA
Eco Oro Minerals Corp	23	Colombia	100%	U	NA	3.6	28.7	13.6	6%	94%	0%	32%	236	0.10x	NA	NA
Tier 3 Median									3%	95%	0%	26%	410	0.52x	243	1.48x
Tier 1&2&3 Median									18%	64%	9%	28%	383	0.31x	243	1.48x

Note (1): EV based on latest available market capitalisation as at 30 Sep 2016

Note (2): Mine type: 'O' open pit, 'U' underground and 'H/L' heap leach

Note (3): Attributable contained resources (JORC 2012/NI 43-101 compliant) \approx total resources \times grade \times percentage of ownership in the flagship project

Note (4): I+I+M = Inferred resources + Indicated resources + Measured resources

Note (5): Silver metal ratios calculated based on the spot prices as at the 30 September 2016 (gold price at US\$1,317/oz, silver price at US\$19/oz, zinc price at US\$1.08/lb, lead price at US\$0.96/lb and copper price at US\$2.22/lb). We note that this metal ratio estimation calculation is for the purposes of our valuation and does not attempt to estimate or reflect a reported metal equivalent under JORC Code 2012

Note (6): Recoverable resources = mineable resource tonnage \times grade \times ownership% \times recovery rate (as determined by latest scoping/ feasibility study)

Note (7): For the purpose of our cross check, Grant Thornton Corporate Finance has estimated silver metal ratios for the resources and reserves attributable to Kingsgate. Our metal ratio calculations assume 100% recovery for all metals. We note that our calculation of the metal ratios are for our valuation purposes only and does not attempt to reflect or estimate a reported metal equivalency under JORC Code 2012. Silver metal ratio is calculated as the sum of contained resources adjusted for the ratio of the commodity price to the price of silver.

Source: Capital IQ, company presentations and websites, other publicly available information and GTCF calculations

⁴⁸ The EV of the comparable companies have been adjusted for any minority or non-controlling interest in the same flagship project.



In relation to the comparability of the above assessed mineral resource multiples, we note the following key considerations:

- We have categorised the selected comparable companies into tiers. Tier 1 companies have silver dominant resource bases and have completed a pre-feasibility study (“PFS”)/ preliminary economic assessment (“PEA”) or feasibility study (“FS”). Tier 2 companies have silver dominant resource bases but have not completed any significant studies. Tier 3 companies have gold dominant resource bases and are in the pre-development/ development phase. Whilst Tier 1&2 projects are more comparable to Kingsgate in terms of mineral resource type, we note that Tier 1&3 comparable companies are generally more comparable in terms of project stage. In this regard, we note that given the lack of perfectly comparable companies, a wide range of comparable companies have been selected for the purpose of this analysis.

Overall, whilst none of the peer companies are perfectly comparable to Kingsgate, we believe the selected comparable companies as a whole provides a good guidance for the multiples applicable to Kingsgate. The comparable companies in general face similar business risks and market exposures.

- The majority of the selected comparable companies are significantly larger than Kingsgate. The median total mineral resource silver metal ratio for the comparable companies is approximately 383 Moz compared to Kingsgate’s silver metal ratio of 117 Moz, and the median recoverable silver metal ratio for the comparable companies is approximately 243 Moz compared to Kingsgate’s silver metal ratio of 66 Moz. The contained mineral resource base of these comparable companies is larger as a result of a larger ore tonnage and/or higher metal grades. All other things being equal our observation is that in general, companies with a larger contained mineral resource base typically trade at higher multiples.
- In terms of Tier 1&2 (the selected silver dominant companies), we note that the majority of the comparable companies have base metals as a material proportion of their mineral resource base (average 45% of mineral resource silver metal ratio). Kingsgate’s Nueva Esperanza Project is only expected to be prospective for gold and silver. Whilst our calculation of the silver metal ratio adjusts for the current pricing relativity between the different commodities, we note that all else equal, companies with a higher proportion of precious metals (especially gold⁴⁹) in their mineral resource base still tend to trade at higher multiples, particularly given current volatile economic and market conditions.
- Kingsgate recently completed a PFS on the Nueva Esperanza Project in April 2016 which estimates a mine life of 11.6 years and payback period of 3 years. The PFS is an optimisation of previously released feasibility studies. In this regard, we note that none of the companies in Tier 2 and a few of the companies in Tier 3⁵⁰ have completed a PEA/ PFS to demonstrate the

⁴⁹ Gold and silver are typically considered safe haven investment assets when markets are volatile, and there is historically a strong correlation between gold and silver commodity prices. Given silver’s industrial characteristics, it is much more exposed to slowing global growth than gold which has resulted in a decrease of the silver/gold price ratio over the last few years.

⁵⁰ Tier 3 companies which have not completed a PEA/PFS include Austral Gold and Eco Oro Minerals, and companies with dated PEA/PFS include SandSpring Resources (PFS completed in 2013) and Telson Resources (PEA completed in 2010).



economic viability of their flagship projects, and as a result such companies can generally be observed to trade at a relatively lower multiple.

Based on a balance of the above considerations, in our opinion Bear Creek Mining (“BCM”), Golden Arrow Resources (“GRG”), Kootenay Silver (“KTN”), Chesapeake Gold (“CKG”) and Atacama Pacific Gold (“ATM”) are the most comparable companies to Kingsgate. However, we note the following key comparable factors which we have had particular regard to:

- BCM’s Corani Project is prospective for silver, lead and zinc, and has a materially larger total mineral resource and recoverable resource base with a lower proportion of inferred resources than the Nueva Esperanza Project. BCM has also completed a FS on the Corani Project which estimates a mine life of 18 years, initial capex requirement of US\$625 million and payback period of 3.6 years.
- GRG and KTN both have silver-lead-zinc flagship assets, and have mineral resource bases relatively similar in size, though still approximately 50% larger than Nueva Esperanza. Whilst neither company has completed an economic/feasibility study, we note that both companies have entered into strategic agreements with nearby producers to fast track the development of their key assets for production. GRG has entered into an agreement with Silver Standard Resources⁵¹ (“SSO”) which will see SSO fund approximately US\$12.6 million in pre-development studies, and the eventual combination of GRG’s key Chinchillas Project with SSO’s operating Piriquitas Mine in the short term. KTN has optioned its key Promontorio and La Negra Projects to Pan American Silver⁵² (“PAA”) under which PAA will earn a 75% interest by investing US\$16 million in work and cash payments, US\$2.0 million in equity and providing all capital to production (effectively KTN will be carried to production).
- CKG has a materially larger mineral resource base than Nueva Esperanza with proportionally more contained gold and zinc. However, CKG has relatively less favourable PFS results. CKG’s Metates Project, one of the largest undeveloped gold/silver projects in the world, is estimated to have a total mine life of 27 years but with an internal rate of return (post-tax) of only 7.7% and payback period of 8.7 years. The Metates Project is also expected to require a relatively large initial phase 1 capital expenditure of approximately US\$1.9 billion which may be difficult to source given current market conditions. The silver metal ratio and the contained silver metal ratio based on the total mineral resources of the Metates Project should also be taken with caution given the size of the deposits. It is unlikely that a potential purchaser will attribute any value to the mineral resources to be recovered after more than 20 years.
- ATM’s Cerro Maricunga Project is also located in the Atacama Region of Chile like the Nueva Esperanza Project. The Cerro Maricunga Project has a significantly larger contained/ recoverable resource base it is solely focused on low-grade oxide gold. However, we note that the PFS for

⁵¹ Silver Standard Resources Inc. (SSO) engages in the acquisition, exploration, development, and operation of precious metal resource properties in the Americas. Its principal projects include the Marigold mine located in Humboldt County, Nevada, the United States; and the Piriquitas mine located in the province of Jujuy, northern Argentina. As at 30 September 2016, SSO had a market capitalisation of approximately A\$1.9 billion.

⁵² Pan American Silver Corp. (PAA) together with its subsidiaries engages in silver mining and related activities. Its activities include the exploration, mine development, extraction, processing, refining, and reclamation of silver mines. The company owns and operates silver mines located in Peru, Mexico, Argentina, and Bolivia. It also produces and sells gold, zinc, lead, and copper. As at 30 September 2016, PAA had a market capitalisation of approximately A\$3.5 billion.



the project was completed in August 2014 and ATM has since made limited progress in terms of further developing the project. The liquidity of ATM is also relatively low with approximately only 2% of total shares traded per month over the last twelve months and as a result, the implied trading multiple should be regarded with caution. Overall, in our opinion Kingsgate would likely trade at a premium to ATM’s implied trading multiple of A\$0.09 per ounce.

Based on the discussions above, we are of the opinion that the resource multiple between A\$0.41 per ounce and A\$0.62 per ounce on a silver metal equivalent basis implied in our assessment of the normalised enterprise value of Kingsgate is reasonable having regard to the following:

- The average resource multiple of BCM, GRG and Kootenay Silver on silver metal equivalent is A\$0.33 per ounce on a minority basis. Control premium for successful transactions in the Australian market have historically averaged between 20% and 40%.
- The trading prices of development and exploration companies tend to trade at a discount to the underlying value of the project on a 100% basis which is captured in our valuation assessment.



7 Sources of information, disclaimer and consents

7.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Bidder’s Statement
- Target’s Statement
- Annual reports of Kingsgate
- Quarterly reports of Kingsgate
- Nueva Esperanza PFS report and related documents
- SRK report
- Releases and announcements by Kingsgate on the ASX
- IBISWorld Industry Report
- Other information provided by Kingsgate
- Capital IQ
- Mergermarket
- Various broker reports
- Other publicly available information
- Discussions with Management

7.2 Qualifications and independence

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to Kingsgate and all other parties involved in the Takeover Offer with reference to the ASIC Regulatory Guide 112 “Independence of experts” and APES 110 “Code of Ethics for Professional Accountants” issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to Kingsgate, its shareholders and all other parties involved in the Takeover Offer.

Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Kingsgate or its associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Takeover Offer.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Takeover Offer, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Takeover Offer. Grant Thornton

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Corporate Finance’s out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

7.3 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by Kingsgate and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by Kingsgate through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of Kingsgate.

This report has been prepared to assist the directors of Kingsgate in advising the Kingsgate Shareholders in relation to the Takeover Offer. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance’s opinion as to whether the Takeover Offer is fair and reasonable to the Kingsgate Shareholders.

Kingsgate has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by Kingsgate, which Kingsgate knew or should have known to be false and/or reliance on information, which was material information Kingsgate had in its possession and which Kingsgate knew or should have known to be material and which Kingsgate did not provide to Grant Thornton Corporate Finance. Kingsgate will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

7.4 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Target’s Statement to be sent to the Kingsgate Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.



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Appendix A – Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company’s business and excludes any abnormal or “one off” profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.



Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.



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Appendix B – Discount Rate

Introduction

The cash flow assumptions associated with the Chatree Mine and the Nueva Esperanza Project have been prepared on a real, ungeared and post-tax basis. Accordingly, we have assessed a range of real post-tax discount rates for the purpose of calculating the net present values of the Chatree Mine and the Nueva Esperanza Project.

The discount rate was determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the nominal WACC is calculated as follows:

$$\text{WACC} = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- R_e = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- R_d = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

WACC Inputs

In our assessment of the required rate of return on equity capital, we have observed the global financial markets and adopted the US market as a proxy due to the following:

- Demand and supply for gold and silver are driven by global forces and markets.
- Majority of the costs are forecast to be incurred in US\$.
- Gold and silver are traded in US\$.
- The gold and silver produced by the Chatree Mine and the Nueva Esperanza Project will be exported.

Required rate of return on equity capital

We have used the Capital Asset Pricing Model (“CAPM”), which is commonly used by practitioners, to calculate the required return on equity capital.



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The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment’s expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion. Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company’s returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment’s beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market – it is a measure of the investment’s relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (R_e) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- R_f = risk free rate
- β_e = expected equity beta of the investment
- $(R_m - R_f)$ = market risk premium

Risk free rate

In the absence of an official risk free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. Accordingly, we have adopted the following risk free rates:



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- *Chatree Mine* – given the short remaining mine life of 3-months (to end of 2016), we should adopt the spot yield on the 3-month United States Treasury bond of 0.25%⁵³ as the risk-free rate. However, given we have selected our market risk premium based on the long term average, we have for consistency selected a risk free rate of 2.1% based on the long term risk free rate.
- *Nueva Esperanza Project* – consistent with the 12-year mine life of the Nueva Esperanza Project, we have observed the yield on the 10-year United States Treasury bond over several intervals from a period of 5 trading days to 10 trading years. Given the volatility in the global financial markets, we have placed more emphasis to the average risk free rate observed over a longer period of time. Based on the above, we have adopted the risk free rate of 2.1% which is primarily based on the 5 year average yield on the 10-year United States Treasury bond.

Market risk premium

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time. In this regard, Grant Thornton studies of the historical risk premium in the US over periods of 20 to 80 years suggest the premium is between 4.5% and 6.0%.

Accordingly, for the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 5.5%.

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity.

For the purpose of this report, we have had regard to the observed betas (equity betas) of comparable gold and silver companies as set out below:

⁵³ As at 26 September 2016.



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Company	Location of flagship	Market Cap (A\$m)	Equity Beta ¹	Ungearred Beta	Regearred Beta
Beta analysis					
Tier 1 - Silver/ gold dominant flagship asset in development phase					
MAG Silver Corp.	Mexico	1,642	1.05	1.05	1.23
Bear Creek Mining Corp.	Peru	289	0.96	0.96	1.13
Golden Arrow Resources Corp.	Argentina	90	0.90	0.90	1.06
Koolenay Silver Inc	Mexico	82	1.00	1.00	1.17
Levon Resources Ltd.	Mexico	58	2.81	2.81	3.31
Defiance Silver Corp.	Mexico	42	0.10	0.10	0.12
Silver Bull Resources, Inc.	Mexico	26	0.83	0.83	0.97
Lundin Gold Inc.	Ecuador	679	0.06	NM	NM
Continental Gold Inc.	Colombia	588	1.18	1.18	1.38
Belo Sun Mining Corp	Brazil	460	0.16	0.16	0.19
Chesapeake Gold Corp.	Mexico	243	0.89	0.89	1.04
Luna Gold Corp.	Brazil	130	0.77	0.57	0.67
Austral Gold Limited	Chile	110	0.38	0.20	0.24
Sandspring Resources Ltd.	Guyana	74	0.75	0.75	0.88
Atacama Pacific Gold Corporation	Chile	45	0.17	0.17	0.20
Telson Resources Inc.	Mexico	28	1.04	1.04	1.22
Eco Oro Minerals Corp	Colombia	28	0.77	0.77	0.91
Tier 1 Median		90	0.38	0.86	1.06
Tier 2 - Gold dominant flagship asset in production					
PT J Resources Asia Pasifik Tbk	Indonesia	813	0.42	0.42	1.05
Kingsrose Mining Limited	Indonesia	61	0.63	0.60	1.50
CNMC Goldmine Holdings Limited	Malaysia	219	0.71	0.71	1.78
Red 5 Limited	Philippines	88	0.36	0.35	0.88
OceanaGold Corporation	Philippines	2,852	0.71	0.62	1.55
Medusa Mining Limited	Philippines	150	1.83	1.83	4.58
Tier 2 Median		185	0.67	0.61	1.53

Source: S&P CapitalIQ and GTCF calculations

Note (1): Equity betas are calculated using data provided by S&P CapitalIQ. The betas are based on a five-year period with monthly observations and have been degearred based on the average gearing ratio over five years.

Grant Thornton Corporate Finance has observed the betas of the comparable companies by reference to the MSCI.

It should be noted that the above betas are drawn from the actual and observed historic relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for the pre-development assets, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected company are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparables, a process commonly referred as degearing. We have then recalculated the equity beta based on an assumed ‘optimal’



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capital structure deemed appropriate for the business (regearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the degearing and regearing exercise:

$$\beta_e = \beta_a \left[1 + \frac{D}{E} \times (1 - t) \right]$$

Where:

- β_e = Equity beta
- β_a = Asset beta
- t = corporate tax rate

The betas are de-gearing using the average gearing level over the period in which the betas were observed and then re-gearing using a gearing ratio based on the forecast time-weighted gearing level underlying the Chatree (60% debt to 40% equity) or the Nueva Esperanza Project (20% debt to 80% equity) DCF models.

In selecting the appropriate beta, we have considered the following:

- The median equity beta of Tier 1 companies based on the MCSI Index is 1.06 and the median equity beta of our selected⁵⁴ most comparable companies to the Nueva Esperanza Project is 0.92.
- The median equity beta of Tier 2 companies based on the MCSI Index is 1.53. Tier 2 companies have gold dominant flagship assets that are currently in production in the South East Asia Region. We consider the Tier 2 companies to be most comparable to the Chatree Mine.

Based on the analysis above, we have selected a beta range of between 1.5 and 1.7 for the Chatree Mine, and 1.0 and 1.1 for the Nueva Esperanza Project to calculate the required rate of return on equity capital.

Specific risk premium

Specific risk premium represents the additional return an investor expects to receive to compensate for country, size and project related risks not reflected in the beta of the observed comparable companies.

In assessing the appropriate specific risk premium to be applied, we have considered the following:

⁵⁴ Bear Creek Mining Corp., Golden Arrow Resources Corp., Kootenay Silver Inc, Chesapeake Gold Corp. and Atacama Pacific Gold Corporation. Refer to section 6.1.2 for detailed discussion.



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Chatree Mine

- The country risk premium estimated by Professor Aswath Damodaran⁵⁵ is approximately 2.51% for Thailand.
- The risks associated with the continuation of the operations up to 31 December 2016.

We have adopted a specific risk premium in the range of 3.0% to 4.0% for the Chatree Mine

Nueva Esperanza Project

- The country risk premium estimated by Professor Aswath Damodaran⁵⁶ is approximately 0.95% for Chile.
- The mineral resource base of the Nueva Esperanza Project is smaller than some of the comparable companies.
- The unfunded nature of the Nueva Esperanza Project (refer to detailed discussion below).

The Nueva Esperanza Project is required to source significant funding for the continued development and construction of the proposed mine. Based on SRKs report, the Nueva Esperanza Project requires upfront capital expenditure funding of approximately US\$175 million to develop the project. Assuming that Kingsgate will be able to secure a project finance debt equivalent to 50% of the required capital expenditure, the company will require equity funding of circa US\$87.4 million (excluding transaction costs).

RG 111 specifies that funding requirements for a target that is not in financial distress (e.g. capital that is required to develop a project) should generally be taken into account when determining the fair value of target securities. Such funding requirements will generally be relevant to determining the value of the target securities assuming knowledgeable and willing, but not anxious, parties.

Based on discussions with the Company, we have considered a range of possible scenarios available to Kingsgate to raise the required funding as set out below:

- No dilution scenario – Under this scenario, the future value uplift of the Nueva Esperanza Project yet to be realised by moving from PFS to a bankable feasibility study⁵⁷ which has a greater confidence level in the ore reserves and mineral resources may offset the potential future dilution required to raise the funds.
- Equity raising – in our experience, based on the current value of the Company’s assets, existing shareholders will suffer significant dilution by raising the required funds via an equity raising.

⁵⁵ Last updated in July 2016.

⁵⁶ Last updated in July 2016.

⁵⁷ When funding of the project is required to be raised.



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- Sale of an interest in the Nueva Esperanza Project – under this scenario, the funding dilution for the existing shareholders could be limited if the sale of an interest in the Nueva Esperanza Project is consistent with our valuation assessment.

Based on the above discussions, we have adopted a specific risk premium in the range of 4.0% to 5.0% for the Nueva Esperanza Project. We note that the selection of the specific risk premium involves a certain level of professional judgement and as a result, the total specific risk premium is not fully quantifiable with analytical data.

