



Gold : Kingsgate Consolidated Limited (KCN)

| | | | |
|-----------------------------------|-------------------------------------------|----------------------------------------------------------------|--------------------------------|
| By : Eagle Research (Keith Goode) | JANUARY 2009 VISIT TO CHATREE in THAILAND | | 11 March 2009 |
| Year Low/High: | \$2.20 - \$6.30 | Shares : | Recommendation |
| Diluted No. Shares | 94.8m | 93.0m | BUY |
| Diluted Mkt Cap : | A\$412m | 9.1m options | Share Price |
| Net debt (31 Dec 2008) | \$7.0m | 1.8m-in-money | Target Price (5%NPV: -\$11.50) |
| | | www.kingsgate.com.au | > \$6.00 |
| | | | T: (+612) 8256 4800 |

Kingsgate Consolidated Limited (KCN) - Building Chatree up to >200,000ozpa

- **Kingsgate's Chatree gold mine in Northern Thailand has now received all its required approvals to mine Chatree North and commenced blasting its "A" prospect in mid-January 2009. At a throughput rate of 2.4mtpa, the expected average grade of ~2g/t results in production of ~140,000ozpa gold and some silver credits (~0.6Mozpa silver or an additional ~10,000ozpa gold equivalent).**
- **However, initial grades at "A" appear capable of being >2g/t and when combined with mining higher grades (possibly >6g/t) in C-North, production could increase to 75,000oz to 85,000oz for the first half of 2009, resulting in Kingsgate achieving its ~100,000oz (+/- 3,000oz) forecast for the year ended June 2009.**
- **With credit markets in turmoil and debt available at double-digit rates, we have assumed that KCN achieves its increased production through gradually extending its plant (to 5mtpa and >200,000ozpa) at a slower rate, by using its own cashflow.**
- **As Chatree North still lies within the Phichit and Phetchabun provinces, the original BOI (Board of Investment approval) tax incentives for Chatree should apply (8 years' tax-free from 27 Nov 2001, then 5 years at 15% tax), although further concessions are being sought with the increased expenditure.**
- **However, the new Chokdee discovery covering a wider footprint than Chatree lies ~20km NW of Chatree in the Phitsanulok province. Hence it would require its own separate new BOI, aside from the likelihood of being a standalone operation.**
- **Initial indications are showing that Chokdee has the potential to become a significant discovery, extending over 700m on strike and open in all directions. Interestingly its pyrite has the same lead isotope as Chatree, inferring that it was part of the same magmatic event as Chatree (although its gold mineralisation has some similarities & a separate visible gold-in-quartz veinset amongst the 3 lodes).**

FINANCIAL ESTIMATES : (Note : This ERA scenario is just one of a number of possible scenarios that could occur :)

| Year end June | | 2008 | DH08 | JH09f | 2009f | 2010f | 2011f | 2012f | 2013f |
|-----------------------|---------|------|-------|-------|-------|-------|-------|-------|-------|
| Gold Sold (100%) | koz | 73 | 18 | 81 | 99 | 166 | 263 | 285 | 263 |
| Silver Sold | koz | 228 | 44 | 362 | 406 | 722 | 1895 | 2050 | 1929 |
| Gold Price Received | US\$/oz | 825 | 837 | 930 | 913 | 950 | 950 | 950 | 950 |
| Silver Price Received | US\$/oz | 15 | 12 | 13 | 13 | 15 | 16 | 16 | 16 |
| Cash Cost | US\$/oz | 421 | 911 | 368 | 462 | 333 | 279 | 305 | 332 |
| Total Cost | US\$/oz | 515 | 1021 | 410 | 516 | 375 | 334 | 360 | 387 |
| NPAT (100%) | A\$m | 36.2 | -11.9 | 59.2 | 47.3 | 125.3 | 190.0 | 197.5 | 173.2 |
| EPS (94.8m shares) | Ac | 39 | -13 | 63 | 50 | 132 | 200 | 208 | 183 |
| DPS | Ac | 0 | 0 | 5 | 5 | 25 | 55 | 60 | 60 |
| P/E ratio @ A\$4.35 | x | n/a | n/a | n/a | 8.7 | 3.3 | 2.2 | 2.1 | 2.4 |

OTHER KEY POINTS:

- **KCN has a 5%NPV of ~A\$11.50 at US\$950/ oz based on a 100% holding in Chatree's possible life of 12 years to 2020, & making no provision for Chokdee.**
- **KCN has a high sensitivity to the gold price, with its NPV rising by 23c per US\$10/oz increase in the gold price.**
- **KCN achieved the sell-down of Chatree into Thai ownership in 2006, resulting in a holding of 48% of the shares and almost 100% of the economic benefit. The IPO in Thailand is on hold until markets improve.**
- **Chatree may be able to achieve higher recoveries than ~90%. A major surprise from treating the low grade (~0.9g/t) marginal ore in the past year has been a consistent ~90% recovery, (ie tail grades fell to 0.1g/t), & the plant now has a gravity circuit**
- **KCN gave an indication of its upside potential in January 2009 with production of 10,909oz (from an annualised 2.4mtpa) at 1.67g/t and total cash costs of US\$370/oz, as that was only based on higher grades being received for the last half of the month.**

Corporate Overview

Since our last report dated 27 July 2006 on Kingsgate Consolidated Limited (KCN), the only placement that has occurred was the 2.25m shares @ \$4.68 on 14 March 2007 to Thai interests, to result in the current almost **93.0m shares** on issue and 9.1m options (of which only 1.81m are in-the-money, 1.13m at \$4.55 (KCN was A\$4.65 on 10 March 2009) in April 2009 and 0.68m at up to \$4.00 by August 2010).

On 24 November 2006, KCN achieved its $\geq 51\%$ BOI divestment requirement to Thai interests through its wholly owned subsidiary Akara Mining issuing non-transferrable preference shares to Empire Asia Ltd that resulted in Thai interests holding a 52% stake in Akara, KCN retaining most of its exploration interests beyond the Chatree region in its wholly owned Issara subsidiary. It had been intended (after the issue of the mining leases for Chatree North), to conduct an IPO in Thailand to spread the Thai holding of Akara, and use the monies received to aid the extension to the plant, increasing its capacity to ~5mtpa.

However, due to a number of mostly political delays, the mining leases were only granted in July 2008, as the global financial crisis was gathering speed and the credit crunch clampdown taking place. So the IPO has been delayed until the Thai market is perceived to be more amenable to the IPO occurring.

KCN also applied for a number of additional exploration (special prospecting) licences to be granted. The ones in Phichit and Phitsanulok Provinces were granted, but due a glitch, the ones in Phetchabun Province have become caught in a temporary moratorium against declaring any new exploration licences for gold as shown in Figure 1a.

Thailand

Operating in Thailand has a number of advantages and disadvantages. Infrastructure is very good, with the ability to drive most of the way to KCN's mine at Chatree about 300km north of Bangkok in north central Thailand in about 3.5 to 4 hours using a major freeway, and with relatively low cost hydropower providing the power requirements as shown in Figure 1b. The labour force is highly qualified, skilled and very competent with only ~7 expats providing general supervisory management.

Visiting the various exploration sites is also fairly easy with many small paved roads skirting the various fields in the Chatree region. It seems logical that the new Chokdee discovery can be mined and trucked 20km to Chatree, however, that is not the case as there are two major issues. The first issue is that the Chatree mine straddles the provinces of Phichit and Phetchabun as shown in Figure 1c, and a BOI (Board of Investment) award was made enabling the mine to be tax-free for its first 8 years from 27 Nov 2001, followed by 5 years' @ 15% tax. The Chatree North extension still straddles Phichit and Phetchabun and its northern most limit is ahead of the boundary of Phitsanulok so it is included in that BOI. However, Chokdee lying about 20km NW of Chatree is in Phitsanulok and would require a new BOI.