Cost of debt

For the Chatree Mine, we have adopted a cost of debt in the range of 4.0% to 4.5% (pre-tax) which is in line with the current cost of debt incurred on the existing debt facilities.

For the purpose of estimating the cost of debt applicable to the Nueva Esperanza Project, Grant Thornton Corporate Finance has considered the following.

- The margin implicit in corporate bond yields over the US Government bond yields.
- The historical and current cost of debt for comparable companies.
- Expectations of the yield curve.

Based on the above, Grant Thornton Corporate Finance has adopted a cost of debt in the range of 5.0% to 7.0% (pre-tax) for the Nueva Esperanza Project.

Tax rate

We have adopted the following tax rates:

- *Chatree Mine* – It is anticipated that there will be no tax payable by Kingsgate’s Thai subsidiary in FY17 as a result of available tax losses. Based on the agreement with the Thailand Government, Kingsgate’s Thai subsidiary is still currently benefiting from a tax holiday on income derived from processing plant No. 2 until 1 November 2020⁵⁸.
- *Nueva Esperanza Project* – assumed tax rate of 25% in line with the corporate tax rate of Chile.

⁵⁸ The tax savings are limited to the capital cost of the treatment plant. Kingsgate has advised that the cap on the tax savings is yet to be achieved.



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Capital structure

Grant Thornton Corporate Finance has considered the gearing ratio which a hypothetical purchaser of the business would adopt in order to generate a balanced return given the inherent risks associated with debt financing. Factors which a hypothetical purchaser may consider include the shareholders’ return after interest payments, and the business’ ability to raise external debt.

The appropriate level of gearing that is utilised in determining WACC for a particular company should be the “target” gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- the quality and life cycle of a company;
- working capital;
- level of capital expenditure; and
- the risk profile of the assets.

Accordingly, we have adopted the following capital structures:

- *Chatree Mine* – given the short mine life of 3-months (to the end of 2016), we have adopted the forecasted average debt-to-asset ratio of 60% underlying the Chatree Financial Model.
- *Nueva Esperanza Project* – we have considered the weighted average debt ratio of the project over the LOM and the capital structure of comparable companies. Grant Thornton Corporate Finance has adopted an average debt-to-asset ratio of 20%.

WACC calculation

The forecast cash flows of the Chatree Mine and the Nueva Esperanza Project have been prepared on real terms. We have determined the WACC on real terms by ‘deflating’ the nominal WACCs determined above by the long-term US inflation expectation of 2% utilising the Fisher equation, as follows:

$$(1+r_{\text{real}}) = (1+r_{\text{nominal}}) / (1+i)$$

Where:

- r_{real} = real WACC
- I = long term forecast rate of inflation
- r_{nominal} = nominal WACC



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The real discount rate adopted for the Chatree Mine and the Nueva Esperanza Project are summarised below:

WACC calculation	Chatree Mine		Nueva Esperanza Project	
	Low	High	Low	High
Cost of equity				
Risk free rate	2.10%	2.10%	2.10%	2.10%
Beta	1.50	1.70	1.00	1.10
Market risk premium	5.5%	5.5%	5.5%	5.5%
Country risk premium	2.5%	2.5%	1.0%	1.0%
Specific risk premium	3.0%	4.0%	4.0%	5.0%
Cost of equity	15.9%	18.0%	12.6%	14.1%
Cost of debt				
Cost of debt (pre tax)	4.0%	4.5%	5.0%	7.0%
Tax	0%	0%	25%	25%
Cost of debt (post tax)	4.0%	4.5%	3.8%	5.3%
Capital structure				
Proportion of debt	60%	60%	20%	20%
Proportion of equity	40%	40%	80%	80%
WACC (post-tax) (nominal)	8.7%	9.9%	10.8%	12.3%
US long term inflation	2.0%	2.0%	2.0%	2.0%
WACC (post-tax) (real)	6.6%	7.7%	8.6%	10.1%
WACC (post-tax) (real) average¹		7.0%		9.5%

Note (1): Rounded to the nearest 0.5%

Source: S&P Capital IQ and GTCF calculations

We note that the discount rate adopted to assess the net present value of the cash flows of the Chatree Mine only reflects the risk to realise the cash flows up to 31 December 2016 based on the current mine plan and assuming that the current circumstances remain unchanged up to 31 December 2016 (i.e. value in use). Kingsgate Shareholders should be aware that given the residual short mine life of the Chatree Mine, the net present value of the cash flows is not sensitive to changes in the discount rate. Accordingly, the discount rate adopted in the valuation assessment of the Chatree Mine is not able to reflect the risk associated with gold production at the Chatree Mine up to 31 December 2016 being materially adversely affected by market conditions (e.g. significant reduction of the gold price from the current level) or further decisions of the Thailand Government.





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Appendix C – Description of comparable companies

Company	Description
Tier 1	
MAG Silver Corp.	MAG Silver Corp., an exploration and development company, focused on acquiring, exploring, and development of district scale projects located primarily in the Mexican Silver Belt. It explores for copper, gold, silver, lead, and zinc deposits. The company has 44% interests in the Juanicipio project comprising a single concession covering 7,679.21 hectares located in central Zacatecas State, Mexico. It owns 100% interests in the Cinco de Mayo property consisting of 29 concessions covering an area of 25,113.2049 hectares located in the Municipio de Buenaventura, Chihuahua, Mexico; and the Guigui project covering an area of 8,300 hectares located in the Santa Eulalia Mining District of Chihuahua City, Mexico. MAG Silver Corp. is headquartered in Vancouver, Canada.
Bear Creek Mining Corp.	Bear Creek Mining Corporation, an exploration stage company, acquires, explores for, and develops precious and base metal properties in Peru. It explores for silver, lead, zinc, gold, and copper deposits. The company owns a 100% interest in the Corani silver-lead-zinc project consisting of 12 mineral concessions covering an area of approximately 5,700 hectares located to the southeast of Cusco, Peru; and Santa Ana silver project, which covers an area of approximately 5,400 hectares of mineral concessions located to the southeast of the city of Puno, Peru. It also holds interests in the La Yegua gold-copper, Sumi gold-silver, and Maria Jose gold-silver prospects in Peru. Bear Creek Mining Corporation was founded in 2000 and is headquartered in Vancouver, Canada.
Golden Arrow Resources Corp.	Golden Arrow Resources Corporation, a natural resource company, engages in identifying, acquiring, and advancing precious and base metal projects in Argentina. It explores for gold, silver, lead, zinc, and copper deposits. The company holds interest in various properties that covers an area of approximately 214,000 hectares located in Argentina. It primarily focuses on the Chinchillas Silver project located in Jujuy province. The company was incorporated in 2004 and is based in Vancouver, Canada.
Kootenay Silver Inc	Kootenay Silver Inc., an exploration stage company, engages in the acquisition, exploration, and development of mineral projects in the Sierra Madre Region of Mexico, and in British Columbia, Canada. The company explores for silver, gold, lead, and zinc ores. Its flagship properties include the Promontorio Silver project located in Sonora, Mexico; and the La Cigarra project situated in Parral District in Chihuahua, Mexico. The company was formerly known as Kootenay Gold Inc. and changed its name to Kootenay Silver Inc. in February 2012. Kootenay Silver Inc. is based in Vancouver, Canada.
Levon Resources Ltd.	Levon Resources Ltd. Acquires, explores for, and develops mineral properties in Mexico. The company primarily explores for silver, gold, zinc, and lead deposits. Its flagship project is the Cordero-Sanson project that covers an area of approximately 37,000 hectares located to the northeast of the town of Hidalgo Del Parral in the state of Chihuahua, Mexico. Levon Resources Ltd. is headquartered in Vancouver, Canada.
Defiance Silver Corp.	Defiance Silver Corp., an exploration stage company, engages in the acquisition, exploration, and development of silver properties primarily in Mexico. It has an option to acquire a 100% interest in the San Acacio Deposit that consists of 10 mining concessions covering an area of 750 hectares located to the north of the city of Zacatecas. The company was formerly known as Defiance Capital Corp. and changed its name to Defiance Silver Corp. in June 2011. Defiance Silver Corp. was incorporated in 2007 and is headquartered in Vancouver, Canada.
Silver Bull Resources, Inc.	Silver Bull Resources, Inc., an exploration stage company, acquires and explores for mineral properties in Mexico. The company explores for silver, zinc, lead, copper, and other metal deposits. Its principal project is the Sierra Mojada property that includes 31 concessions covering an area of 20,946 hectares located in Coahuila, Mexico. The company was formerly known as Metalline Mining Company and changed its name to Silver Bull Resources, Inc. in April 2011. Silver Bull Resources, Inc. was founded in 1993 and is based in Vancouver, Canada.
Lundin Gold Inc.	Lundin Gold Inc. operates as a mining company in Canada. It primarily focuses on advancing the Fruta del Norte gold project that comprises of three concessions covering an area of approximately 5,000 hectares located east of the city of Loja in Ecuador. The company was formerly known as Fortress Minerals Corp. and changed its name to Lundin Gold Inc. in December 2014. Lundin Gold Inc. was incorporated in 1986 and is headquartered in Vancouver, Canada.
Continental Gold Inc.	Continental Gold Inc. engages in the acquisition, exploration, evaluation, and development of gold resource properties in Colombia. The company holds the rights to explore 1 advanced-stage gold project and 3 early-stage projects in Colombia covering approximately 162,892 hectares. Its flagship project is the Buriitá project covering an area of 61,784 hectares located to the northwest of Medellín in the Antioquia Department in north-western Colombia. The company was founded in 2007 and is based in Toronto, Canada.



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Company	Description
Belo Sun Mining Corp	Belo Sun Mining Corp. operates as a gold exploration company in Brazil. Its principal project includes Volta Grande Gold project consisting of 31 exploration permits and 38 exploration applications covering a total area of 170,490 hectares located in the northern region of Para State, Brazil. The company was formerly known as Verena Minerals Corporation and changed its name to Belo Sun Mining Corp. in July 2010. Belo Sun Mining Corp. was founded in 1984 and is headquartered in Toronto, Canada.
Chesapeake Gold Corp.	Chesapeake Gold Corp., a development stage company, focuses on the exploration, development, and recovery of precious metals in North and Central America. The company primarily explores for gold, silver, and zinc deposits. Its primary asset includes the 100% owned Metates gold-silver project, which comprises 14 mineral concessions ilometre 14,727 hectares located in Durango State, Mexico. The company also has a portfolio of exploration properties in Mexico comprising 28,691 hectares in the states of Durango, Sinaloa, Oaxaca, and Veracruz. Chesapeake Gold Corp. was incorporated in 2002 and is headquartered in Vancouver, Canada.
Luna Gold Corp.	Luna Gold Corp., together with its subsidiaries, engages in the exploration, development, and operation of gold properties in Northeastern Brazil. Its principal project, the Aurizona gold mine comprises 1 mining licence and 3 exploration permits covering an area of approximately 15,500 hectares and is located in Maranhao, Brazil. The company also holds interest in the Luna Greenfields exploration property, which covers an area of approximately 220,000 hectares in Brazil, as well as owns surrounding brownfields and greenfields projects in Maranhao, Brazil. The company was formerly known as wwbroadcast.net, Inc. and changed its name to Luna Gold Corp. in August 2003. Luna Gold Corp. was incorporated in 1986 and is headquartered in Vancouver, Canada.
Austral Gold Limited	Austral Gold Limited engages in the exploration and evaluation of mineral properties in Australia and South America. The company produces gold and silver ores, as well as explores for copper deposits. Its flagship project is the 100% owned Guanaco Gold and Silver mine located to the south east of Antofagasta in Northern Chile. The company is based in Sydney, Australia. Austral Gold Limited is a subsidiary of Inversiones Financieras Del Sur S.A.
Sandspring Resources Ltd.	Sandspring Resources Ltd., a junior mining company, explores and develops mineral properties in Guyana, South America. It primarily explores for gold, copper, and silver. The company primarily focuses on developing the Toroparu gold project, which consists of 7 small scale claims, 158 contiguous medium scale prospecting permits, and 25 medium scale mining permits that together cover an area of 74,742 hectares, as well as 5 contiguous prospecting licences covering an area of 17,590 hectares in northwestern Guyana. Sandspring Resources Ltd. Was incorporated in 2006 and is based in Centennial, Colorado.
Atacama Pacific Gold Corporation	Atacama Pacific Gold Corporation engages in the acquisition, exploration, and development of precious metals resource properties in Chile. The company principally holds 100% interest in the Cerro Maricunga oxide gold project located in Region III northeast of the city of Copiapo. Atacama Pacific Gold Corporation was incorporated in 2008 and is headquartered in Toronto, Canada.
Telson Resources Inc.	Telson Resources Inc., a junior resource company, engages in identification, acquisition, exploration, and development of mineral resource projects in Mexico. The company primarily explores for gold, silver, and base metals in the prolific Sierra Madre Belt of Mexico. It holds a 100% interest in the Tahuehueto gold-silver project covering an area of 7,492 hectares located in northwestern Durango State. The company was formerly known as Soho Resources Corp. and changed its name to Telson Resources Inc. in January 2013. Telson Resources Inc. was incorporated in 1986 and is headquartered in Vancouver, Canada.
Eco Oro Minerals Corp	Eco Oro Minerals Corp. engages in the acquisition, exploration, and development of mineral assets in Colombia. It primarily focuses on the Angostura gold-silver deposit located in northeastern Colombia. The company was formerly known as Greystar Resources Ltd. And changed its name to Eco Oro Minerals Corp. in August 2011. Eco Oro Minerals Corp. is headquartered in Vancouver, Canada.
Tier 2	
PT J Resources Asia Pasifik Tbk	PT J Resources Asia Pasifik Tbk primarily invests in and manages gold mining businesses. The company is involved in the mining and sale of gold and silver. It also provides general trading and services. The company was formerly known as PT Pelita Sejahtera Abadi and changed its name to PT J Resources Asia Pasifik Tbk in January 2012. PT J Resources Asia Pasifik Tbk was founded in 2002 and is based in South Jakarta, Indonesia. PT J Resources Asia Pasifik Tbk is a subsidiary of J Resources Mining Limited.
Kingsrore Mining Limited	Kingsrore Mining Limited engages in the production, exploration, and development of gold properties. It holds 85% interest in the Way Linggo gold and silver project located in South Sumatra, Indonesia. Kingsrore Mining Limited is based in West Perth, Australia.





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Company	Description
CNMC Goldmine Holdings Limited	CNMC Goldmine Holdings Limited, an investment holding company, engages in the exploration, development, mining, and marketing of gold in Malaysia. The company primarily focuses on the Sokor Gold Field project, which covers an area of approximately 10 square kilometres located in the district of Tanah Merah, Kelantan. It also processes mined ore into gold doros. CNMC Goldmine Holdings Limited was founded in 2006 and is headquartered in Singapore.
Red 5 Limited	Red 5 Limited, together with its subsidiaries, engages in the exploration, production, and mining of mineral properties in the Philippines. It explores for gold and silver deposits. The company primarily holds interests in the Siana Gold project located on the southern Philippine Island of Mindanao. Red 5 Limited is based in West Perth, Australia.
OceanaGold Corporation	OceanaGold Corporation explores for and develops gold and copper properties in the Philippines, New Zealand, and the United States. The company primarily holds interest in the Didipio gold-copper mine located on the island of Luzon in the Philippines. It also holds interests in the Waihi gold mine located on the north island of New Zealand; and a gold mine at the Macraes Goldfield located on the south island of New Zealand. The company was incorporated in 2003 and is headquartered in Melbourne, Australia.
Medusa Mining Limited	Medusa Mining Limited, together with its subsidiaries, engages in the exploration, evaluation, development, mining, and production of mineral properties. The company primarily explores for gold, as well as silver and copper. It holds interests in the Co-O mine located in the Philippines. The company was founded in 2002 and is based in South Perth, Australia.

Source: Capital IQ



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Appendix D – Trading multiple details

Resource Multiple Analysis	EV (\$m)	Location of key project	Interest in key project (%)	Mine type ²	Stage	Attributable contained resources ³ - Ag			Attributable contained resources ³ - other				Resource (I+I+M) ⁴		Recoverable ⁴	
						Resource	Ag	Contained	Au	Pb	Zn	Cu	Silver metal ratio ⁵	Multiple (minority)	Silver metal ratio ⁵	Multiple (minority)
						Tonnes	grade	resources	(Moz)	(Mlbs)	(Mlbs)	(Mlbs)	(Moz)	(\$/oz)	(Moz)	(\$/oz)
Kingsgate	30	Chile	100%	O	PFS	39.4	65.7	83.4	0.5	-	-	-	117	0.26x	66	0.46x
Tier 1 - Silver dominant & PEA/PFS/FS completed																
MAG Silver Corp.	1,398	Mexico	44%	O/U	PFS	19.1	247.7	152.6	0.5	1,058	1,777	-	338	4.13x	103	13.61x
Bear Creek Mining Corp.	268	Peru	100%	O	FS	138.3	80.8	359.3	-	4,069	2,711	-	715	0.38x	467	0.57x
Tier 1 Median													527	2.25x	285	7.09x
Tier 2 - Silver dominant & exploration stage																
Golden Arrow Resources	74	Argentina	100%	O	NA	67.1	66.9	144.0	-	940	979	-	246	0.30x	NA	NA
Koolenay Silver Inc	69	Mexico	100%	O/U	NA	70.1	49.0	110.0	0.1	968	1,135	-	226	0.31x	NA	NA
Levon Resources Ltd.	44	Mexico	100%	O	NA	940.6	16.7	532.9	1.5	4,700	9,000	-	1,374	0.03x	NA	NA
Defiance Silver Corp.	41	Mexico	100%	O	NA	2.9	182.4	16.9	0.0	-	-	-	18	2.30x	NA	NA
Silver Bull Resources	31	Mexico	100%	O/U	NA	59.2	50.0	91.1	-	399	4,725	57	383	0.08x	NA	NA
Tier 2 Median													246	0.30x	NA	NA
Tier 3 - Gold dominant																
Lundin Gold Inc.	671	Ecuador	100%	U	FS	35.4	12.2	13.9	9.5	-	-	-	664	1.01x	307	2.19x
Continental Gold Inc.	514	Colombia	100%	U	FS	28.5	31.1	28.7	9.0	-	-	-	644	0.80x	246	2.09x
Belo Sun Mining Corp.	417	Brazil	100%	O/U	FS	-	-	-	6.1	-	-	-	419	1.00x	239	1.74x
Chesapeake Gold Corp.	211	Mexico	100%	O	PFS	1,211.2	13.5	528.3	20.2	-	4,202	-	2,149	0.10x	1,197	0.18x
Luna Gold Corp.	158	Brazil	100%	O/U	PFS	-	-	-	2.1	-	-	-	142	1.11x	130	1.22x
Austral Gold Limited	115	Chile	100%	O/U	NA	7.0	87.8	15.3	1.0	-	-	-	86	1.34x	13	9.18x
Sandspring Resources	66	Guyana	100%	O	PFS	369.8	0.6	6.6	10.0	-	-	564	756	0.09x	254	0.26x
Atacama Pacific Gold	35	Chile	100%	O/H/L	PFS	-	-	-	5.9	-	-	-	401	0.09x	203	0.17x
Telson Resources Inc.	27	Mexico	100%	O/U	PEA	12.2	33.7	13.3	0.7	305	569	70	114	0.24x	NA	NA
Eco Oro Minerals Corp	23	Colombia	100%	U	NA	3.6	28.7	13.6	3.2	-	-	-	236	0.10x	NA	NA
Tier 3 Median													410	0.52x	243	1.48x
Tier 1&2&3 Median													383	0.31x	243	1.48x

Note (1): EV based on latest available market capitalisation as at 30 Sep 2016

Note (2): Mine type: 'O' open pit, 'U' underground and 'H/L' heap leach

Note (3): Attributable contained resources (JORC 2012/NI 43-101 compliant) ≈ total resources × grade × percentage of ownership in the flagship project

Note (4): I+I+M = Inferred resources + Indicated resources + Measured resources

Note (5): Silver metal ratios calculated based on the spot prices as at the 30 September 2016 (gold price at US\$1,317/oz; silver price at US\$19/oz; zinc price at US\$1.08/lb, lead price at US\$0.96/lb and copper price at US\$2.22/lb). We note that this metal ratio estimation calculation is for the purposes of our valuation and does not attempt to estimate or reflect a reported metal equivalent under JORC Code 2012

Note (6): Recoverable resources = mineable resource tonnage × grade × ownership% × recovery rate (as determined by latest scoping/ feasibility study)

Note (7): For the purpose of our cross check, Grant Thornton Corporate Finance has estimated silver metal ratios for the resources and reserves attributable to Kingsgate. Our metal ratio calculations assume 100% recovery for all metals. We note that our calculation of the metal ratios are for our valuation purposes only and does not attempt to reflect or estimate a reported metal equivalency under JORC Code 2012. Silver metal ratio is calculated as the sum of contained resources adjusted for the ratio of the commodity price to the price of silver.