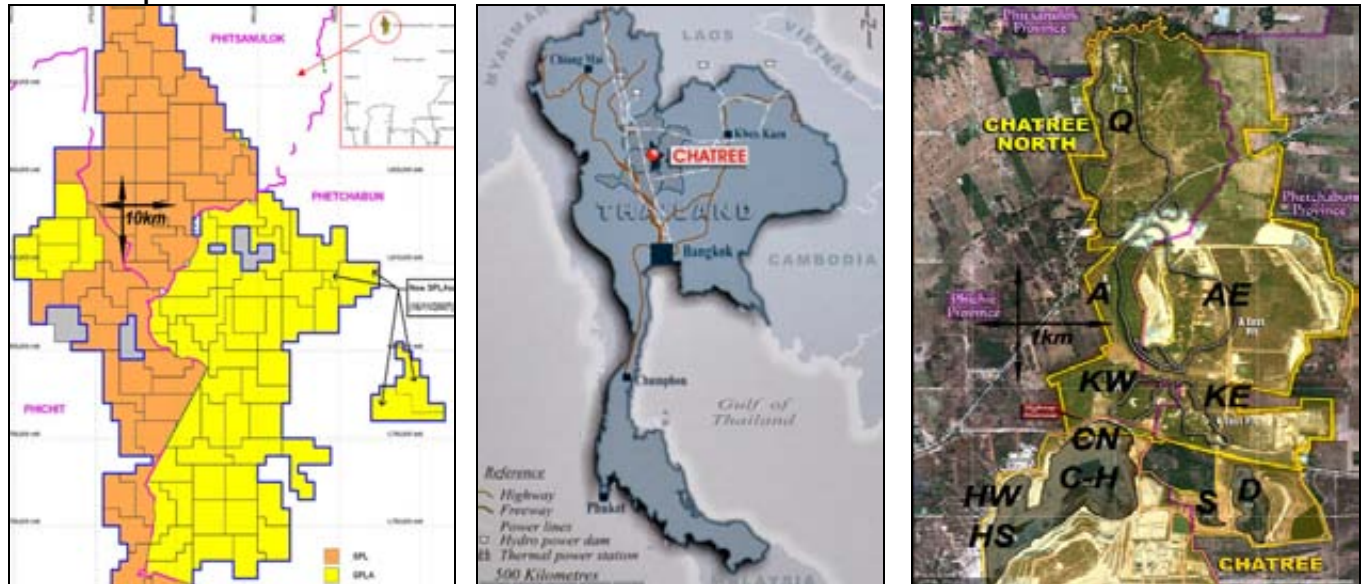
Secondly, the positions of the roads appear to be "set in stone". The roads can be diverted/moved but then appear to have to be returned to the same mapped position that they originally occupied after the reason for the diversion has been completed. Some of the Chatree region's rice fields are also very prolific providing up to 4 crops per year (Thailand was the world's largest exporter of rice in 2006), and land purchase is a costly exercise.

Thailand appears to have many regulatory requirements, such that although the mining leases were granted for Chatree North in July 2008, Akara was only able to blast from November and reach the top of its recent major "A" prospect in January 2009 (coincidentally while we there), as it had taken so long to receive a licence to use explosives on the lease and then get an excavator to the top of the hill. Also there is a limit on the size of truck that can pass over the main road between Chatree North and the plant at Chatree until Akara builds an underpass under the road (to be completed in mid-2009).

When we last visited Chatree in 2006, consideration was being given to mine underground in parts of the "C" pit (both north and south), however it requires an additional approval which was to be sought after the Chatree North leases were to have been received. Due to the delays, it has instead been easier to divert the road further north and start mining C – North. However, the grades in C-south still remain, and may be accessed through stripping the waste above the orebody, since waste is required to build the new tailings dam, ie it is still easier to open-cut where possible than to apply for a new provision to mine underground.

Thailand **has undergone some political** disturbances in the past few years which delayed the Chatree North mining leases being granted. Externally Thailand seems to still be relatively unsettled, but based on our visit in January 2009, the country's infrastructure appeared to be more advanced than our last visit in 2006, the cost of food appeared to be less than China, and the local population appeared to wish that there was a clear path so that tourism and investment could return to their previous levels of interest.

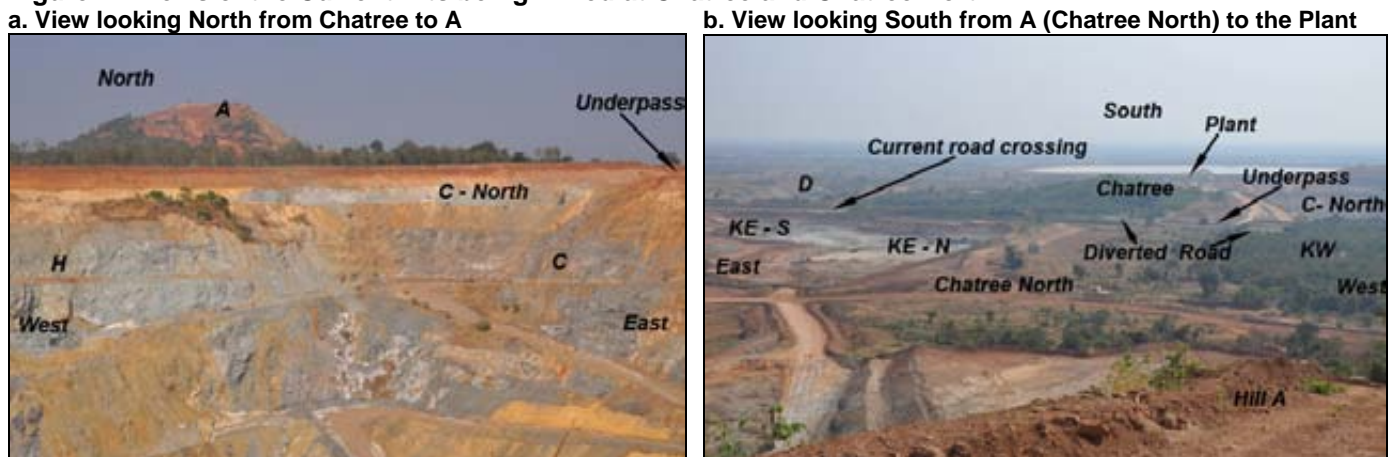
Figure 1. Exploration Licences, Thailand Infrastructure to Chatree, and Plan of Chatree & Chatree North