Source: Capital IQ, company presentations and websites, other publicly available information and GTCF calculations.





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Appendix E – Glossary

ADRs	American Depositary Receipts
Akara Resources	Akara Resources Public Company Limited
ASIC	The Australian Securities and Investment Commission
ASX	Australian Securities Exchange
ATM	Atacama Pacific Gold
BCM	Bear Creek Mining
Bowdens Project	The Bowdens Silver Project sold by Kingsgate to Silver Mines Limited
CAPM	Capital Asset Pricing Model
Chatree Mine	Chatree Gold Mine in Thailand, 100% owned by Kingsgate
Chatree Processing Plant	A processing plant included in the Chatree mine complex
CKG	Chesapeake Gold
DCF	Discounted cash flow
DFS	Definitive Feasibility Study
EDC	European Debt Crisis
EIS	Environmental Impact Statement
EV	Enterprise value
FIRB	Foreign Investment Review Board
FS	Feasibility Study
FSG	Financial Services Guide
FY15	Financial year ended 30 June 2015
FY16	Financial year ended 30 June 2016
GDP	Gross domestic product
GFC	Global Financial Crisis
Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd
GRG	Golden Arrow Resources
GST	Goods and services tax
Kingsgate or the Company	Kingsgate Consolidated Limited
Kingsgate Shares	Kingsgate's shares and its ADRs
Kingsgate Shares	Fully paid ordinary shares of Kingsgate
Kingsgate's Thai Subsidiary	Akara Resources Public Company Limited
KTN	Kootenay Silver
LOM	Life of mine
Metallurgical Licence	The renewal of the metallurgical licence of the Chatree Mine for the period ending 31 December 2016 when it must cease operations
MOI	Thailand Ministry of Industry
Moz	Million ounce
Mt	Million tonne
NGPI	Northern Gulf Petroleum International Pte Ltd
Nueva Esperanza Project	Gold and silver development project of Nueva Esperanza located in the Maricunga gold/silver belt in Chile, 100% owned by Kingsgate
OECCD	The Organisation for Economic Co-Operation and Development
Offer Price	The offer price of 4.2 cents per share for 50.1% of Kingsgate Shares
Official Sector	Official sector institutions include all departments and agencies of national governments such as exchange authorities and fiscal agents that undertake activities similar to those of treasury, central bank or stabilisation fund
PAA	Pan American Silver Corporations
PEA	Preliminary Economic Assessment



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PFS	Pre-Feasibility Study
PFS Financial Model	A financial model in relation to Nueva Esperanza Project having regard to the planned LOM under PFS provided by management of Kingsgate
Primary Demand	Industrial demand for gold
Q3	Third quarter of 2015
RG 111	ASIC Regulatory Guide 111 "Content of expert's reports"
RG 112	ASIC Regulatory Guide 112 "Independence of experts"
SRK	SRK Consulting (Australasia) Pty Ltd
SSO	Silver Standard Resources Inc.
SSW	South South West
Takeover Offer	The proportional takeover offer lodged by NGPI with ASIC on 16 September 2016 for 50.1% of Kingsgate Shares at an offer price of 4.2 cents per share.
Thailand Government	The Kingdom of Thailand
The Chatree Financial Model	A financial model in relation to Chatree's current planned LOM until 31 December 2016 provided by management of Kingsgate
The Directors	The Directors of Kingsgate
The SRK report	An independent technical report in relation to Kingsgate's producing and development assets
VWAP	Volume weighted average price
WACC	Weighted average cost of capital



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Appendix F – SRK report

Independent Specialists Report on certain assets of Kingsgate Consolidated Limited

Report Prepared for

Grant Thornton Corporate Finance Ltd



Report Prepared by



SRK Consulting (Australasia) Pty Ltd

Project Number: GRT002

October 2016

Independent Specialists Report on certain assets of Kingsgate Consolidated Limited

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October 2016

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Executive Summary

Grant Thornton Corporate Finance Pty Ltd (Grant Thornton) has been engaged to prepare an Independent Expert’s Report (IER) in response to a proportional takeover offer for Kingsgate Consolidated Limited (Kingsgate) by Northern Gulf Petroleum International Pte. Ltd. In order to complete the IER, Grant Thornton has requested SRK Consulting (Australasia) Pty Ltd (SRK) to provide an Independent Specialist’s Report incorporating a technical assessment and valuation relating to Kingsgate’s Chatree and Nueva Esperanza Projects to accompany its IER.

SRK has conducted a high-level review of the Chatree mine in Thailand and the Nueva Esperanza development project in Chile. SRK notes the following:

Chatree Mine

The metallurgical processing licence at Chatree mine will expire on 31 December 2016. Kingsgate is currently planning to continue gold production until this date. After 31 December 2016, it is proposed that the Chatree mine will be put on Care and Maintenance. SRK has reviewed the mine production plan through to 31 December 2016 and has determined that the forecast production, operating costs, capital costs outlined in this report can be achieved by Kingsgate.

SRK is of the opinion that the current Kingsgate plan in relation to the Chatree Mine is executable and practical. This report outlines SRK’s recommendations for Grant Thornton to include in its cash flow analysis of the Chatree mining and processing operation.

Nueva Esperanza Project

SRK has reviewed the Nueva Esperanza pre-feasibility study (PFS) financial model and supporting documentation, which was supplied by Kingsgate. This report outlines SRK’s recommendations for Grant Thornton to include in its cash flow analysis of the proposed Nueva Esperanza mining and processing operation. In SRK’s opinion the production profile, operating costs and capital costs are achievable to within the level of accuracy of the PFS of +/-25%. SRK has recommended an increase in the level of sustaining capital in the financial model.

In addition, SRK has valued the resources which lie outside of the mine schedule and exploration potential of the associated mineral tenure at Nueva Esperanza. SRK’s opinion of the value of these elements is summarised in Table ES-1. SRK has produced a Market Value as defined by the VALMIN Code (2015).

SRK’s preferred values are positioned conservatively, as given the level of study and assumptions incorporated by SRK into its analysis, we have no strong inclination towards either end of the valuation range. SRK has adopted this position due to varying levels of technical and geological uncertainty.

Table ES-1: SRK’s valuation range and preferred value

	Low (US\$ M)	High (US\$ M)	Preferred (US\$ M)
Resources	10.4	13.9	12.2
Exploration Potential	2.0	3.0	2.5
Total	12.4	16.9	14.7

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List of Abbreviations

Abbreviation	Meaning/ Definition
%	percent
~	approximately
<	less than
>	greater than
AARL	Anglo American Research Laboratories
AUD	Australian dollars
Ag/ AgEq	Silver/ Silver Equivalent
Au/ AuEq	Gold/ Gold Equivalent
AIG	Australian Institute of Geoscientists
ASX	Australian Securities Exchange
AusIMM	Australasian Institute of Mining and Metallurgy
CIL	Carbon in leach
DCF	Discounted Cash Flow
DFS	Definitive Feasibility Study
E	east
EIA	Environmental Impact Assessment
EV	Enterprise Value
GME	Gemell Mining Engineers
GIC	Gold in circuit
g/t	Grams per tonne
IER	Independent Expert’s Report
Ha	Hectares
IND	Indicated Resource Category
INF	Inferred Resource Category
ITR	Independent Technical Report
JORC Code 2004	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), 2004.
JORC Code 2012	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), 2012.
JV	Joint Venture
k	thousand
km/ km ²	kilometre/ square kilometres
Kt	Kiloton
Kv	Kilovolt
LoM	Life of Mine
m	metre
masl	Metres above sea level
M	million

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Abbreviation	Meaning/ Definition
Ma	Million Annum
masl	Metres above sea level
m ³	cubic metre
MEAS	Measured Resource Category
MCC	Compania Minera Can
ML	Mining Licence
Moz	Million ounces
Mt	Million tonnes
Mtpa	Million tonnes per annum
N	north
OC	Open-cut
Oz	Ounces
Pa	Per annum
PFS	Pre-feasibility Study
PROB	Probable Reserve Category
PROV	Proven Reserve Category
QA/QC	quality assurance/ quality control
S	south
SNL	SNL Metals and Mining subscription database
SPL	Special Prospecting Licence
SR (bcm)	Strip Ratio (bank cubic metres)
SRK	SRK Consulting (Australasia) Pty Ltd
T	tonne
TSF	Tailings Storage Facility
µm	micron
USD	United States dollars
VALMIN Code 2015	Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets. The VALMIN Code is the code adopted by The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. It is binding upon all members of these Institutes.
W	west

Disclaimer

The opinions expressed in this Report have been based on the information supplied to SRK Consulting (Australasia) Pty Ltd (SRK) by Kingsgate Consolidated Limited (Kingsgate). The opinions in this Report are provided in response to a specific request from Grant Thornton Corporate Finance Ltd (Grant Thornton) to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this Report apply to the site conditions and features as they existed at the time of SRK’s investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this Report, about which SRK had no prior knowledge nor had the opportunity to evaluate.

1 Introduction

Grant Thornton Corporate Finance Pty Ltd (Grant Thornton) has been engaged to prepare an Independent Expert’s Report (IER) in response to a proportional takeover offer for Kingsgate Consolidated Limited (Kingsgate) by Northern Gulf Petroleum International Pte. Ltd. In order to complete the IER, Grant Thornton has requested SRK Consulting (Australasia) Pty Ltd (SRK) to provide an Independent Specialist Report incorporating a technical assessment and valuation relating to Kingsgate’s Chatree and Nueva Esperanza Projects. SRK understands that its report will be included as an appendix to Grant Thornton’s IER.

1.1 Reporting standard

This Specialist Report has been prepared to the standard of, and is considered by SRK to be a Technical Assessment and Valuation Report under the guidelines of the VALMIN Code (2015). It should be noted that the authors of this Report are Members of either the Australasian Institute of Mining and Metallurgy (AusIMM) or the Australian Institute of Geoscientists (AIG) and, as such, are bound by both the VALMIN and JORC Codes.

For the purposes of this report, value is defined as ‘market value’ being the amount of money (or the cash equivalent of some other consideration) for which a mineral asset should change hands on the date of Valuation between a willing buyer and a willing seller in an arm’s length transaction after appropriate marketing, wherein the parties each acted knowledgeably, prudently and without compulsion.

All monetary figures used in this report are expressed in either United States (US\$), Australian dollar (A\$) or Thai baht (THB) terms. The final valuation is presented in US\$ terms. This report has adopted an effective valuation date of 30 September 2016.

Specialists involved in the preparation of this report are listed in Table 1-1.

Table 1-1: Specialists

SRK Personnel	Project Role
Jeames McKibben	Principal Consultant (Project Management and Peer Review)
Anthony Stepcich	Principal Consultant (Mining)
Bryce Healy	Principal Consultant (Geology)
Simon Walsh	Principal Consultant (Metallurgy)
Lisa Chandler	Principal Consultant (Environmental)
Mathew Davies	Senior Consultant (Comparative Transaction Analysis)

1.2 Statement of SRK independence

Neither SRK nor any of the authors of this Report have any material present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with Kingsgate in regard to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK’s fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The fees are agreed based on the complexity of the assignment, SRK’s knowledge of the assets and availability of data. The fee payable to SRK for this engagement is estimated at approximately A\$40,000. The payment of that professional fee is not contingent upon the outcome of the Report.

1.3 Legal matters

SRK has not been engaged to comment on any legal matters.

SRK notes that it is not qualified to make legal representations in regards to the ownership and legal standing of the mineral tenements that are the subject of this valuation. SRK has not attempted to confirm the legal status of the tenements with respect to joint venture agreements, local heritage or potential environmental or land access restrictions.

SRK has relied upon the representations made by Kingsgate regarding the current standing of the Chatree licences. Kingsgate is currently seeking independent legal advice regarding its rights at Chatree.

SRK has also relied upon representations made to it by Kingsgate in relation to the standing of the Nueva Esperanza licences. SRK notes that Kingsgate has commissioned Harris Gomez lawyers to prepare an independent legal opinion on Kingsgate’s Nueva Esperanza licences, which will be provided to SRK upon completion.

In line with ASIC Regulatory Guide 111 “Content of Expert Reports” SRK is obliged to issue a supplementary report if a material change in circumstances arises after the release of our report.

Furthermore, SRK has sighted documentation available at relevant Government Agencies or prepared for previous exercises (i.e. other technical reports) that indicate that Kingsgate has legal rights to the minerals, which are the subject of this report. SRK has relied on the accuracy and completeness of the technical documentation supplied to it by Kingsgate. SRK has made all reasonable enquiries.

1.4 Representation

Kingsgate has represented in writing to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true.

1.5 Indemnities

As recommended by the VALMIN Code, Kingsgate Consolidated Limited has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- which results from SRK’s reliance on information provided by Kingsgate or to Kingsgate not providing material information; or
- which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

1.6 Limitations

SRK’s opinion contained herein is based on information provided to SRK by the Client throughout the course of SRK’s investigations as described in this report, which in turn reflect various technical and economic conditions at the time of writing. Such technical information as provided by Kingsgate was taken in good faith by SRK. SRK has reviewed the stated resources/reserves but not independently verified Mineral Resources or Ore Reserve estimates by means of recalculation.

SRK notes that the resulting budgets and forecasts have been prepared appropriately and are based on the information available at the time and within the practical constraints and limitations of such budgets and forecasts. The achievability of budgets and forecasts are neither warranted, nor guaranteed by SRK. Future cash flows and profits derived from such forecasts are inherently uncertain.

The forecasts as reported upon herein are those made by Kingsgate of future parameters that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of Kingsgate. Consequently, actual results may be significantly more, or less favourable.

This report includes technical information, which requires subsequent calculations to derive subtotals, totals and weighted averages. Such calculations may involve a degree of rounding and consequently introduce an error. Where such errors occur, SRK does not consider them to be material.

As far as SRK has been able to ascertain, the information provided by Kingsgate was complete and not incorrect, misleading or irrelevant in any material aspect. SRK has no reason to believe that any material facts have been withheld.

1.7 Reliance on information

SRK believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinions presented in this section of the report. The preparation of such section is a complex process and does not lend itself to partial analysis or summary.

1.8 Site visit

SRK notes that the VALMIN Code (2015) recommends that a site inspection be completed should it be ‘likely to reveal information or data that is material to the report’. A site visit was not undertaken for the purposes of this report, given the Chatree site is due to close in late 2016 and the Nueva Esperanza site remains in pre-development. SRK note that authors of this report held discussions with Mr Steven Gemell of SRK, who has previously visited the Nueva Esperanza site to understand the site conditions, access and other aspects of the existing project.

1.9 Consents

SRK consents to this Report being included, in full, in Grant Thornton’s IER, in the form and context in which the technical assessment is provided, and not for any other purpose.

SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report and the Cover Letter.

2 Chatree Mine

2.1 Location

The Chatree gold mine is located between Phichit and Phetchabun Provinces in Central Thailand, approximately 280 km north of the national capital, Bangkok.

The Chatree Project lies about 11 km from the national main route, Highway 11, and is accessed by Highway 1301, which traverses the mining area, effectively separating the Chatree South and Chatree North areas. Public Highway 1301 is a fully sealed two-lane road linking the major north-south arterial routes connecting Bangkok to regional centres.

The Project comprises an operating open-pit with associated processing plant and infrastructure.

Grid power at 115 kV is accessed approximately 2 km east of the plant site. A dedicated sub-station and 22 kV line service the mine.

Two water reservoirs have been constructed on the original mining lease and four at Chatree North to collect surface run-off water and water from the operating pits. Most of the water used in the processing plant is reclaimed from the Tailings Storage Facility (TSF).

2.2 Ownership

Kingsgate’s subsidiary, Akara Resources Public company Limited (Akara) owns and operates the Chatree Project.

2.3 Tenure

Kingsgate has made representations to SRK as to the current tenure situation at Chatree. SRK has relied on such representations given that Kingsgate is currently seeking independent legal advice regarding its rights at Chatree.

As outlined in Table 2-1, Akara’s Chatree tenements comprise 14 Mining Leases (“MLs”), and eight Waste Dump Leases covering 3,723 ha and 2,558 ha respectively.

SRK makes no other assessment or assertion as to the legal title of the tenements and is not qualified to do so.

Table 2-1: Status of the Chatree project

Lease	Province	Area (Ha)	Expiry or Renewal Date
ML 25528/14714	Phetchabun	93	Pending
ML 26910/15365	Phichit	297	June 2020
ML 26911/15366	Phichit	275	June 2020
ML 26912/15367	Phichit	294	June 2020
ML 25618/15368	Phetchabun	299	June 2020
ML 26917/15804	Phichit	253	July 2028
ML 26922/15805	Phichit	283	July 2028
ML 26921/15806	Phichit	276	July 2028
ML 26920/15807	Phichit	294	July 2028
ML 26923/15808	Phichit	204	July 2028
ML 32524/15809	Phetchabun	283	July 2028

Lease	Province	Area (Ha)	Expiry or Renewal Date
ML 32530/15810	Phetchabun	299	July 2028
ML 32531/15811	Phetchabun	279	July 2028
ML 32532/15812	Phetchabun	294	July 2028
Waste Dump 1/2548	Phichit	1,351	July 2028
Waste Dump 1/2548	Phetchabun	225	July 2028
Waste Dump 1/2551	Phetchabun Q Pit	162	
Waste Dump 1/2554	Phichit	237	
Waste Dump 2/2554	Phichit	80	
Waste Dump 3/2554	Phichit	36	
Waste Dump 1/2555	Phetchabun D Pit	343	
Waste Dump 2/2555	Phetchabun A East	124	
Metallurgical License 1/2551	Phichit	977	Dec 2016

Notes: 1) Areas are rounded to the nearest integer

2) Waste dump licences have no set expiry dates

2.4 Project history

Reconnaissance exploration of the Chatree area commenced in 1987 by Epoch Mining NL (Epoch) in joint venture with Kulim Limited and a private Australian partner with regional prospecting of large areas of the gold belt. Epoch withdrew from exploration in 1993, and its Thai interests were eventually sold to Kingsgate Consolidated NL, through joint venture partner, Akara.

Kingsgate progressed exploration between 1993 and 1999, defining a number of prospects at Chatree and also increasing its equity interest during this period from 31.6% to 90%. In July 2000, Kingsgate purchased the outstanding 10% of the Chatree Project.

The project discovery is generally noted as 1995. Prior to this, the region had neither recorded previous history of gold production nor evidence of artisanal workings. A maiden Mineral Resource was estimated in 1995 (~0.5 million ounces (Moz)) and updated on the back of further exploration drilling in 1998 (~1 Moz).

Extensive exploration and subsequent mining studies in the late 1990s culminated in submission of a Mining Lease application in early 2000.