Mining and Treatment

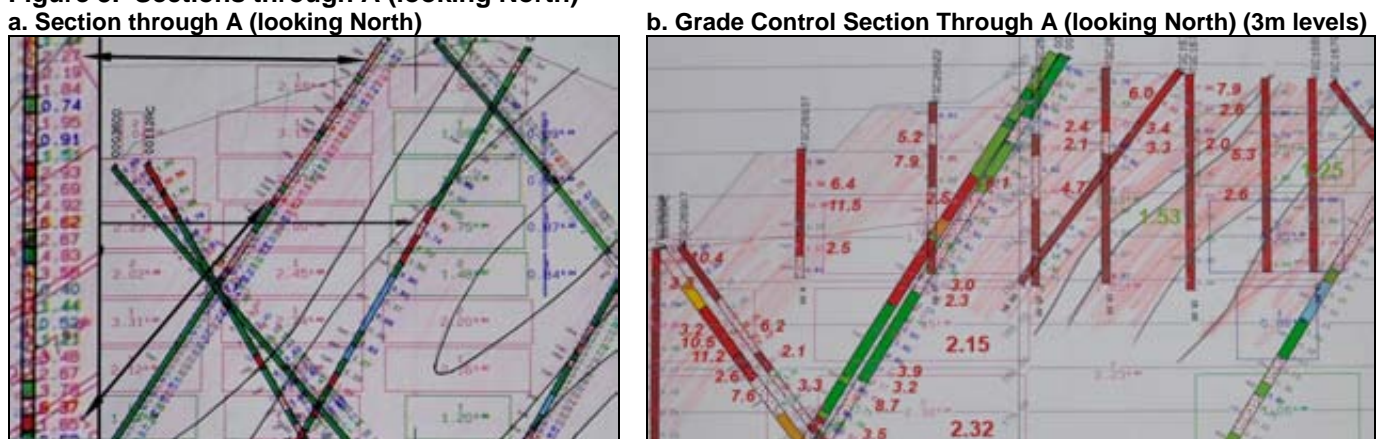
While KCN was waiting for Chatree North’s mining leases to be granted, it gradually worked its way through all the low grade and marginal ore stockpiles at Chatree, eventually running out in SQ2008, resulting in very low gold production of only ~17,000oz for the first half of its 08/09 year. Currently production is being drawn from KE (K-east, north and south), CN (C-North) and A as shown in Figures 1c, 2a and 2b. The explosives licence was received for A, so blasting of the hill’s summit started in mid-Jan accessing the higher grades ~2g/t, & stockpiling 0.5g/t to 1g/t marginal and 1g/t to 1.8g/t lower grade ore.

Figure 2. Views of the Current Pits being mined at Chatree and Chatree North



The focus on the higher grades is expected to continue to mid-2009 as the ore movement from Chatree North (being KE and A) to the plant is limited by the size of trucks that can pass over the road (between Chatree and Chatree North) until the underpass ~10m under the road and capable of having two 777’s passing each other has been completed. The result of mining and treating the higher grades ~2g/t at A had an immediate impact, resulting in production of almost 11,000oz for the month of January 2009.

Figure 3. Sections through A (looking North)



There is a proposal to almost double the plant capacity to ~5mtpa, and some equipment is in storage in Bangkok ready to be shipped and installed at Chatree as part of this increase. The increased plant modifies the existing plant in that it has an almost parallel train except that the CIL tanks become leach tanks and then both trains combine into a new CIP circuit in Figure 6a that uses much wider diameter tanks to recover the silver and the gold. Currently silver recoveries are ~40% to 45%, but with the new plant could be able to double to ~75% to 80%, resulting in expected production of >1.5moz silver per year.

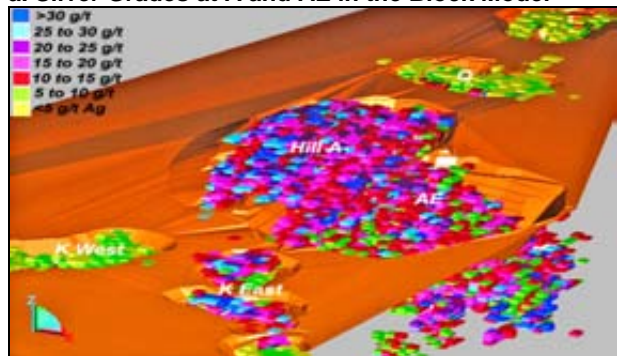
The gold/silver price ratio has fallen to about 70 times compared to its mean (in the past 10 years) of about 60 times, due to the significantly stronger gold price. At ~US\$13/oz (which could follow gold higher), silver is still a material by-product credit, and as shown in Figure 7a, silver becomes significant in A. Hence higher recoveries or doubled silver production should have an even greater impact on by-product credits. (Note : KCN refers to gold production and excludes equivalents from its silver production)].