The Chatree gold mine commenced operations in November 2001, and underwent expansions in 2003 and 2006. Production since commissioning is as presented in Table 2-2.

Table 2-2: Historical production

FY	Ore Processed (kt)	Gold			Silver		
		Ounces	Grade (g/t Au)	Recovery (%)	Ounces	Grade (g/t Ag)	Recovery (%)
Jul-Aug 2016	888	19,700	0.86	83.7	257,100	23.0	42.3
2016	5,515	97,510	0.70	79.8	675,579	11.5	33.4
2015	5,283.4	125,094	0.91	79.5	850,003	13.1	37.3
2014	6,235	134,546	0.85	79.5	992,255	12.9	39.6
2013	5,699	133,681	0.90	80.3	1,000,569	11.9	45.5
2012	5,115.7	121,372	0.90	84.4	918,314	11.6	49.5
2011	2,533	76,300	1.08	87.2	549,699	15.7	43.7
2010	2,705	132,628	1.67	90.6	549,522	14.9	42.1
2009	1,878	93,002	1.70	91.4	293,472	15.8	31.7
2008	2,474	74,137	1.06	88.3	232,039	6.8	42.4
2007	2,405	85,994	1.23	90.1	290,897	9.2	40.0
2006	2,000	140,071	2.41	90.2	459,701	14.5	48.8
2005	1,828.9	126,550	2.35	90.8	353,275	12.6	48.3
2004	1,670.9	149,979	3.08	91.2	395,346	15.2	47.4
2003	1,324	154,484	3.93	90.2	484,170	21.9	50.1
2002	665	94,600	5.16	90.8	360,800	39.5	46.3

Source: SNL, Kingsgate.

In March 2016, Kingsgate announced the Chatree project was undergoing bureaucratic delay and an investigative burden that was significantly constraining the operation, holding back investment and creating operating inefficiencies. This was followed in May 2016 when the company announced plans to cease all operations at Chatree by 31 December 2016 in line with the expiration of its metallurgical licence.

2.5 Geological setting

The Chatree epithermal gold silver deposit is situated within the Leoi - Petchaboon calc-alkali volcanic belt, which forms an approximately 50 km wide arcuate belt extending over 600 km from Laos in the north through central and eastern Thailand into Cambodia in the south (Figure 2-1). The belt hosts intrusive and extrusive, acid to basic igneous rocks extending from Ordovician to late Tertiary in age. The belt represents a continental arc developed during proposed east-directed subduction related to the collision of India and Eurasia and comprises mainly andesitic and basaltic volcanics, intruded by bodies of microgabbro, diorite, granodiorite and microgranite.

The Chatree deposit is hosted by Late Permian to Early Triassic-age volcanoclastic and volcanogenic sedimentary rocks that comprise a thick (~550 m) succession that is part of the well-defined Chatree volcanic complex. The complex has been sub-divided into a number of lithostratigraphic units that partially control the mineralisation. The complex unconformably overlies Carboniferous to Early Permian sedimentary and igneous basement and is unconformably overlain by Late Triassic to Cretaceous-Tertiary sandstones of the Khorat Group.



Low-sulphidation epithermal mineral deposits, such as Chatree, are linked to volcanism and may be associated with “bonanza” high grade style mineralisation. The low-sulphidation epithermal gold-silver mineralisation is controlled by structure and lithology. The main structural orientations, namely north-south to north-northeast to south-southwest and northeast to southwest trending faults, are major controls on the epithermal mineralisation, which occurs as veining, stockworks, and minor breccias hosted within Late Permian to Early Triassic volcanic and volcanogenic sedimentary units. The mineralisation is spatially and temporally associated with calc-alkaline volcanic rocks that formed during Carboniferous to Early Triassic volcanism (Chatree Volcanic Complex). The main gold-silver mineralisation is characterised by coliform to crustiform banded quartz ± carbonate ± chlorite ± adularia-sulphide-electrum veins and is characterised by multiple hydrothermal alteration assemblages and quartz-carbonate replacements. Gold mainly occurs as electrum, both as free grains associated with quartz, carbonate minerals and chlorite, and as inclusions in sulphides, mostly pyrite.

The mineralisation extends for approximately 3 km along strike, with a width of 1.5 km, and extends to 200 m depth. A number of economic prospects (A, C, H, D, Kw, Ke and Q) have been delineated in the northern and central part of the deposit and are the current focus of economic extraction (Figure 2-2). The length and width of the veins within these prospects varies from 100 m to 300 m and 0.5 m to 3 m respectively. In general, the veins dip from steeply to sub-vertically to the west and extend from 50 m to over 200 m down dip.

Post mineralisation, oxidised ground waters have reacted with the mineralised zones to form significant supergene gold enrichments.

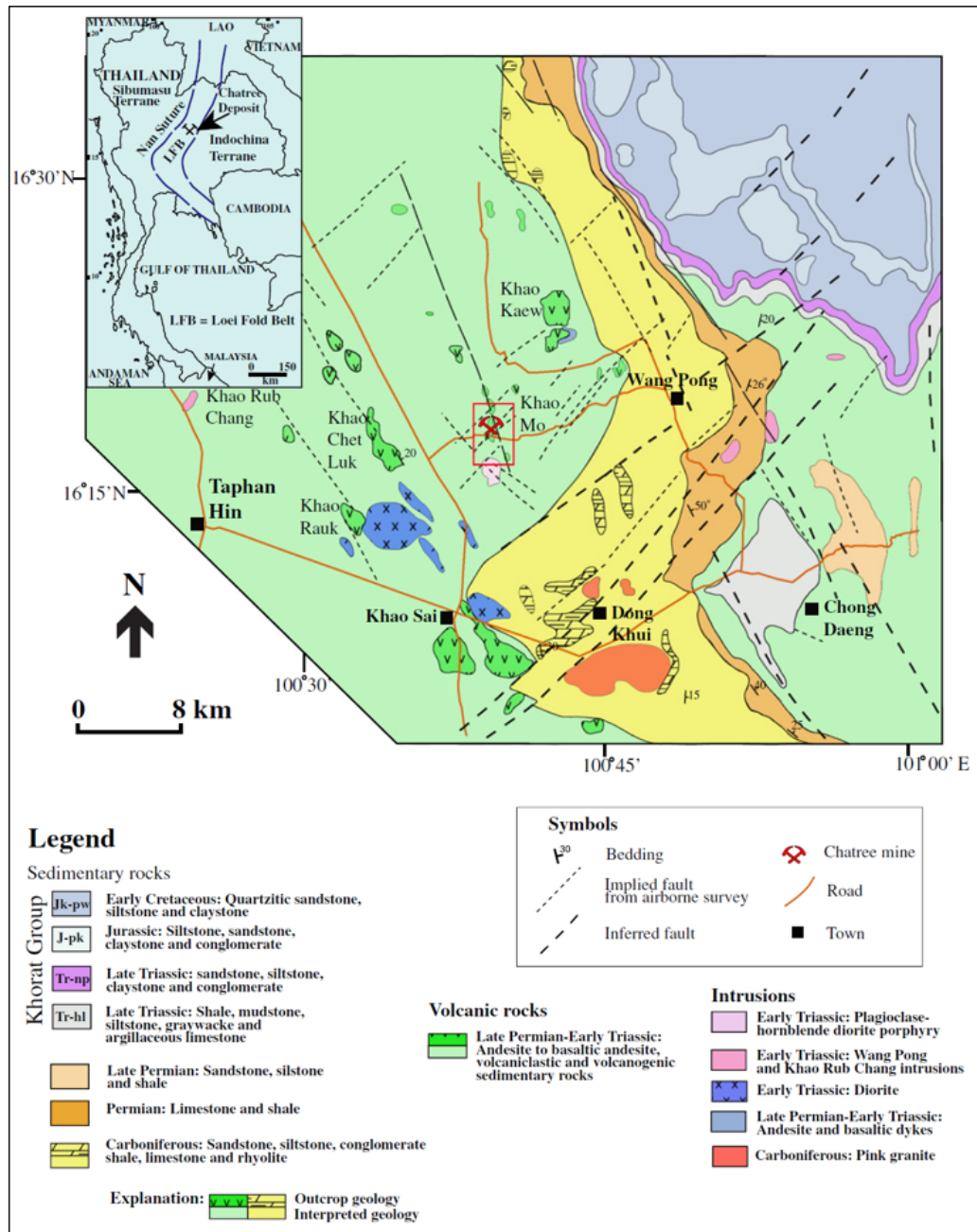


Figure 2-1: Regional scale geology of Central Thailand showing location of Chatree deposit

Source: Salam et al., 2014.

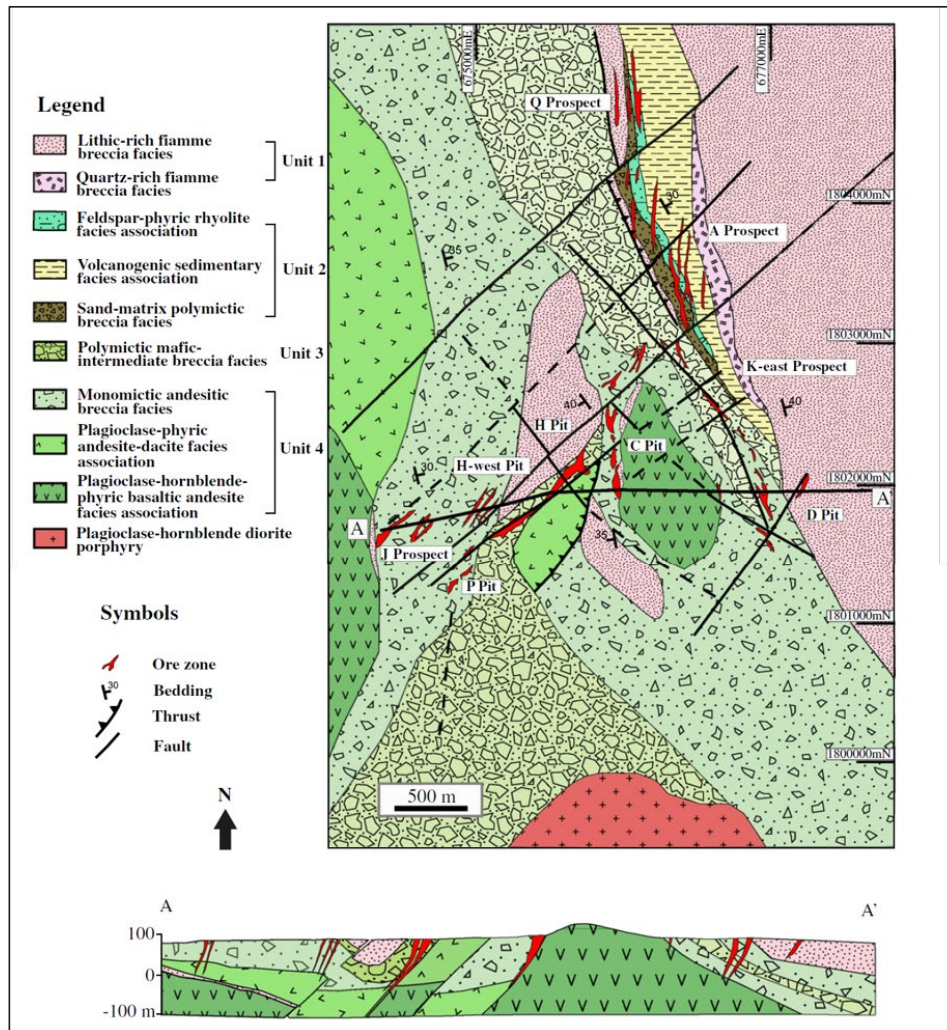


Figure 2-2: Geological map of Chatree deposit with schematic geology section through A pit

Note: Modified from Salam et al., 2014.

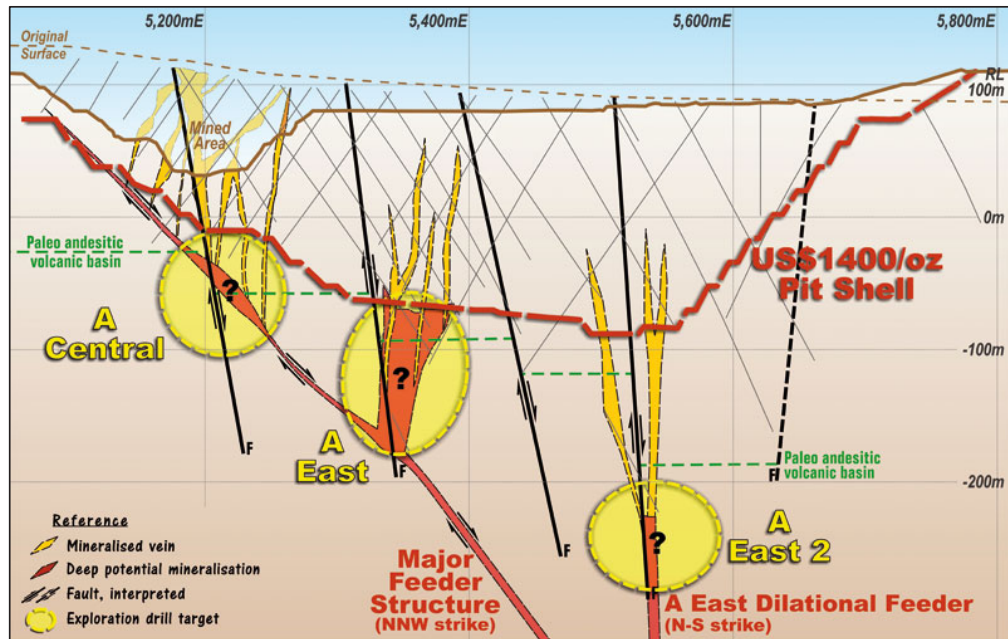


Figure 2-3: Geological cross section through the current and proposed A pit

Source: Kingsgate, 2015.

2.6 Mineral Resources

The current reported Mineral Resources (Table 2-3) for Chatree was released by Kingsgate on 7 October 2016 and is reported according to JORC Code (2012) definitions. The 2016 Chatree Mineral Resource estimate is inclusive of Ore Reserves and is derived from the same block model used of the June 2015 estimate, with depletion by mining to the end of June 2016. Chatree Mineral Resources are estimated at 3.5 Moz of gold (166 Mt at 0.66 g/t Au and 5.86 g/t Ag) compared to 3.64 Moz of gold for the 30 June 2015 estimate. This decrease is in line with mining depletion during the period.

Table 2-3: Estimate reported Resources for the Chatree deposit as at 30 June 2016

Category	Tonnes (Mt)	Grade (g/t)				Contained Metal (Moz)			
		Gold (g/t)	Silver (g/t)	Gold Equiv.	Silver Equiv.	Gold	Silver	Gold Equiv.	Silver Equiv.
<i>In Situ</i>									
Measured	75.8	0.71	6.77	0.76	103	1.73	16.5	1.85	252
Indicated	49.8	0.64	5.58	0.68	93.0	1.02	8.9	1.09	148
Inferred	40.6	0.59	4.50	0.62	85.0	0.77	5.9	0.81	111
Total	166.2	0.66	5.86	0.70	96.0	3.53	31.3	3.76	511
<i>Stockpiled</i>									
Measured	6.8	0.44	7.77	0.50	67.6	0.10	1.7	0.12	16.2

Notes:

Chatree gold equivalent:

$AuEq/t = Au (g/t) + Ag (g/t) / 136;$

Silver equivalent:

$AgEq g/t = Au (g/t) \times 136 + Ag g/t.$

Calculated from prices of US\$1,200/oz Au and US\$19.00/oz Ag and metallurgical recoveries of 83.3% Au and 38.7% Ag based on metallurgical testwork and plant performance.

Cut-off grade for Chatree Resources is 0.30 g/t Au.

Measured Resource are inclusive of Stockpiles (as at July 2016).

The 2015 Mineral Resources (Table 2-4) for Chatree was completed and released by Kingsgate in 2015. The 2016 Mineral Resource estimate is based on information compiled by Mr Ron James and Ms Maria Munoz, whereas the 2015 estimate is based on information compiled by Ms Maria Munoz. Mr James and Ms Munoz are now consultant geologists, but were both previous employees of Kingsgate. Both are members of the Australasian Institute of Mining and Metallurgy and qualify as Competent Persons. The 2015 estimation process and methodology was independently reviewed by MPR Geological Consultants.

Table 2-4: Estimate reported Resources for the Chatree deposit as at 30 June 2015

Category	Tonnes (Mt)	Grade (g/t)				Contained Metal (Moz)			
		Gold (g/t)	Silver (g/t)	Gold Equiv.	Silver Equiv.	Gold	Silver	Gold Equiv.	Silver Equiv.
<i>In Situ</i>									
Measured	81.8	0.70	7.00	0.75	102	1.84	18.4	1.98	269
Indicated	50.1	0.64	5.59	0.68	93.0	1.03	9.0	1.10	149
Inferred	40.6	0.59	4.49	0.62	85.0	0.77	5.9	0.81	111
Total	172.5	0.66	6.00	0.70	95.0	3.64	33.3	3.89	529
<i>Stockpiled</i>									
Measured	6.8	0.44	7.77	0.50	67.6	0.10	1.7	0.12	16.2

Notes:
 Chatree gold equivalent:
 $AuEq/t = Au (g/t) + Ag (g/t) / 136$;
 Silver equivalent:
 $AgEq g/t = Au (g/t) \times 136 + Ag g/t$.

Measured Resource are inclusive of Stockpiles (as at July 2016).

SRK has reviewed the resource estimation process and resultant estimates for both 2015 and 2016 and considers these estimates to be reasonable representations of both the available tonnes and grades to be considered for valuation purposes.

2.7 Mining and Ore Reserves

Chatree is a large open-pit gold mining operation located in central Thailand. Following recent government intervention, mining at Chatree is due to cease by 31 December 2016. Mining is not ceasing due to depletion of the orebody but rather due to the expiry of the operation’s Metallurgical Processing Licence.

Table 2-5 below shows the Chatree Ore Reserves as at 30 June 2016. Chatree Ore Reserves are estimated at 0.09 Moz of gold (2.5 Mt at 1.1 g/t Au and 17.6 g/t Ag) compared to 1.1 Moz of gold in 2015. The reduction is due to mining depletion and the non-renewal of the Chatree Metallurgical Licence to continue processing ore beyond 31 December 2016.

Table 2-5: Ore Reserves as at 30 June 2016

Category	Tonnes (Mt)	Grade (g/t)		Contained Metal (Moz)	
		Gold (g/t)	Silver (g/t)	Gold	Silver
Proved	2.1	1.15	17.7	0.08	1.20
Probable	0.4	1.07	17.2	0.01	0.22
Total	2.5	1.14	17.6	0.09	1.42

Notes:

Rounding of figures causes some number to not add correctly

Chatree gold equivalent:

$AuEq/t = Au (g/t) + Ag (g/t) / 136$;

Silver equivalent:

$AgEq g/t = Au (g/t) \times 136 + Ag g/t$.

Calculated from prices of US\$1,200/oz Au and US\$19.00/oz Ag and metallurgical recoveries of 83.3% Au and 38.7% Ag based on metallurgical testwork and plant performance.

Cut-off grade for Chatree Reserves is 0.35 g/t Au.

Measured Resource are inclusive of Stockpiles (as at July 2016).

SRK notes that upon the cessation of mining in late 2016, some 3.5 Moz of gold will remain in as in-situ Resources at the Chatree deposit and would hold considerable value in future, if all permits required for extraction were granted. For details of the Chatree Reserve if the Metallurgical Licence were granted for a 5 year period by the Thai Department of Primary Industries and Mines please refer to Kingsgate’s ASX announcement dated 7 October 2016.

Figure 2-4 outlines the current and recent mining locations.

Mining operations are undertaken by a Thai based mining contractor, Lotus Hall, with overall site supervision and technical services being undertaken by Akara staff. The mining fleet is capable of meeting the proposed production schedule until 31 December 2016. The forecast total material movement from 1 October 2016 to 31 December 2016 is shown in Table 2-6.

Table 2-6: Total material movement from 1 October 2016 to 31 December 2016

Category		Units	Total
Mining			
	Waste Mined	bcm	521,669
	Ore Mined	bcm	421,954
	Strip Ratio	bcm:bcm	1.24
	Mined Grade	g/t	1.16
Processing			
	Milled Tonnes	t	1,184,223
	Milled Grade	g/t	1.35
	Recovery	%	83%



Figure 2-4: Mining locations

SRK has reviewed the proposed mining schedule, operating costs and capital costs for the Chatree mine through from 1 October 2016 to 31 December 2016, and has found these to be reasonable and achievable.

2.8 Processing and metallurgy

2.8.1 Processing flowsheet

The Chatree Gold Mine uses a conventional leach / carbon in leach (CIL) gold plant to process the Project ores. The processing plant has a nominal throughput capacity of 6 Mtpa although this is dependent on the hardness of the feed blend. Chatree also owns the necessary additional infrastructure to support the mining and processing operations including administration buildings and offices, warehouse, workshops, laboratory, private haul roads linking resources to the processing plant, and existing grid power and water systems.

The original plant was commissioned in 2001 with an initial nameplate capacity of 1 Mtpa. Since that time, the plant has undergone numerous expansions and upgrades, including the addition of a second semi-parallel processing plant brought online in December 2011, which increased throughput to the current levels of 5.5 Mtpa to 6 Mtpa. The current processing plant arrangement consists of:

- Single stage primary crushing
- Crushed ore stockpile and reclaim
- Two stage grinding - SAG and closed circuit ball milling
- Pebble crushing
- Leach, CIL and CIP adsorption (23 tanks in total)
- Split Anglo American Research Laboratories’ (AARL) elution
- Activated carbon regeneration
- Gold room (electrowinning, calcining and smelting)
- Tailings detoxification
- Tailings thickening, disposal and storage facilities
- Supporting utilities and reagent systems
- Supporting infrastructure.

Plant tailings are detoxified using a modified INCO process. The plant gained full International Cyanide Management Code compliance certification in January 2008 and has the following ISO standards: ISO 9001 (Quality), ISO 14001 (Environment), OHSAS 18000 (Health and Safety and SA8000 (Social Accountability). The Chatree processing plant summary flowsheet presented in Figure 2-5.

Chatree is a conventional gold processing plant with a 15 year operating history. In SRK’s opinion, the flowsheet is suited to the continued processing of free milling gold ores. There are no concerns with the suitability of the processing facility or associated infrastructure for the remaining Chatree LoM feed.

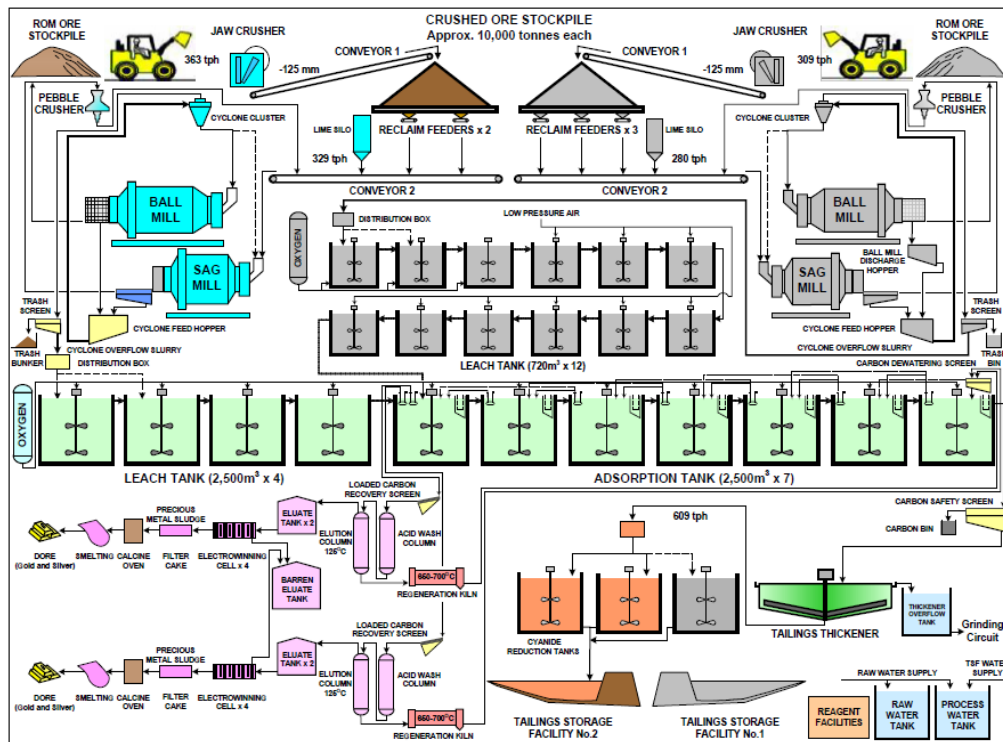


Figure 2-5: Chatree processing plant summary flowsheet

Source: Kingsgate, 2016.

2.9 Throughput

The remaining LoM forecast throughput (October to December 2016) of 1.2 Mt is the annualised equivalent of 4.8 Mtpa. Chatree has exceeded a production rate of 5.1 Mtpa every year since the last plant expansion (i.e. between 2012 and 2016) and averages over 5.5 Mtpa. The throughput for July, August and September 2016 is also above forecast. There is no planned change in ore hardness.

The main risk to not achieving the forecast LoM throughput is a major plant mechanical equipment failure. SRK considers this risk to be low given plant availability and utilisation remain high and the plant mechanical equipment condition has not deteriorated.

In SRK’s opinion, historical mill throughput supports the capacity of the Chatree Processing Plant to meet the forecast LoM financial model throughput of 1.2 Mt from 1 October 2016 to 31 December 2016.

2.10 Recovery

The Chatree ore is free milling, with fine-grained gold occurring mostly along grain boundaries. It is low in sulphides and other potentially deleterious elements, but is high in silver.

Metallurgical gold and silver recoveries are forecast using algorithms that calculate tailings grades. From the tailings grade, metal recoveries are calculated. SRK considers the use of algorithms based on head and tailings grades to forecast gold and silver to be an appropriate method of forecasting future recoveries. This is preferable to using an average recovery over the LoM across all ore types.

The LoM forecast gold recovery at different feed grades is well supported by the gold recovery algorithms, historical recoveries and testwork. The remaining LoM forecast gold recovery (1 October 2016 to 31 December 2016) of 83.2% is at a grade of 1.35 g/t. SRK notes there may be some potential to increase the gold recovery over the remaining LoM.

The LoM forecast silver recovery at different feed grades is less well supported by the silver recovery algorithms although historical recoveries and testwork provide some support to the forecast. The remaining LoM forecast silver recovery (1 October 2016 to 31 December 2016) of 44.9% is at a feed grade of 19.6g/t. SRK considers the silver recovery to be suitable given the short timeframe to completion but notes any future extension to the LoM should consider an update to the silver recovery algorithms.

In SRK’s opinion, the forecast remaining LoM gold recovery of 83.2% is reasonable from 1 October 2016 to 31 December 2016.

In SRK’s opinion, the forecast remaining LoM silver recovery of 44.9% may be slightly overstated but is appropriate in light of the short duration until completion. However, any future extension to the LoM should consider an update to the silver recovery algorithms.

2.11 Processing risks and opportunities

SRK does not consider there to be any technical issues that are likely to impact the ability of the Chatree processing facility to achieve the remaining LoM throughput or gold recovery. The forecast silver recovery may be slightly overstated, but in SRK’s opinion, this is not material to the overall valuation.

SRK notes that the depletion of the gold-in-circuit (GIC) inventory after the final month of operation as part of final plant clean-up has been included in the financial model. It is well quantified as part of weekly and monthly reconciliations. Plant clean-up gold recovery post plant closure, processing of remaining lower grade stockpiles and salvaging of the processing facility and infrastructure is not included in the Chatree LoM financial modelling although it is accounted for as a capital cost saving in the Nueva Esperanza processing facility. SRK considers the LoM assumptions to be acceptable.

2.12 Operating costs

Historic operating costs have been used to forecast the final LoM operating costs and are well founded.

The 2016 financial year operating costs were on budget at US\$8.00/t, approximately A\$10.68/t at an exchange rate of 0.75. The August 2016 financial year to date cost was US\$7.73/t, approximately A\$10.31/t at the same exchange rate. The forecast processing operating cost for the remaining LoM is US\$7.55/t, excluding an additional cost to be incurred in January 2017 for post-plant closure clean-up. The forecast operating cost is well supported by historical costs and accounts for changes to the cost structure in the last months of operation.

Throughput is forecast to be marginally reduced in the final two months of production, November and December 2016. This would normally have ramifications on the fixed cost assignment per tonne of ore processed. This will be offset with significant savings achieved through:

- The minimisation of maintenance during this period;
- The run down in reagent, grinding media and mechanical spares inventories; and
- The reduction in the head count.

In SRK’s opinion, the forecast process operating costs are reasonable as long as the proposed throughput, feed grade and recovery is achieved. When benchmarked against similarly sized operations, costs are at the low end of the typical range but are supported by high tonnage, relatively soft feed, relatively low electrical power costs, moderate reagent consumptions, low maintenance costs and low labour costs.

In SRK’s opinion, the forecast LoM financial model process operating costs are reasonable. They are supported by historical operating costs and allow for a tapering of production in the final months of operation and depletion of reagent inventories, grinding media, maintenance spares, as well as a reduction in maintenance expenditure.

2.13 Sustaining Capital costs

There are no processing sustaining capital costs incorporated into Kingsgate’s LoM financial model. This is a reasonable assumption given the plant will cease to operate at 31 December 2016. Furthermore, the plant condition has not significantly deteriorated in the lead up to the cessation of operations. Ongoing maintenance will be sufficient to maintain the operation until 31 December 2016. SRK considers that despite no further expenditure of processing sustaining capital, there is little risk of a major equipment failure causing production to drop below plan.

SRK supports the exclusion of all process sustaining costs into the LoM financial model given operations will cease at the end of December 2016.

2.14 Environment

Environmental approval for the Chatree mine was originally granted in early 2000, following the submission of an EIA report in 1999. A number of project expansions occurred between 2003 and 2011. The most recent metallurgical licence for the facility was granted in 2012 as part of an expansion to allow processing of more than 5 Mtpa of ore. A further EIA report was submitted to, and ultimately approved by, the government in 2007/ 2008 to allow for exploration and subsequent mining of the Chatree North deposits. The conditions applied to the grant of mining tenure for the Chatree North deposits are reported to supersede those arising from the earlier EIA (Environ, 2015).

Environmental aspects of the Chatree operation are managed under an ISO41001-compliant environmental management system. The management system includes a comprehensive program of environmental monitoring. The mine operator, Akara, commissions regular independent audits of its environmental performance and compliance, as well as routine inspections of its tailings storage facilities (TSF 1 and 2). Additionally, the company prepares and publishes annual reports on its environmental performance (Knight Piésold 2016, Environ, 2015). Recent third party audits generally indicate a high level of environmental performance and compliance in relation to cyanide management and management of dust and noise. Occasional excursions from Thai environmental standards have been noted in the course of groundwater monitoring: the most recent independent audit of the site concludes that these results are attributable to background environmental conditions and are not the result of releases from the mining operation (Environ, 2015). Notwithstanding this, there remains a level of stakeholder concern about potential environmental pollution from the mine (especially in relation to arsenic).

The key environmental aspects identified in recent third party audits relate to:

- Management of water; and
- Mine rehabilitation and closure.

The site water balance is one contributor to uncertainty about mine closure costs, with the current closure budget allocating approximately 1.28 million baht (~US\$37,000) per year for “water management” and assumes that these costs will cease no later than 2028. Ongoing water management may be required beyond this date to maintain the stability of TSF 1 and TSF 2, as well as to prevent potential discharges from the site.

Akara does not currently have a mine closure and rehabilitation plan accepted by the Thai Government. The company has prepared LoM closure cost estimates and has also developed a care and maintenance plan (to 2022) that includes rehabilitation of selected project components. The life-of-project closure costings provided by Akara are broken down into 49 cost elements, generally corresponding to specific assets (internal roads, power lines, explosives magazines) or to works packages (water management, post-closure monitoring). Limited information is available for how the cost estimates were developed, although some detail has been provided for four specific elements (TSF 1 cover, C North, HW pit, A West waste dump area) included in the “care and maintenance” (C&M) rehabilitation works. Overall, the assumptions used to develop closure costs for the four project elements targeted for implementations during the C&M period generally appear sound, but with some areas of uncertainty, potentially amounting to in the order of ±180 million baht (~US\$5.2 M). These amounts do not include the cost of post-closure monitoring and maintenance, which is currently estimated at around 70 million baht (~US\$2 M).

The estimated costs of mine rehabilitation and closure exceed the funds currently held by Akara in its mine closure reclamation fund. Akara has advised SRK that it currently holds 87,801,395 baht in its “Environmental Closure Fund”. This money is generated through a levy imposed by the company on itself as a monthly charge. The current rehabilitation levy is 95 baht per ounce.

Further detail in relation to the balance of mine rehabilitation and closure costs is outlined in Section 2.15 below.

2.15 Model inputs

Table 2-7 below shows a summary of SRK’s suggested input parameters into Grant Thornton’s Chatree cashflow model. These inputs are based on SRK’s review of the available technical data and Kingsgate’s financial model with minor modifications where deemed necessary.

Table 2-7: Summary of SRK’s recommended inputs into the Chatree model for the period 1 October 2016 to 31 January 2017 (incorporating gold in circuit)

Category	Parameter	Units	Total
Mining			
	Waste Mined	bcm	521,669
	Ore Mined	bcm	421,954
	Strip Ratio	bcm:bcm	1.24
	Mined Grade	g/t	1.16
Processing			
	Milled Tonnes	t	1,184,223
	Milled Grade	g/t	1.35
	Recovery	%	83%
Sales			
	Gold sold	oz	51,061
	Silver sold	oz	392,212

Category	Parameter	Units	Total
	Revenue (gold and silver)	US\$ M	75.30
	Gold Price	US\$/oz	1,325
	Silver Price	US\$/oz	20
Costs			
	Royalty Payments	US\$ M	5.83
	Mining	US\$ M	16.19
	Processing	US\$ M	8.78
	Capex & Rehabilitation	US\$ M	0.31
	Bangkok office & other	US\$ M	1.87
	Salaries & Provident Fund	US\$ M	1.35
	Redundancies	US\$ M	3.47
Unit Costs			
	Mining	US\$/t TMM	6.55
	Processing	US\$/t milled	7.94
Rehabilitation			
	Care & Maintenance (Preferred)	US\$ M	7.2
Exclusions			
Loan, Interest Payment, Preference Shares, Tax			

With regard to likely C&M and closure costing, SRK notes there is currently significant uncertainty as to the likely future operation of the Chatree mine and processing operation and associated timings. SRK notes that in its Bidder’s Statement, Northern Gulf Petroleum International Pte Ltd intends to continue the business of Kingsgate and seek the renewal of the metallurgical licence for a period of three to five years after 31 December 2016.

SRK notes that Kingsgate has prepared multiple closure costings ranging from just the C&M period through to full closure. However, these costings remain to be discussed, negotiated and formally approved by the Thai government.

Given the presence of sizeable in situ gold resource and associated mining and processing infrastructure remaining at Chatree, it is SRK’s opinion that the Chatree mining operation will likely be redeveloped at some point in the future. To this end, SRK recommends that Grant Thornton includes a provision of approximately US\$5.2 M (in C&M costs) plus a buffer of some US\$2 M in its cashflow model to account for this scenario (Table 2-8). SRK expects these costs would be incurred over the period 2017 to 2022.

Table 2-8: SRK’s model input recommendations for C&M/ Closure

	Low (US\$ M)	Preferred (US\$ M)
C&M/ Closure costs	5.2	7.2

SRK notes that should the Chatree operation not receive Thai Government approval within this five-year timeframe, then the full closure costs for the site could be significantly higher than those outlined above.

3 Nueva Esperanza Project

3.1 Location and supporting infrastructure

The Nueva Esperanza Project is located in the northern segment of the Maricunga district of the Atacama region, about 150 km northeast of the mining centre of Copiapo.

The Nueva Esperanza project is located in hilly topography at altitude (approximately 4,100 masl) but is well positioned with respect to available supporting infrastructure. The tenure is linked by an all-weather highway to the regional mining service centres of Copiapo and Salvador, and there is favourable access to grid power, which already supplies large scale mines approximately 20 km to the south (La Coipa) and 60 km to the southeast (Marte).

3.2 Ownership

Kingsgate holds a 100 percent interest in the Nueva Esperanza Project.

3.3 Tenure

SRK has relied upon representations made to it by Kingsgate. Kingsgate has engaged Harris Gomez lawyers to prepare an independent legal opinion regard the Nueva Esperanza tenements, which will be provided to SRK upon completion. SRK makes no other assessment or assertion as to the legal title of the tenements and is not qualified to do so.

As noted in Section 1.3, in line with the requirements of ASIC Regulatory Guide 111, SRK is obliged to issue a supplementary report if a material change in circumstances arises after the release of our report.

SRK has been advised by Kingsgate that the Nueva Esperanza concessions outlined in Table 3-1 were first granted to Minera Anglo American Chile and are held in perpetuity. All rents and rates are up to date and the concessions are in good standing.

Table 3-1: Status of the Nueva Esperanza project

Tenement	Property Type	Area (Ha)	Granted
Reemplazo A 1/10	Mining Concession	10	2006
Reemplazo B 1/5	Mining Concession	5	2006
Negra 1/1003	Mining Concession	100	1982
Pasua I 1/30	Mining Concession	200	2003
Pascua II 1/30	Mining Concession	300	2003
Pascua III 1/30	Mining Concession	300	2003
Pascua IV 1/20	Mining Concession	200	2003
Pascua 1/328	Mining Concession	1,131	1985
Robinson 1/14	Mining Concession	94	1987
Pena 1/181	Mining Concession	905	1984
Negra 1/1003	Mining Concession	370	1982
Negra 1/1003	Mining Concession	4,545	1982
Flor 1/20	Mining Concession	100	1983
Canarias 1/414	Mining Concession	1,066	1985
Total		9,326	

3.4 Project history

The current Nueva Esperanza Project comprises three well-defined silver and gold epithermal deposits that have been consolidated by Kingsgate from separate tenements held under previous owners.

The Arqueros deposit was originally held and explored as a greenfield exploration project by Minera Anglo American Chile (now Anglo American Norte) and Minera Mantos de Oro between 1982 to 1989. Following a series of transactions, the Arqueros Project was acquired by Laguna (now a wholly owned subsidiary of Kingsgate), in 2009. In November 2009, Laguna announced a maiden JORC Code (2004) compliant Inferred Resource for the Arqueros deposit. This estimate was updated in early 2010 and a scoping study subsequently completed.

Further drilling was completed through 2010 to 2012, in addition to metallurgical testing, bulk sampling, mining and geotechnical studies and environmental baseline studies in support of preparing the Environmental Impact Assessment (EIA) for the project.

In October 2011, Laguna completed an agreement with Kinross Gold Corporation (“Kinross”) to acquire the adjacent Chimberos and Esperanza blocks, which includes Teterita. As a result of this acquisition, the name of the project was changed to Nueva Esperanza to reflect the new scope of the project incorporating the surrounding Chimberos and Teterita properties and an updated resource estimate combining all properties was prepared.

Kingsgate subsequently acquired Laguna in January 2012.