It has been seen in the past month that the “right” project can raise funds, however, KCN may not want to have debt that comes with a double-digit interest rate tag. **So the more logical route** (in ERA’s opinion) would be to **undertake the extension piecemeal using its own cashflow**. At a production rate of 140,000oz and expected cash costs in CY2009 of US\$350/oz, that results in a US\$600/oz margin (at gold prices of ~US\$950/oz) or ~US\$84m/A\$130mpa. That may spread the extension over 2 years, initially increasing from 2.4mtpa to 2.8mtpa through possibly adding a couple of tanks, and then examining installing part or all of the new CIP circuit to double the silver recoveries.

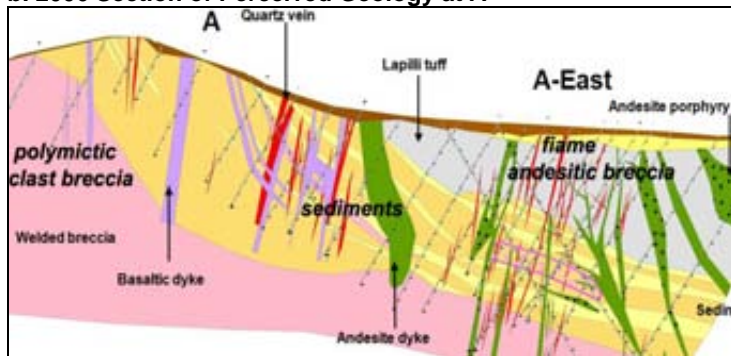
This is possibly an ideal scenario that depends on what equipment is being stored (in Bangkok) ready for use, and the fact that some capex is going to be required for the new tailings storage dam (for it to be ready in about 2 years’ time) which was part of the original extension. With the reduced world mining activity, fortunately capital costs are beginning to fall again (steel costs are reputedly already ~40% lower) – so we have assumed capex is ~ US\$100m.

Figure 7. Geology at A including Silver Grades and Perceived Geology in 2006

a. Silver Grades at A and AE in the Block Model



b. 2006 Section of Perceived Geology at A



Chatree Geology

While it may be common knowledge to some people, it was only on this latest site visit (our 3rd) that we have recognised that **one of the main controls on gold mineralisation at Chatree appears to be the breccias**. Viewing what looks like general breccias with the odd twinkle of sulphide, can often have grades up to 2oz/t (ie >60g/t) as in Figures 8a & 8b. Although colloform banding is significant as a pointer to mineralisation, it appears to be even better if the colloform banding is brecciated with siliceous material.

Consequently, focussing on breccias puts hill A into a different perspective and an understanding as to why more mineralisation is being found at depth outside of the previous open-cut model limits of Figure 7b which appeared to have the mineralisation mainly associated within the sediments sandwiched between two broad breccia units. There are now also possible deeper extensions to the west. It should also be noted that the breccias at Chatree do vary quite considerably over very short distances (of ~1m to 50m).

Figure 8. Brecciated Drillcore from A Central (between A and AE) and C-North

a. Brecciated Drillcore from A Central (Hole 927)



b. Brecciated Drillcore from C-North (Hole 385)



Although the gold mineralisation at Chatree does appear to be influenced by long almost elliptical N/S trending tubes within the orebody (more easily visible in 3d IP), in common with many other orebodies throughout the world, **the gold mineralisation does appear to be aligned broadly NNW/SSE** (and identifiable using “Leapfrog”). Standing on Hill A and looking NNW, the ore mineralisation could easily track to Far Q as in Figure 9a and the recent intersections and plan reported in the latest quarterly (page 4 of DQ08) in Figure 9b, appear to clearly show a NNW/SSE trend (that links back through KE and D as shown in Figure 1c).