In July 2013, Kingsgate announced that the EIA for Nueva Esperanza was approved by the Chilean government and reported an updated resources estimate, which included the Arqueros, Teterita, and Chimberos deposits.

In March 2014, Kingsgate announced a definitive feasibility study (DFS) for Nueva Esperanza. The study outlined a 3 Mtpa heap leach operation, producing 6.43 Moz per annum of silver Ag and 17,500 oz per annum of gold at 70% Ag and 75% Au recovery rates respectively, over a six-year mine life. First production was expected in the first half of 2016 calendar year. Subsequent works focussed on post-feasibility study optimisation and included further drilling of gold-rich targets (including Carachitas, Potosi, Boulder and west of the existing Chimberos pit), environmental and community studies.

In April 2016, Kingsgate announced the results of a pre-feasibility optimisation study involving a 2 Mtpa mine with a Merrill Crowe plant rather than the 3 Mtpa heap leach operation considered in the 2014 DFS. Based on these results, Kingsgate is progressing feasibility studies and permitting to allow consideration of development options in 2017.

3.5 Geological setting

The project is located within the Maricunga Belt, a linear metallogenic (Ag-Au endowed) unit located in the Andean Cordillera of northern Chile. The Belt extends north-south approximately 200 km in strike length along the axis of the High Andes or Altiplano.

Precious metal (Ag-Au) endowment is related to a belt of Miocene volcanic rocks, most of which constitute a series of variably eroded compound stratovolcanoes exposing intrusion related porphyry-type mineralisation in the southern belt and volcanic-hosted high-sulphidation epithermal mineralisation in the north. The Nueva Esperanza project is located in the northern part of the Maricunga Belt.

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The Nueva Esperanza district is centred on a dacitic dome complex that overlies a volcanic tuff sequence of broadly similar composition and age. Non-welded ignimbrite appears to be a major component of the tuff sequence. These early Miocene (~23-22 Ma) volcanic rocks unconformably overlie Triassic and Carboniferous strata in the eastern part of the district, where they crop out in the Chimberos sector and underlie the Teterita deposit at depth. The Carboniferous rocks comprise siltstone, sandstone and conglomerate, which might have been deposited under lacustrine conditions.

The Nueva Esperanza district hosts a typical high sulphidation epithermal system associated with extensive (~45 km²) advanced argillic alteration zone of the type that constitutes the lithocaps above porphyry-type mineralisation. Two main styles of epithermal precious metal mineralisation are present at Nueva Esperanza:

- Sub-horizontal, strata-bound bodies (mantos) in permeable tuff horizons; and
- Steep feeder veins and ledges in both the Carboniferous basement and overlying tuff sequence.

The close relationship between the gold-rich feeders and silver-dominated mantos is particularly well represented by the Arqueros sector, where both have been exploited by underground mining methods. The east-northeast to north-northeast faults and fractures appear to control the Chimberos and Chimberos Gold precious-metal mineralisation, which occur in hydrothermal breccia bodies.



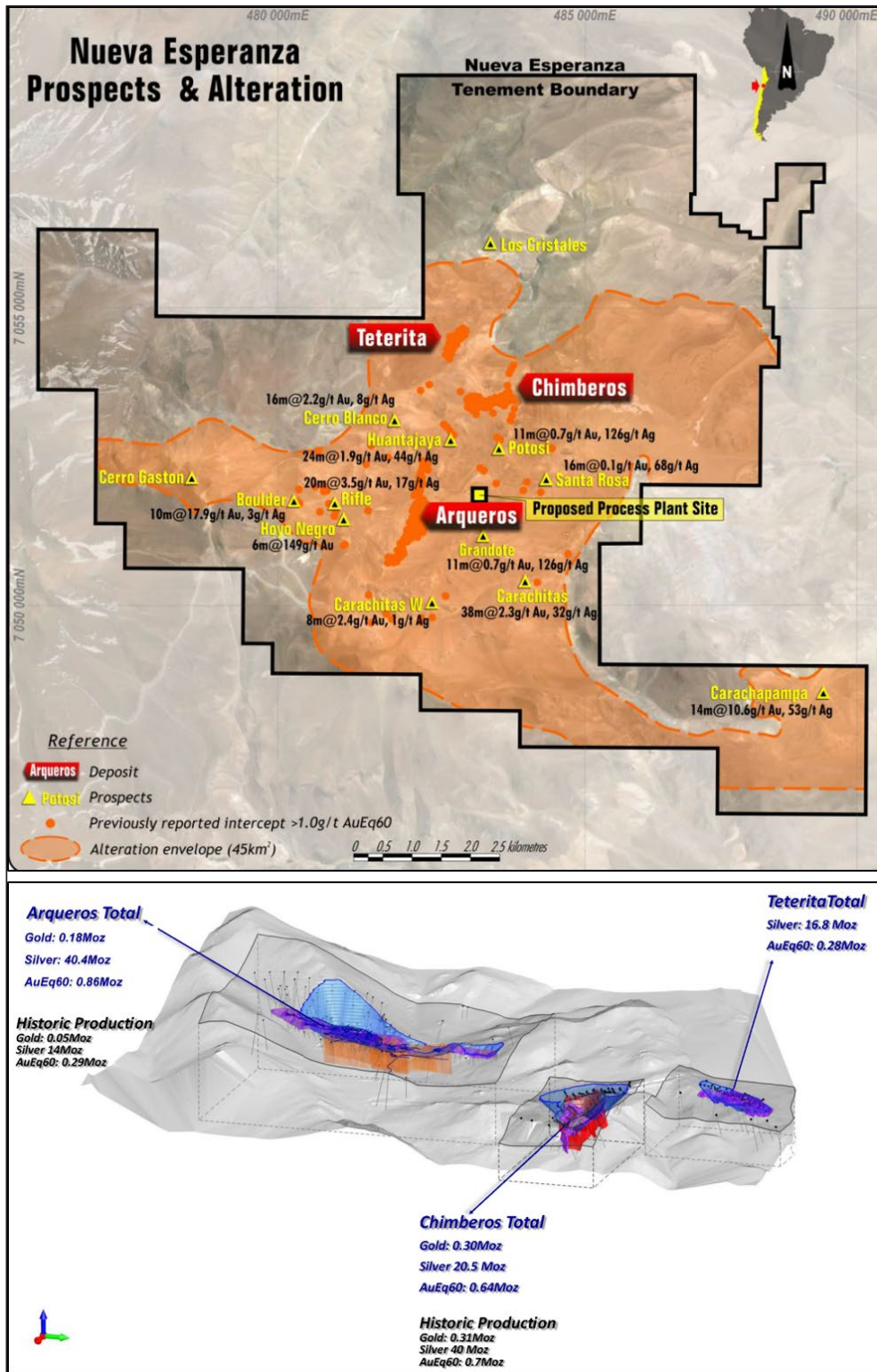


Figure 3-1: Nueva Esperanza key deposits, prospects and alteration halo

3.5.1 Mineralisation

The deposits are hosted within Tertiary-aged volcanic units in the case of Arqueros and Teterita, and Palaeozoic sediments for Chimberos. However, the alteration and mineralisation for the three main deposits are contemporaneous, being Miocene in age and associated with the Cerro Bravo paleovolcano.

Arqueros deposit

The Arqueros deposit comprises oxidised silver and gold mineralisation dominated by silver halides and electrum respectively, hosted in a high sulphidation epithermal alteration of Tertiary dacitic lapilli tuffs and breccias. The mineralisation is dominated by silver, and defines two domains: a horizontal stratabound mineralisation ('mantos') hosted by vuggy silica, which hosts the bulk of the silver mineralisation, and a series of vertical sub-parallel intersecting silicified gold/silver bearing ledges (veins) and/or breccias.

The deposit was mined on two levels, as a small underground operation, by Compania Minera Can ("MCC"), a division of the Copec Group, from 2000 to 2004. Approximately 1.2 Mt was mined from this and the nearby Huantajay mine (also within the Arqueros tenement block) targeting high grade ore at an average recovered grade of 364 g/t Ag and 1.34 g/t Au yielding about 14 Moz of silver and 52,200 ounces of gold at a cut-off grade of 4.5 g/t gold equivalent. Of this, about 920,000 t at 438 g/t Ag and 0.4 g/t Au was mined from the mantos. The ore was treated at MCC's Merrill Crowe plant in Quebrada La Coipa, about 80 km by road from site.

Laguna collected 188 channel samples and drilled 76 reverse circulation holes and 64 diamond drill holes between 2009 and 2011. Together with historical work, a database of 1,087 channel samples (4,052 m), 2,698 open holes (99,792 m), 132 reverse circulation holes (22,358 m) and 67 diamond drill holes (7,742 m) formed the basis of the mineral Resource Estimate outlined in Table 3-2.

The current 2016 Resource estimate reported at a cut-off grade of 0.5 g/t gold equivalent (where 1 g of gold is deemed equivalent to 60 g of silver) is outlined in Table 3-2.

Chimberos deposit

The Chimberos deposit lies between the Arqueros and Teterita deposit and sits as an extension to a remnant open-pit located in an upthrown block of folded Paleozoic conglomerates, sandstone and shale. Mineralisation is dominated by silver halides in the eastern part with some gold as electrum. The western part shows similar characteristics to Arqueros with relatively higher gold mineralisation and less silver hosted with a series of cross-cutting vertical bodies. Both styles of mineralisation are hosted by silicified hydrothermal breccia bodies. "Silver breccia" of high sulphidation epithermal affinities are superimposed on the folded Palaeozoic sedimentary sequences.

The deposit was mined using open-pit methods by previous owners Compania Mantos de Oro over a period of 13 months in 1998 and 1999, producing 4.2 million tonnes at 294 g/t silver for approximately 34 Moz of silver recovered and 0.23 g/t Au for 34,000 oz of gold recovered. The ore was transported some 20 km to the third party owned La Coipa plant for processing. The Chimberos Mine reputedly operated at a cut-off grade of 90 g/t Ag in line with silver prices at that time, and the existing stockpiles of the then marginal grade ore remain adjacent to the pit and have been incorporated into the most recent (2016) Resource Estimate.

Prior to, and during mining, the operators drilled 266 holes totalling 18,654 m. Of these, 231 holes totalling 14,810 m were drilled within the excavation area, whereas the remainder were drilled to define extensions. Between 2012 and 2105, Laguna completed further exploratory drilling of the deposit drilling 75 RC holes and 27 diamond holes totalling 21,779 m. Laguna focussed exploration on further defining remnant mineralisation, including validation of the existing data, and completed three RC holes and a series of trench sampling across the Chimberos low grade stockpile.

The current Mineral Resource estimate, at a cut-off grade of 0.5 g/t gold equivalent (where 1 g of gold is deemed equivalent to 60 g of silver) is outlined in Table 3-2.

Teterita deposit

The Teterita deposit is a similar, albeit much smaller, deposit than Arqueros, consisting of oxidised mantos-style mineralisation trending north-east and comprising silver halides hosted within a high sulphidation epithermal alteration of stratified Tertiary dacitic lapilli tuffs and breccias. The depth below the upper surface of the defined mineralisation varies from about 5 m to 40 m. The gold-rich cross-cutting breccias observed at Arqueros and Chimberos have not yet been observed at Teterita.

In 2004, Kinross drilled 66 RC holes totalling 8,488 m. Following acquisition of the project in 2011, Laguna used the historical data to estimate an Inferred Resource. Between 2011 and 2012 Laguna completed further exploration of the deposit drilling 23 RC and 36 diamond holes totalling 5,297 m.

The current Mineral Resource estimate at a cut-off grade of 0.5 g/t gold equivalent (where 1 g of gold is deemed equivalent to 60 g of silver) is outlined in Table 3-2.

3.6 Mineral Resources

The current reported Mineral Resource estimate was completed and released by Kingsgate in April 2016 and is reported for three separate deposits – Arqueros, Chimberos and Teterita. All are reported according to JORC Code (2012) definitions.

The information relating to the 2016 Nueva Esperanza Mineral Resource estimate is based on information compiled by Ms Maria Munoz, who qualifies as a Competent Person. Ms Munoz was an employee of Kingsgate at the time of estimation and reporting. The 2016 Resource update superseded the 2015 Resource estimate undertaken by independent group, MPR Geological Consultants (Competent Person: Jon Abbott) who provided an audit to the 2016 estimation process and methodology.

The project has estimated Resources of 39.4 Mt at a grade of 1.48 g/t AuEq for 1.88 Moz AuEq. Although gold is not the dominant metal, Kingsgate choose to report a gold equivalent value to allow comparison with Kingsgate’s Chatree Project.

Chimberos was previously mined as an open-pit producing 4.2 Mt at a grade of 0.23 g/t Au and 294 g/t Ag. Arqueros was previously mined as an underground mine producing 1.2 Mt at a grade of 1.34 g/t Au and 364 g/t Ag.

Table 3-2: Nueva Esperanza Mineral Resource reporting summary as at 13 April 2016

Deposit	Category	Tonnes (Mt)	Au g/t	Ag g/t	Au Eq60 g/t	Ounces (Moz)			
						Au	Ag	Au Eq60	Ag Eq60
Arqueros	Production ¹	1.2	1.34	364					
	Indicated	14.7	0.32	76	1.59	0.15	35.9	0.75	45.0
	Inferred	3.3	0.3	42	1.0	0.03	4.5	0.11	6.4
	Subtotal	18.0	0.32	70	1.48	0.18	40.4	0.86	51.4
Teterita	Measured	1.6	0.01	93	1.56	0.00	4.8	0.08	4.8
	Indicated	3.3	0.0	98	1.64	0.00	10.4	0.17	10.5
	Inferred	0.4	0.0	65	1.1	0.00	0.8	0.01	0.8
	Subtotal	5.3	0.01	94	1.58	0.00	16	0.27	16.1
Chimberos Silver	Production ²	4.2	0.23	294					
	Indicated	3.0	0.16	76	1.43	0.02	7.3	0.14	8.3
	Inferred	0.6	0.1	66	1.2	0.00	1.3	0.02	1.4
	Subtotal	3.6	0.15	74	1.39	0.02	8.6	0.16	9.6
Chimberos Gold	Indicated	6.2	1.17	51	2.02	0.23	10.2	0.40	24.2
	Inferred	1.7	0.9	31	1.4	0.05	1.7	0.08	4.6
	Subtotal	7.9	1.11	47	1.89	0.28	11.9	0.48	28.8
Chimberos Stockpile	Inferred	4.6	0.03	44	0.8	0.004	6.5	0.11	6.8
	Subtotal	4.6	0.03	44	0.8	0.004	6.5	0.11	6.8
Total	Measured	1.6	0.01	93	1.56	0.00	4.8	0.08	4.8
	Indicated	27.2	0.46	73	1.67	0.40	63.8	1.46	87.9
	Inferred	10.6	0.3	43	1.0	0.09	14.8	0.33	20.0
	Total	39.4	0.39	66	1.48	0.49	83.4	1.88	112.7

3.7 Ore Reserve and pre-feasibility studies

The Nueva Esperanza deposit is proposed to be mined as an open-pit operation utilising a drill-blast-load-haul mining method. The mine life is 11.6 years with the last 4.5 years as rehandle of lower grade ore. There are three discrete deposits in the mine plan: Arqueros, Chimberos and Teterita.

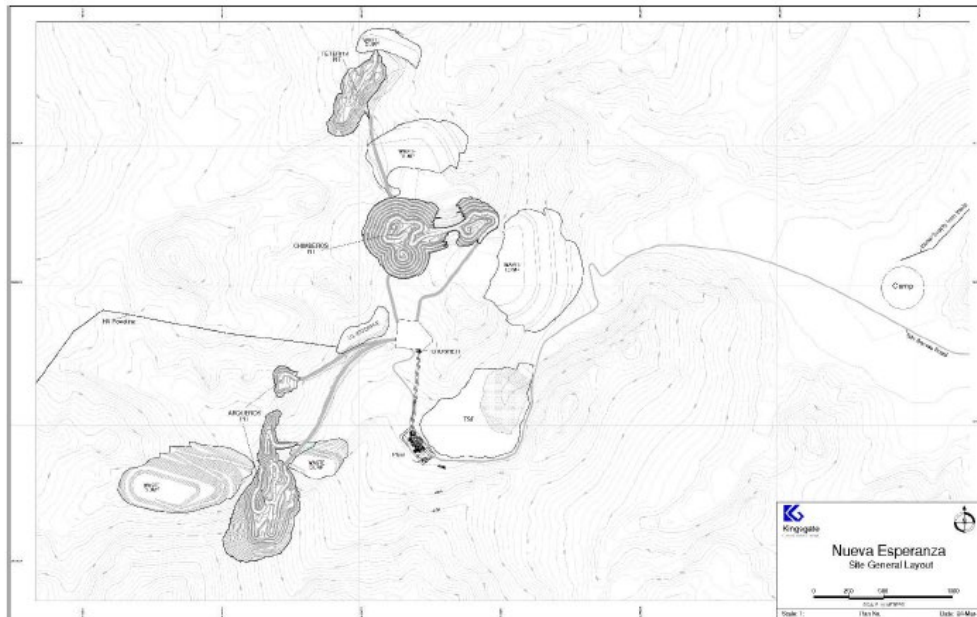


Figure 3-2: Nueva Esperanza site layout

Table 3-3: Life of Mine production profile (excluding lower grade stockpiles)

Year	Material, '000 tonnes			Grade, g/t		Contained Metal, oz	
	Waste	Ore	Total	Au	Ag	Gold	Silver
0	1,068	34	1,101	0.60	38.5	652	41,948
1	21,349	4,204	25,553	0.29	103.7	39,057	14,012,073
2	21,274	4,336	25,609	0.18	96.0	25,324	13,382,998
3	21,711	4,276	25,987	0.67	65.8	92,332	9,051,812
4	24,064	2,344	26,408	1.39	55.0	104,480	4,144,994
5	20,960	1,310	22,270	1.04	110.0	43,739	4,631,536
6	1,794	1,968	3,761	0.29	80.8	18,154	5,115,013
Total	112,219	18,471	130,690	0.55	84.8	323,738	50,380,375

Comprises the Ore Reserve plus 1.3 Mt of in pit Resource and 4.6 Mt of Mineralised Waste

Source: Kingsgate, 2016.

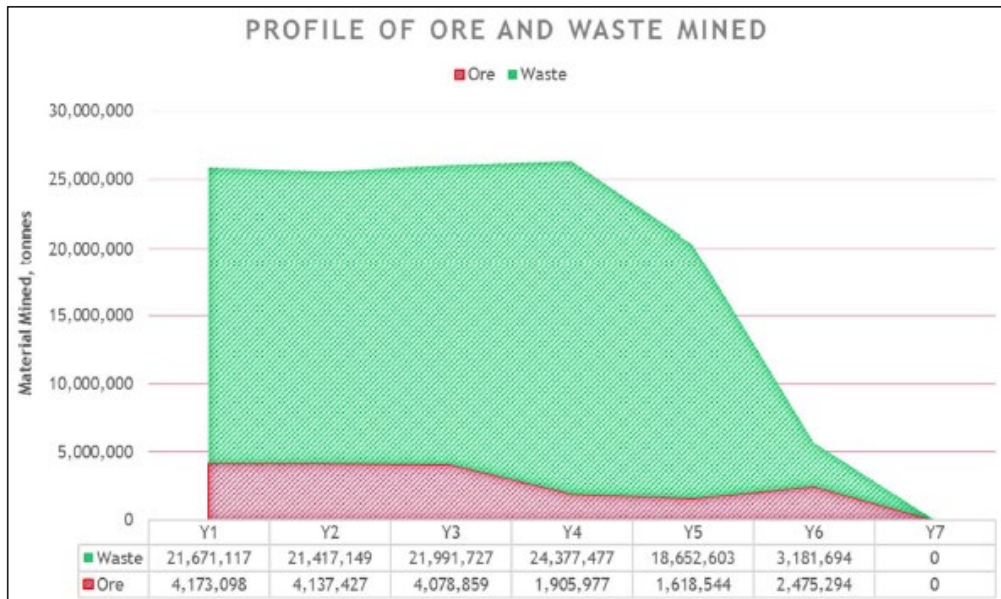


Figure 3-3: Profile of ore and waste mined

The final pit designs and Reserves were based on optimised Whittle shells created using a base gold price of US\$1,200/oz and a silver price of US\$19/oz. The Whittle optimisations were run separately for Arqueros, Chimberos and Teterita on the respective ordinarily kriged block models.