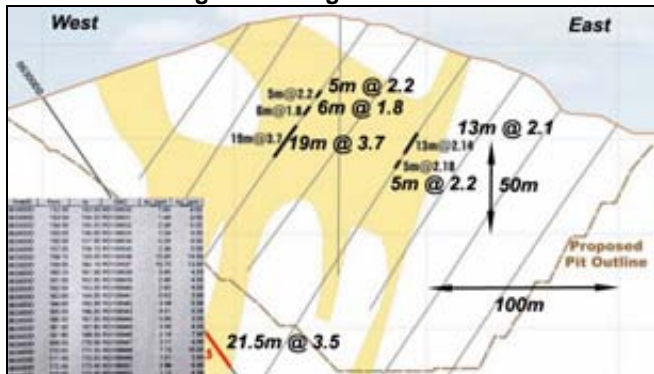
Figure 9. View Looking North to Q, from A and Recent drilling identifying an Apparently NNW/SSE Trend
a. View Looking North to Q, from A
b. Perspective of Recent Drilling west of A and Q



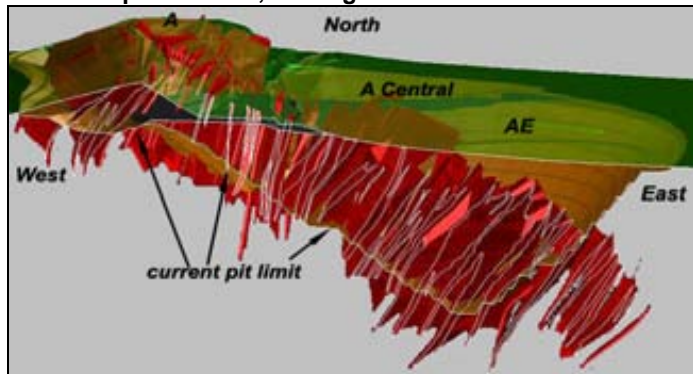
Some of the drilling has in fact intersected mineralisation beneath the current planned open-cut as shown in Figure 10a. The intersection of 21m @ 3.5g/t actually contains a number of higher grade values. Such intersections along with the success along the western flank of A infer that the A/AE open-cut could go much deeper picking up some of the higher grade pods of mineralisation in A Central (between A and AE). Hill A may hence not have a western lip for its open-cut (better/easier from a mining perspective).

Figure 10. Section and 3d Perspective of A, looking North

a. Section Through A looking North



b. 3d Perspective of A, looking North



These increases in mineralisation could have a material impact on Chatree’s reserves/resources (currently shown in Table 1, where the higher grades are being diluted by the abundant low [$\sim 1.3\text{g/t}$] and marginal [$\sim 0.7\text{g/t}$] grade material).

Table 1. JORC Reserves and Resources at 30 June 2008

| Chatree 30-Jun-08 | Current Lease (C,H,D,S & P) | | | Chatree North (A,AE,K,Q) | | | Total Gold g/t | Total Au 000oz | Total Silver g/t | Total Ag Moz | |
|------------------------|-----------------------------|-------------|------------|--------------------------|-------------|-------------|-------------------|-------------------|---------------------|-----------------|-------------|
| | mt | Gold g/t | 000oz | 000t | Gold g/t | 000oz | | | | | |
| Proven | 1.0 | 2.37 | 75 | 30.1 | 1.17 | 1132 | 31.1 | 1.21 | 1207 | 12 | 12.4 |
| Probable | 0.5 | 1.55 | 22 | 3.9 | 1.32 | 163 | 4.3 | 1.34 | 186 | 10 | 1.4 |
| Total Reserves | 1.4 | 2.11 | 97 | 34.0 | 1.19 | 1296 | 35.4 | 1.22 | 1393 | 12 | 13.8 |
| Measured | 6.6 | 1.47 | 313 | 47.3 | 1.17 | 1779 | 53.9 | 1.21 | 2093 | 11 | 18.6 |
| Indicated | 5.7 | 1.28 | 236 | 13.2 | 1.22 | 518 | 18.9 | 1.24 | 754 | 7 | 4.5 |
| Inferred | 3.3 | 1.33 | 141 | 4.9 | 1.10 | 173 | 8.2 | 1.19 | 314 | 7 | 1.8 |
| Total Resources | 15.7 | 1.37 | 690 | 65.4 | 1.17 | 2470 | 81.1 | 1.21 | 3161 | 10 | 24.8 |

Some ore is being derived from KE, however, the interpretation has changed between KE North and KE South, as the ore mineralisation appears to roll or flex between the two areas with KE South appearing to be lower grade than expected. Due to the limitation on trucking ore across the road between Chatree North and Chatree until the underpass has been completed (expected about mid-year 2009), the mine is focusing on A and C-North. Aside from KW (which has yet to be drilled), the other main source of ore is from C-North where the grades from grade control appear to be better than some of the values to 6g/t expected in the block model.