Table 3-4: Whittle optimisation parameters

Arqueros	Unit	Value		
Price	US\$/oz	Gold - 1200 / Silver - 19		
		Arqueros	Chimberos	Teterita
Waste Mining Cost	US\$/t	1.30	1.35	1.38
Ore Mining Cost	US\$/t	2.38	2.38	2.57
Processing Cost	US\$/t	14.74	1505	17.88
Selling Cost - Gold	US\$/oz	40.87	40.87	
Selling Cost - Silver	US\$/oz	1.07	1.07	0.89
G&A Cost	US\$/t	3.79		
Mining Dilution Fraction		1.05		
Mining Recovery Fraction		0.95		
Marginal cut-off grade	g/t	variable		
Overall Slope Angle	degrees	variable		

Source: Kingsgate, 2016.

A mining dilution factor of 1.05 was applied and a mining recovery factor of 0.95 was assumed as ore loss in the estimation of Reserves.

In SRK’s opinion, the Nueva Esperanza ore Reserves have been reported in accordance with the JORC Code (2012).

Table 3-5: Nueva Esperanza Ore Reserves as at 30 June 2016

Deposit	Category	Tonnes Million	Au g/t	Ag g/t	AuEq60 g/t	Ounces (million oz)			
						Au	Ag	Au Eq60	Ag Eq60
Arqueros	Proven								
	Probable	7.68	0.38	89	1.87	0.09	22.1	0.46	27.7
	Subtotal	7.68	0.38	89	1.87	0.09	22.1	0.46	27.7
Teterita	Proven								
	Probable	2.59		135	2.25		11.3	0.19	11.3
	Subtotal	2.59		135	2.25		11.3	0.19	11.3
Chimberos	Proven								
	Probable	6.85	0.93	66	2.03	0.21	14.4	0.45	26.8
	Subtotal	6.85	0.93	66	2.03	0.21	14.4	0.45	26.8
Total	Proven								
	Probable	17.12	0.54	87	1.99	0.30	47.8	1.10	65.8
	Total	17.12	0.54	87	1.99	0.30	47.8	1.10	65.8

Source: Kingsgate, 2016.

3.7.1 Other mineralisation

The Arqueros, Chimberos and Teterita deposits sit within a broad alteration halo where more regional exploration appraisal has identified a number of epithermal targets and prospects that have been variably tested (Figure 3-1). Some of the more significant targets, in order of exploration priority include:

- The recent epithermal gold-silver vein system at Carachitas to the immediate south of the Arqueros deposit. The east-northeast trending vein system was targeted by a small number of drill holes in late 2015 with all holes intersecting significant gold mineralisation, the most significant being 38 m averaging 2.3 g/t gold downhole from 14 m;
- Similar exploration targets comprising high-grade gold and gold-silver epithermal vein systems identified through historic drilling at the Boulder, Rifle and Huantajaya prospects. This was followed by recent drilling in 2014/2015 at the Boulder and Rifle prospects under the current tenure. The Huantajaya prospect lies between the Arqueros and Chimberos deposits and was historically mined along with the Arqueros deposit by Compania Minera Can Can (“MCC”), a division of the Copec Group, during the period 2000 to 2004; and
- Evidence for silver-bearing breccias and potential mantos-style mineralisation at the Potosi prospect and gold-silver breccias at the Cerro Blanco prospect.

3.8 Processing flowsheet

The proposed Nueva Esperanza Mine uses a conventional process for the recovery of gold and silver. It comprises crushing, grinding, cyanide leach and Merrill Crowe recovery of gold and silver. The final product is smelted into gold and silver dore bars. Tailings are filtered and dry stacked and liquors detoxified. The proposed plant has a nameplate capacity of 2 Mtpa.

The proposed project also incorporates the necessary additional infrastructure to support the mining and processing operations including administration buildings and offices, warehouse, workshops, laboratory, fences and security, private haul roads and overland conveyors linking resources to the processing plant, a 27 km connection to existing grid power, existing borefield and water systems, tailings storage facilities, mining workshops and a 500-person camp.

An earlier Nueva Esperanza feasibility study was completed in 2012 for a predominantly silver project processing 2 Mtpa of ore from the Teterita and Arqueros deposits through milling and tank cyanide leach. A follow up feasibility study was undertaken in 2014, based on the heap leach processing of the Project ores. The most recent PFS was completed in April 2016. It was based on further consolidation of the deposits with the addition of the Chimberos higher gold grade ores to the Teterita and Arqueros ores. The study was for a milling and tank cyanide leach plant with an initial nameplate capacity of 2 Mtpa.

The current arrangement includes:

- Primary jaw crushing
- Crushed ore stockpile and reclaim
- Two stage grinding - SAG and closed circuit ball milling
- Cyanide leaching (48 hours residence time)
- Leach residue thickening and filtration
- Merrill-Crowe zinc precipitation and filtration circuit
- Gold room (dore smelting and mercury retorting)
- Tailings liquor cyanide detoxification (SO₂-air method)
- Tailings thickening, filtration and 'dry' stacking on a lined pad
- Supporting utilities and reagent systems
- Supporting infrastructure.

The flowsheet offers a typical configuration for high silver and gold processing facilities as summarised in Figure 3-4.

Nueva Esperanza is a conventional gold and silver processing plant suited to processing free milling gold and silver ores. In SRK’s opinion, the flowsheet is suited to the processing of the proposed feed. Additional engineering and testwork is required to better understand the optimal feed blend for the circuit to maximise throughput and recovery.

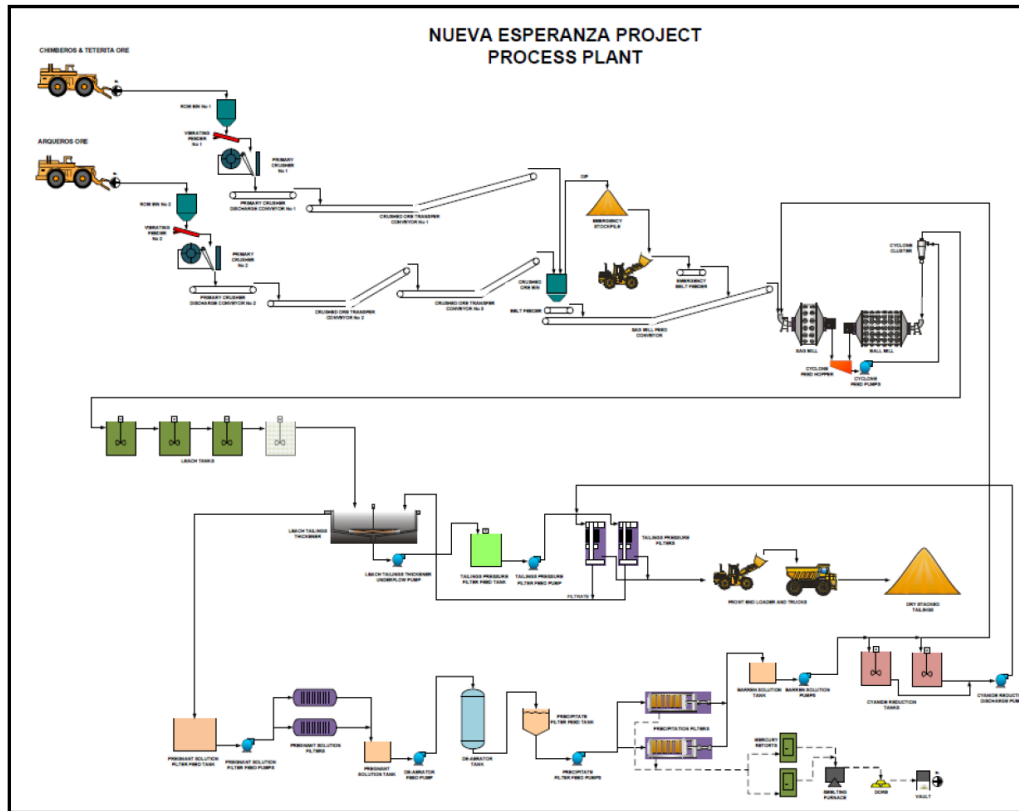


Figure 3-4: Nueva Esperanza processing plant summary flowsheet

Source: Kingsgate, 2016.

3.9 Schedule and production ramp-up

The current LoM model targets initial production in October 2019 with a three month ramp-up period, (50% : 65% : 80%) before achieving full production from the fourth month onward. Based on the available information, SRK considers this three-year timeframe to production to be reasonable.

SRK notes that there is no contingency allowed for in the schedule, however a number of the critical tasks in the PFS Project development schedule can, and should, be fast tracked in order to meet the target completion date.

In SRK’s opinion, the proposed Project construction completion date of September 2019, first gold and silver production in mid-October 2019 and a three-month ramp-up of production to the nameplate capacity are all considered reasonable assumptions at a PFS level of study.

3.10 Throughput

The design Project throughput of 2 Mtpa is based on the processing of a feed blend from the three major deposits. SRK supports the engineering practice used for the design of the plant and considers that it meets the standard typically expected of a PFS. The flowsheet also leverages two previous ‘feasibility studies’ which provide a firm basis for the latest study.

In SRK’s opinion, there is sufficient contingency allowed for in the engineering design. It uses typical engineering practices to ensure a conservative design including:

- Comminution data is based on the hardest feed type testwork (Teterita ores);
- Comminution design is based on the 75th percentile of testwork data; and
- The assumed plant and mill power utilisation is conservative.

The current study has highlighted the potential requirement to grind finer, i.e. from 120 µm to 75 µm in order to improve metal recoveries. Ongoing testwork will allow any modification to mill sizing to occur at the feasibility level of design. Any additional grinding capital cost would need to be justified by additional metal recovery. It is not considered to be a risk at this stage of design.

The main risk to not achieving the forecast LoM throughput is a major change in metallurgical behaviour of the project ores. The testwork undertaken to date is extensive and approaches that expected of a feasibility level study. Based on this testwork and the historical processing of some of the ores, a major change to the metallurgical behaviour is not expected. The risk of variability in metallurgical behaviour outside the PFS design parameters has however been identified by Kingsgate and additional variability testwork is being undertaken as part of the feasibility level of design to support the current design. As a result of this additional testing, the risk is considered by SRK to be mitigated.

In SRK’s opinion, metallurgical testwork and process engineering design and equipment sizing supports the capacity of the proposed plant to meet the forecast LoM throughput of 2 Mtpa (at PFS level with sufficient design contingency). Additional testwork is ongoing to confirm the design inputs as part of the feasibility study.

3.11 Recovery

The Nueva Esperanza plant has a high design silver and gold grade of 120 g/t and 10 g/t respectively and is free milling. Zinc precipitation of leached gold and silver is the preferred recovery method from cyanide solutions under these conditions. The current design allows for a grind size of 120 µm due to the relative insensitivity of recovery to grind size. Leach residence time has been extended to 48 hours to increase metal recoveries although the majority of the leaching takes place in the first 10 hours.

The Nueva Esperanza Project assigns a separate gold and silver recovery to each of the three deposits, irrespective of grade. These are applied to the LoM feed tonnage to achieve a weighted recovery for each operating period. They are shown in Table 3-6.

Table 3-6: Nueva Esperanza PFS LoM recovery assumptions

Deposit	Unit	Gold Recovery	Silver Recovery
Arqueros	%	87.0	79.0
Teterita	%	-	72.3
Chimberos	%	82.1	88.1

Ausenco compiled the historical testwork data and compared it against operating data from historical processing of Chimberos mineralisation at the La Coipa processing facility in 1998 and 1999. Ausenco were not able to develop a grade versus recovery relationship due to the high variability of the samples tested. As a result, the correlation co-efficient was not strong enough to support its use in the PFS for metal recovery estimation. SRK has reviewed the data and reached the same conclusion. There could be several reasons for this variability including the use of RC samples for testing, the different behaviour of different ore sources within each ore body, or a number of other variables.

No silver recovery testwork has been carried out on Chimberos East (Chimberos silver deposit). Recovery information from Chimberos West was used for the purpose of this study. The ore types are sufficiently similar to consider this an appropriate assumption at a PFS level.

The alternative method of recovery estimation used for the Project was to average the metallurgical testwork results for each deposit. The averages used for the LoM modelling reflect the testwork undertaken. Whilst SRK does not recommend this as best practice, particularly given the significant variation in grades over the LoM which includes a number of low gold grades, it is not unusual practice to use average gold and silver recoveries for LoM modelling.

SRK accepts the use of averages in this instance but supports the Ausenco PFS recommendation and Kingsgate’s intention to undertake extensive variability testwork on leach extractions during the feasibility study. This testwork should be undertaken on diamond drill samples, from samples within the LoM preliminary mining inventory across a range of grades with an appropriate level of ore oxidation level and lithology. This testwork program is progressing.

SRK considers the use of algorithms based on head and tailings grades to forecast gold and silver to be an appropriate method of forecasting future recoveries.

SRK notes that there may be some potential to increase gold and silver recovery through the optimisation of the metallurgical testwork.

SRK accepts the use of average gold and silver recoveries for each deposit for the Nueva Esperanza Project at the PFS level of study based on the testwork available but supports the Ausenco PFS recommendation and Kingsgate’s intention to undertake extensive variability testwork on leach extractions during the feasibility study to improve the confidence in metal recoveries.

SRK considers the use of algorithms based on head and tailings grades to forecast gold and silver recovery to be appropriate method of forecasting future recoveries. This is preferable to using an average recovery over the LoM across all ore types. These relationships will be developed during the feasibility level of design.

3.12 Processing risks and opportunities

SRK does not consider there to be any significant technical issues that are likely to affect the ability of the Nueva Esperanza Project processing facility achieving the forecast LoM throughput. SRK recommends that further testwork on representative samples is undertaken to develop a higher level of confidence around the gold and silver recovery for each of the three LoM deposits and the major ore types within each of those deposits. This additional testing is ongoing and well progressed.

SRK notes that the opportunity of using salvaged equipment from the Chatree operation has been included as a Nueva Esperanza Project opportunity and incorporated into the financial model. This saving of US\$13.0 M is at a desktop level of study but is considered to be a reasonable assertion. SRK accepts these LoM assumptions. It has other positive implications such as potentially improving the Project schedule and plant capacity (with minor flowsheet changes) but these have not been considered further at this level of review.

3.13 Capital cost estimates

A capital cost estimate was developed by Ausenco for the Nueva Esperanza PFS. The estimate has been prepared at a PFS level of study with a nominal accuracy range of $\pm 25\%$. The scope included:

- The construction of a new 2 Mtpa processing plant
- Associated infrastructure, inclusive of:
 - mine development
 - process plant infrastructure
 - off-site infrastructure

- EPCM temporary facilities
- EPCM services
- A 15% contingency.

The estimate was presented in US\$. The base date of the estimate was the third quarter of calendar year 2015 ('Q3 2015'). The capital cost estimate presented is a total cost estimate and includes design allowances and accuracy provisions. No allowance was included for escalation from this date.

New mechanical equipment costs were based on database values (escalated where necessary) and vendor quotations. Other costs such as earthworks, concrete, structural steel, platework, mechanical installation, pipework, electrical & instrumentation and freight were factored from the mechanical equipment costs. Allowance was made for spares, first fills, mobile plant and equipment.

The estimate does not include Owner’s costs, escalation (other than for database mechanical equipment costs) or foreign exchange fluctuations. The only items under Owner’s costs are an allowance for contingency and the EPCM Contractor’s fee.

The initial PFS capital cost estimate went through a number of iterations as engineering has developed, costs have been updated and new information has come to hand. The original estimate of US\$209.6 M for the preferred plant site location, was revised marginally down to the US\$206.6 M after pre-production labour costs were moved from the capital costs to operating costs. This was subsequently reduced to US\$187.8 M. The reduction was predominately associated with the use of third party powerline cost (offset by higher electrical power cost) which incorporated substations and other electrical works at La Coipa and Nueva Esperanza. This reduced the electrical services costs by US\$15.2 M with additional EPCM savings as a result. A final capital cost reduction of US\$13.0 M has been applied to account for salvaging of key mechanical equipment from the Chatree Gold Operation on closure, reducing the final capital cost used in the LoM model to US\$175 M.

In SRK’s opinion, the construction capital cost estimate of US\$175 M used in the current LoM financial model is reasonable. It is at a PFS level accuracy with an appropriate basis of design and engineering practice applied. This cost will be further developed during the next phase of study.

3.14 Operating costs

A process operating cost estimate was prepared at a PFS level with a nominal accuracy range of ±25%. The base date of the estimate was the third quarter of calendar year 2015 ('Q3 2015') with currency conversion as at 30 September 2015. The operating costs were not escalated since this time. It is inclusive of primary crushing through to final tailings stacking.

The process operating costs for each ore type as presented in the PFS are shown in Table 3-7. The differences, specifically the higher Teterita cost, is associated with higher grinding media and power consumption as a result of its higher competency.

Table 3-7: Nueva Esperanza PFS process operating cost summary

Deposit	Processing cost (US\$ M/annum)	Processing cost (US\$ /tonne)
Arqueros	29.46	14.73
Teterita	35.70	17.85
Chimberos	30.08	15.04

Since the completion of the PFS, a power study was completed indicating the power price is likely to be lower than initially envisaged. These revised electrical power costs are incorporated into the LoM model. SRK accepts this assumption.

The processing cost estimate is based on:

- Testwork reagent consumption
- A mass balance
- Market reagent costs
- Electrical load power demand and industry pricing
- An appropriate manning and maintenance allowance.

This is considered by SRK to be reasonable. It allows for freight and exchange rates but does not include a contingency. This is normal practice at PFS level.

In SRK’s opinion, the average processing cost in Kingsgate’s LoM model of US\$16.16/t is well supported by testwork, engineering and the basis of the costing. The processing cost compares well against similarly sized operations provided the proposed throughput, feed grade and recovery is achieved.

In SRK’s opinion, the average forecast LoM financial model process operating costs are reasonable. They are at a PFS level accuracy with an appropriate basis of costing, which is supported by testwork and benchmarking against other similarly sized operations. This cost will be further developed during the next phase of study.

3.15 Sustaining Capital costs

There are no processing sustaining capital costs incorporated in Kingsgate’s LoM financial model other than that for tailings storage facility expansion and a mill reliner machine. Kingsgate notes that this cost is incorporated into the maintenance component of the process operating costs.

In SRK’s opinion, an allowance should be made in the LoM model for a processing and infrastructure sustaining capital cost. Based on an annual percentage allowance for the replacement of the installed capital equipment, SRK expects this cost to be in the order of 2% of the processing plant operating cost per annum. When benchmarked against similar operations this is not unreasonable, also given some second hand equipment is being used. It would be at the low end of the typical range for a 2 Mtpa gold and silver processing facility but this is justified by its new build.

SRK expects the sustaining capital cost to be in the order of 2% of the processing plant operating cost per annum. It has been included in the financial model.