Chatree does also have a high grade block ($>6\text{g/t}$) in **C-South**. Currently uneconomic due to the required strip ratio, it could become viable from the C open-cut because waste (and clay) is needed to build the new tailings storage dam. While Chatree does have some potential satellite orebodies (mainly NW) that could provide additional mill-feed, the **current exploration focus is on the new Chokdee discovery**.

Chokdee Discovery

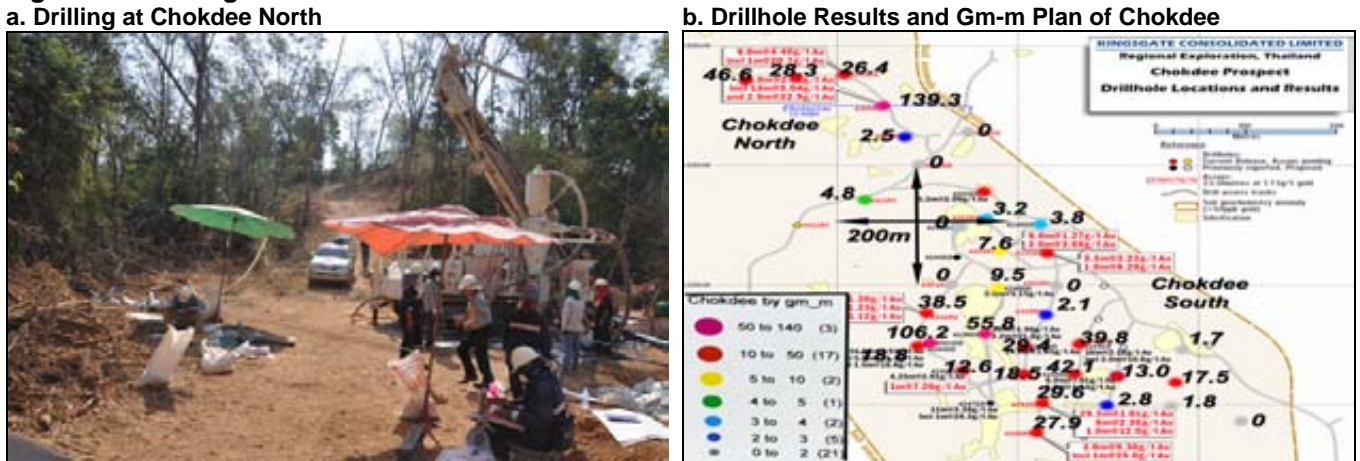
Issara Exploration (which is associated with Akara) has identified a number of anomalies that show potential amongst its exploration tenements, of which the Chokdee Discovery is the most advanced. Chokdee is located about 20km NW of Chatree in Phitsanulok Province which means that it would probably require a separate new BOI (Board of Investment agreement) to mine it. Although 20km is not that far, buying land and building a separate road to the Chatree mine through the rice fields is probably not feasible, plus there could be tax incentives in a separate new BOI.

Figure 11. Views of Chokdee South : NW to Chokdee North, An Exposed Face, Rehab at Chokdee South
 a. View to Chokdee North looking NW b. An Exposed Face of a Drillhole Pad c. Bottle - Rehab at Chokdee South



Chokdee covers at least 700m (so far) on strike over two small scrubby/bamboo covered hills (Chokdee South and Chokdee North) on the edge of grassland/ricefields as shown in Figures 11a to 12a. Some of the recent drillhole results together with a gm-m distribution are shown in Figure 12b, highlighting the strip of higher grade mineralisation at Chokdee North and significant clump of values at Chokdee South.

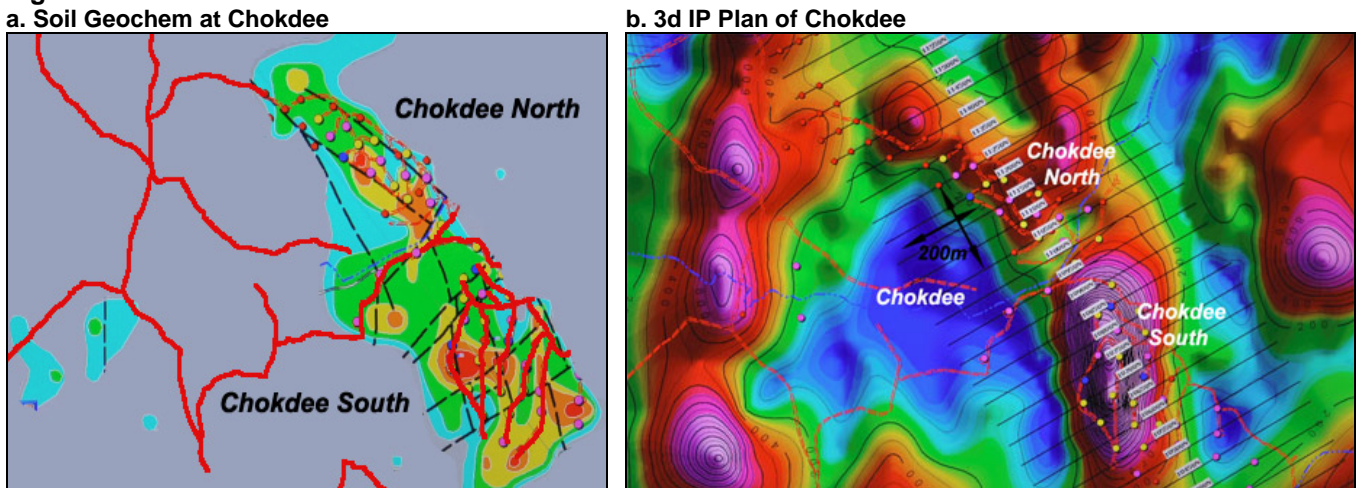
Figure 12. Drilling at Chokdee North and Initial Drillhole Results and Gm-m Plan of Chokdee