3.16 Environment

3.16.1 Permitting framework

- Chile has a well-established, but very complex, system of environmental permitting. The primary environmental authorisation required for project implementation is the “Resolución de Calificación Ambiental” (RAC). There are various administrative pathways to gaining the RAC permit, the more onerous of which (because it involves more public engagement) is the “Study of Environmental Impacts” (EIA). Elements of the Nueva Esperanza Project have previously been granted RAC permits: mining and ancillary support activities at Chimberos were approved in 1997 and mining, ore processing, tailing storage and a range of support infrastructure at Arqueros were approved in 2013. These existing consents are insufficient to cover the full range of activities proposed in connection with the Nueva Esperanza Project. A new EIA is required. SRK understands that documentation required for the EIA will be lodged with the Chilean government before the end of 2016. The typical time required for completion of an environmental assessment and granting of the RAC is in the order of 9 to 12 months.
- In addition to the requirement for the primary (RAC) authorisation, project implementation will require the granting of many (certainly dozens, and potentially hundreds) of “sectoral permits”. The sectoral permits are secondary approvals in the sense that they follow on from the granting of the RAC, although the administrative procedures around sectoral permit applications can generally proceed in parallel with the primary environmental impact assessment process. Amongst the secondary approvals required for project implementation is the development and submission to the government of a costed mine closure plan. A considerable amount of technical detail is required in the mine closure plan submitted to the Department of Geology and Mines, in part because the information contained in the plan serves as the basis for a financial assurance imposed on the mine operator. Legislation relating to mine rehabilitation and closure (*La Ley 20.551 que Regula el Cierre de Faenas e Instalaciones Mineras*) came into effect in late 2012 (after permitting of operations at Chimberos and Arqueros), but will apply to all of the mining activities included in the Nueva Esperanza Project.
- No mine closure plan was available for SRK to review as part of its review of the Nueva Esperanza Project. Consultants advising on environmental and permitting aspects of the project have broadly estimated that the cost of mine rehabilitation and closure will be in the order of 10% to 15% of the overall project cost (MyMA, 2014). No information was provided on how this estimate was derived. SRK notes that some of the mineral wastes arising from the project are highly reactive and that a requirement for long term management of acid-generating wastes should not be discounted.
- Documentation provided by Kingsgate demonstrates that it is aware of the complexity of the Chilean environmental permitting processes and has generally factored these in to its project development plans.

3.16.2 Environmental aspects

A wide range of environmental baseline studies have been carried out, or are in the process of being finalised for the project. The environmental factors to be assessed will largely be those previously evaluated as part of the Arqueros EIA in 2012, and for which an RCA was granted in 2013. SRK notes that some elements of the legal and policy framework surrounding environmental assessments in Chile have evolved in the period since the granting of environmental authorisations for the Chimberos and Arqueros projects. In particular, rules surrounding consultation with indigenous peoples have changed following the Supreme Decree No. 40, issued on October 30, 2012. The decree establishes a special consultation process for native peoples via the “Regulation of the Environmental Impact Assessment System”. The regulatory changes have the effect of giving increased influence to indigenous groups who take an interest in the project. Kingsgate has commissioned stakeholder studies for the Nueva Esperanza Project (MyMA, 2016), and is involved in a program of stakeholder consultation. There are at least five indigenous groups (with overlapping claims) who declare an interest in the project area and with whom some form of access/ compensation agreement will need to be formed in order for the project to proceed.

3.17 Model inputs

Kingsgate’s Nueva Esperanza PFS financial model was provided to SRK for review. SRK’s review of this model resulted in a recommended increase in sustaining capital for the operation. Other parameters in the financial model were considered and accepted by SRK to be reasonable. Operating cost estimates were generated from contractor quotes with a fuel, foreign exchange and inflation adjustment applied to load and haul rates. The mining, processing and capital costs set out in the model appear reasonable. Physicals such as production rates from the mine and mill also appear reasonable.

SRK recommends that Grant Thornton increase the sustaining capital in the Nueva Esperanza financial model from US\$3 M to US\$9.9 M over the LoM.

3.18 Remaining Resources

Following a detailed review of the available documentation around the PFS study for Nueva Esperanza, SRK notes that 34.7 Moz of AgEq. are contained within Inferred and Indicated Resources that currently sit outside of the PFS LoM plan. In SRK’s opinion, it is not unreasonable to expect that these Resources may be converted to Reserves at some future time, or be incorporated into further LOM studies through ongoing feasibility assessment.

SRK carried out an analysis of South American precious metal transactions (which were normalised for silver price differences between the valuation and transaction data and Ag: Au metal ratio) as outlined in Table 3-8. SRK has considered a metal ratio in order to compare transactions with more than one predominant metal or potential for future metal credits. The metal ratio considered by SRK is similar to the calculation of metal equivalents, but considers 100% recovery for all relevant metals within the resources, as at the early exploration stages reliable and accurate recovery data is not available in most cases.

Based on its analysis, SRK considers that a willing and knowledgeable buyer would ascribe value to the additional Resource outside the PFS LOM plan of a resource multiple of between US\$0.3 to US\$0.4/oz on a silver metal ratio basis. In determining an opinion on the resource multiple range, SRK considered the magnitude of the comparable silver (\pm gold) transactions range, the quality and appropriateness of the selected transactions and the outcomes of the other valuation methods (including due consideration of previous valuations).

Applying these metrics to Kingsgate’s remaining Resources of 34.7 Moz AgEq. outside the LOM plan equates to US\$10.4 M to US\$13.9 M.

3.18.1 Yardstick valuation

In order to verify its valuation using recent market transactions, SRK also considered typical yardstick ranges (1% to 5% of current silver spot price). SRK has elected to apply a yardstick measure of 0.5% to 1.0% to Inferred and 1.0% to 2.0% to Indicated Resources that lie outside of the current optimised LOM plan based on the 2016 PFS. The spot price for silver is assumed to be US\$19.59/oz.

On this basis, a 100% interest in Kingsgate’s Resources of 34.7 Moz AgEq. that lie outside the current LOM plan (as presented in the 2016 PFS) is estimated to lie in the range of US\$8.4 M to US\$18.3 M.

Summary

Based on the results of SRK’s analysis of recent market transactions involving Chilean resource projects considered to be similar to the Nueva Esperanza deposits and standard industry yardsticks, SRK estimates the value of a 100% interest in the additional resources available outside of the current optimised LOM plan to lie in the range of US\$10.4 M to US\$13.9 M, with a preferred value of US\$12.2 M. This range represents the values derived using the market transactions. In selecting its preferred value, SRK has selected the mid-point of the range, as it has no particular preference towards either end of the implied value range.

3.18.2 Exploration potential

In addition to the identified Resources at Aqueros, Chimberos and Teterita, SRK considers the Nueva Esperanza concession offers additional exploration potential. Kingsgate, and a number of previous companies, have carried out exploration more broadly within the tenure with a number of targets identified but only partially tested.

SRK considers that a willing and knowledgeable buyer would consider the exploration ground surrounding the three established deposits to be prospective for delineating further Resources of epithermal-style mineralisation. SRK anticipate, that with a suitable focus on exploration and an appropriate budget, there is a reasonable likelihood of defining additional mineralisation, some of which is likely to be sufficient tonnage and grade to add further to the Resource base and support mining and processing.

To assess the value of the Nueva Esperanza exploration potential outside of the defined Resources, SRK has considered recent transactions involving early to advanced stage exploration projects in Chile. These are presented in Table 3-9.

Based on its review of the transactions outlined in Table 3-9, SRK considers the market would likely pay in the range of US\$200 to US\$300/ha for the 9,326 ha at Nueva Esperanza. On this basis, SRK estimates a 100% interest in the exploration potential associated with the Nueva Esperanza project lies in the range US\$2.0 M to US\$3.0 M, with a preferred value of US\$2.5 M. This range is considered by SRK to be reasonable given the Reserve LOM and additional Resources have been valued separately, the paucity of recent regional-scale exploration, the overall size of the landholding and the exploration results encountered to date.

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Table 3-8: Resource comparative transactions - silver predominant in Chile and neighbouring countries

Date	Project	Country(s)	State/Province(s)	Development Stage(s)	Deal Metals	Buyer	Seller	Deal Value (US\$M)	Equity Acquired (%)	Implied Value 100% equity basis (US\$)	Implied Value 100% equity basis (US\$)	Resource Tonnes (M)	Au (g/t)	Ag (g/t)	Ni (%)	Zn (%)	Pb (%)	Raw \$/oz Ag	Normalised \$/oz Ag	MTR (%) Value	MTR (Ag US\$/Troy Oz)	Normalised MTR (%)	Normalised MTR (Ag US\$/Troy Oz)
Jun-14	Amancaesca project	Chile	Antofagasta	Feasibility Started	Gold, Silver	Austral Gold Limited (Guanaco Compania Minera SPA)	Yamana Gold Inc.	12.00	100	12.00	12.00	1.39	7.90	73.00	-	-	-	3.68	3.62	2.32	0.46	2.29	0.45
Nov-01	Challacollo	Chile	Tarapacá	Early Exploration	*Gold, Lead, Silver, Zinc	Silver Standard	SCMC	1.50	100	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Aug-01	Chanarillo	Chile	Atacama	Early Exploration	Silver	Aha Resources	Unnamed vendor	0.20	100	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dec-12	Joaquin Silver-Gold Project	Argentina	Santa Cruz	Reserves Development	Gold, Silver	Coeur d'Alene Mines Corp.	Mirabel Resources Ltd.	60.00	49	122.45	122.45	20.10	0.08	107.76	-	-	-	1.76	1.14	5.61	1.10	3.65	0.71
Feb-16	Martha Mine	Argentina	Santa Cruz	Reserves Development	Gold, Silver	Hunt Mining Corp.	Coeur Mining, Inc.	2.70	100	2.70	2.70	1.45	0.36	121.80	-	-	-	0.48	0.62	2.55	0.50	3.29	0.64
Dec-13	Challacollo	Chile	Tarapacá	Feasibility Started	Gold, Silver	Mandelay Resources Corp	Silver Standard Resources Inc	16.40	100	16.40	16.40	4.93	0.36	203.24	-	-	-	0.51	0.51	2.33	0.46	2.32	0.45
Oct-11	Nueva Esperanza	Chile	Atacama	Feasibility	Gold, Silver	Kingsgate Consolidated Ltd	Laguna Resources NL	11.14	30	37.13	37.13	28.50	0.25	78.00	-	-	-	0.52	0.32	1.39	0.27	0.85	0.17
Jul-11	Chimberos & Esperanza	Chile	Atacama	Reserves Development	Gold, Silver	Laguna Resources NL	Kinross Gold Corp (Compania Minera)	6.00	100	6.00	6.00	6.10	0.20	93.00	-	-	-	0.33	0.17	0.79	0.16	0.41	0.08
Oct-10	Arqueros	Chile	Atacama	Reserves Development	Gold, Silver	Kingsgate Consolidated Ltd	Laguna Resources NL	15.05	70	21.55	21.55	31.60	0.33	55.00	-	-	-	0.39	0.32	1.22	0.24	1.02	0.20
May-10	Cerro Bayo	Chile	Aisén del General Carlos Ibañez del Campo	Feasibility	Gold, Silver	Mandelay Resources Corp	Coeur d'Alene Mines Corp	19.37	100	19.37	19.37	1.09	3.18	422.20	-	-	-	1.31	1.39	4.76	0.83	5.06	0.99
Jun-08	Arqueros	Chile	Atacama	Advanced Exploration	Gold, Silver	Laguna Resources NL	Anglo American pic	2.30	100	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Oct-09	Cachinal	Chile	Antofagasta	Reserves Development	Gold, Silver, Zinc	Apogee Minerals Ltd	Valencia Ventures Inc	1.45	100	1.45	1.45	6.51	0.13	103.12	0.00	0.22	0.00	0.07	0.06	0.25	0.05	0.21	0.04
Jul-07	Cachinal	Chile	Antofagasta	Reserves Development	Gold, Silver, Nickel	Valencia Ventures Inc	Silver Standard Resource Inc.	5.25	20	26.27	26.27	9.20	0.11	89.70	0.17	0.00	0.00	0.99	1.50	3.58	0.70	5.42	1.06
Oct-15	Chinchillas project	Argentina	Jujuy	Prefeas / Scoping	Lead, Silver, Zinc	Silver Standard Resources Inc.	Golden Arrow Resources Corporation	18.11	75	24.15	24.15	73.10	-	59.77	0.00	0.64	0.61	0.17	0.21	1.02	0.20	1.27	0.25

Notes:
 Transactions shaded dark green are transactions involving projects now amalgamated as the Nueva Esperanza Project.
 Transactions highlighted in yellow did not contain Resources at the time of the transaction.
 Transactions highlighted in Orange are have a Gold pre-dominant mineral endowment.
 * Normalisation factors the Ag price (using the average monthly commodity price as at the month of the transaction) to the current silver price.

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Table 3-9: Area comparative transactions – located in Chile and neighbouring countries

Date	Project	Country(s)	State/ Province(s)	Development Stage(s)	Deal Commodities	Buyer	Seller	Deal Value (US\$M)	Equity Acquired (%)	Implied Value 100% equity basis (US\$M)	Area (km ²)	US\$ / Area (km ²)	Normalised US\$ / Area (km ²)	Normalisation Factor
Nov-15	Aurora Project	Brazil	Ceara	Early Exploration	Copper	Centaurus Metals Limited	Terrativa Minerals SA	0.11	100	0.11	100	1,072.00	1,061.23	1.01
Dec-15	Salvador project	Peru	Tacna	Early Exploration	Gold, Silver	Wild Acre Metals (Peru) S.A.C.	Teck Resources Limited	2.04	100	2.04	18,005	113,383.80	157,698.88	0.72
May-16	Santa Rita	Peru	Huancavelica	Early Exploration	Silver, Lead, Zinc	Inca Minerals Ltd	Duran Ventures Inc	1.77	100	1.77	10	177,300.00	204,951.14	0.87
Jul-15	Mombuca Project	Brazil	Minas Gerais	Early Exploration	Gold, Palladium	Centaurus Metals Limited	Terrativa Minerals SA	1.50	100	1.50	29,869	50,219.29	59,648.84	0.84
Mar-16	Arakaka	Guyana	Barima-Waini	Advanced Exploration	Gold	Alicanto Minerals Limited	Barrick Gold Corporation	10.00	65	15.38	300	51,282.05	55,195.94	0.93
May-16	San Agustin	Mexico	Durango	Greenfields	Silver	Azure Minerals Limited	Unnamed vendor	0.01	100	0.01	2.01	4,975.12	5,751.03	0.87
Jul-16	Ianna Project	Guyana	Barima Mazaruni	Advanced Exploration	Gold	Alicanto Minerals Limited	Sheik R Minerals Inc	3.05	100	3.05	54	56,481.48	60,029.97	0.94
May-12	Santo Domingo	Peru	Apurimac	Early Exploration	Silver, Gold	Fresnillo plc	Focus Ventures Ltd	1.10	100	1.10	55	20,000.00	13,563.57	1.47
Sep-06	Sascha and Joaquin	Argentina	Santa Cruz	Target Outline	Silver	COEUR D'ALENE MINES CORP	MIRASOL RESOURC ES LTD	8.00	51	15.69	34	461,361.01	779,190.32	0.59



Date	Project	Country(s)	State/ Province(s)	Development Stage(s)	Deal Commodities	Buyer	Seller	Deal Value (US\$M)	Equity Acquired (%)	Implied Value 100% equity basis (US\$M)	Area (km ²)	US\$ / Area (km ²)	Normalised US\$ / Area (km ²)	Normalisation Factor
Jun-08	Arqueros	Chile	Atacama	Advanced Exploration	Gold, Silver	Laguna Resources NL	Anglo American plc	2.30	100	2.30	115	20,000.00	29,784.94	0.67
Nov-09	Santa Cruz JV	Argentina	Santa Cruz	Exploration	Silver	Mariana Resources Limited	IAMGOLD Corporation	2.00	70	2.86	70	40,816.33	44,727.91	0.91
Nov-11	Sierra Blanca	Argentina	Santa Cruz	Exploration	Silver	Mariana Resources Limited	IAMGOLD Corporation	1.07	30	3.55	70	50,714.88	56,306.43	0.90
May-14	Tierra properti es	Argentina	Santa Cruz	Early Exploration	Gold, Silver	Mariana Resources Limited	Tierra Exploration SA	3.00	60	5.00	149	33,557.05	33,987.31	0.99
Nov-10	Santa Rosa	Peru	Lima	Target Outline	Silver Lead Zinc	Focus Ventures Ltd	Local Interest	9.00	100	9.00	5.51	1,633,393.83	1,204,206.88	1.36

Notes

Transactions shaded red were excluded as outliers from the statistics

Transactions shaded dark green are transactions involving projects now amalgamated as the Nueva Esperanza Project.

Normalisation calculation uses the average monthly commodity price as at the month of the transaction.

3.19 Previous valuation

In 2011, Gemell Mining Engineers (“GME”) prepared an assessment of Laguna Resources NL’s mineral properties for the purposes of inclusion in a response to a takeover offer made by Kingsgate Consolidated Limited, dated 31 October 2011.

The principal asset to which the report refers was the group of mineral tenements covering the Nueva Esperanza project, namely the Arqueros, Chimberos, Teterita deposits and surrounding exploration potential over the area, which equals the current consolidated tenure holding.

The assessment included an estimate of market value and the resultant values reported here in A\$ are shown in Table 3-10.

Table 3-10: Project values (GME, 2011)

	Low (A\$ M)	Preferred (A\$ M)	High (A\$ M)
Nueva Esperanza	26.0	35.1	45.5
Nueva Esperanza Exploration Value	2.0	3.0	4.0
Total	28.0	38.1	49.5

Note: Values are estimated in Australian dollars.

SRK note the following:

- At the time of valuation, Laguna had reported a Resource (in compliance with JORC 2004) of 28 Mt (16.5 Mt Indicated/ 12.5 Mt Inferred) at 78 g/t Ag and 0.25 g/t Au (at a cut-off grade of 0.5 g/t Au Eq (where 1 g Au is deemed equivalent to 45 g Ag)), for 88.1 Moz Ag Eq for Nueva Esperanza. The preferred valuation by GME equates to a resource multiple of USD\$0.23 per resource ounce on a AgEq basis normalised to the current silver price; and
- At the time of valuation, Laguna Resources had a tenure holding of 9,788 ha. The valuation of the exploration areas by GME equates to an area multiple of A\$306 per ha.

SRK considers the calculated Resource multiples from this valuation to be similar to and therefore support the Resource multiples based on metal ratio considered by SRK to value the remaining Resources at Nueva Esperanza.

SRK also considers the area based metrics from this valuation to support the metrics considered by SRK to value the remaining exploration potential at Nueva Esperanza.

Having made due enquiry, SRK are not aware of the existence any other prior relevant technical valuations, or similar assessment reports relating to Kingsgate’s mineral interests.

Summary

In SRK’s opinion, the value of a 100% interest in the Nueva Esperanza Resources outside of the LOM schedule (i.e. not already incorporated in Grant Thornton DCF analysis), and the value of the exploration potential of the Nueva Esperanza concessions resides in the range US\$12.4 M to US\$16.9 M, with a preferred value of US\$14.7 M (Table 3-11).

Table 3-11: SRK’s valuation range and preferred value of the

	Low (US\$ M)	High (US\$ M)	Preferred (US\$ M)
Resources	10.4	13.9	12.2
Exploration Potential	2.0	3.0	2.5
Total	12.4	16.9	14.7

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Client Distribution Record

SRK Report Client Distribution Record

Project Number: GRT002
Report Title: Independent Specialists Report on certain assets of Kingsgate Consolidated Limited
Date Issued: 13 October 2016

Name/Title	Company
Andrea De Cian	Grant Thornton Corporate

Rev No.	Date	Revised By	Revision Details
0	05/10/2016	Jeames McKibben	DRAFT for client review
1	05/10/2016	Jeames McKibben	DRAFT for client review
2	07/10/2016	Jeames McKibben	DRAFT for client review
3	11/10/2016	Jeames McKibben	DRAFT for client review
4	13/10/2016	Jeames McKibben	FINAL issued to client

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