Chokdee Geology

Interestingly, the lead isotope in Chokdee's pyrite is the same as at Chatree – the only one of Issara's anomalies to show that relationship and usually regarded as an indication that they were both formed in the same magmatic event. Chokdee is clearly shown in soil geochem and IP, in Figures 13a and 13b respectively, and appears to be contained with andesitic volcanoclastics, sediments, tuffs etc. While there are clearly small hills coinciding with the right flank of the IP, they are not in proportion (especially for Chokdee South), and there were no noticeable small hills for the positions of the IP's left flank.

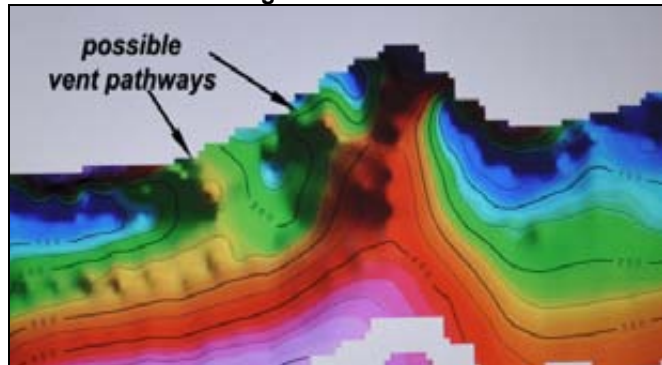
Figure 13. Soil Geochem Plan at Chokdee and 3d IP Plan of Chokdee



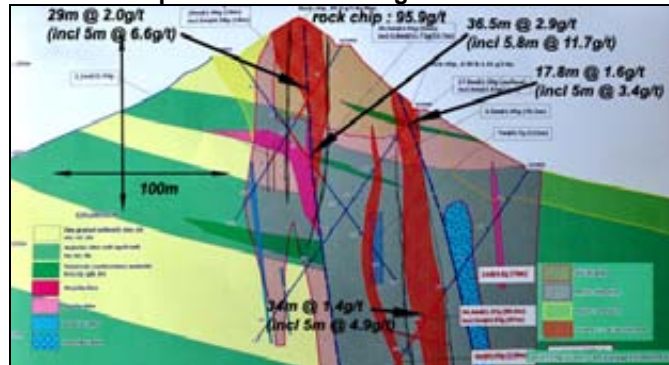
Apart from delineating the potential orebody, the current focus is on the possible “vents” identified in the IP section shown in Figure 14a. Although the structural interpretation is currently ongoing as illustrated in Figures 13a and 14b, three parallel lodes appear to have been initially identified, broadly striking NW/SE.

Figure 14. Sections through Chokdee by 3d IP and Initial Interpretation

a. 3d IP Section Through Chokdee



b. Initial Interpreted Section through Chokdee



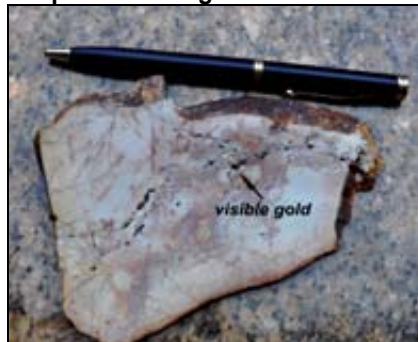
The gold mineralisation at Chokdee appears to be mainly associated with disseminated silica, pyrites, breccias and visible gold (vg) in quartz (as far as we know, vg in quartz veins have not been encountered at Chatree). Quite surprisingly pyrite can be seen next to fossilised coral and shells in limestone (usually the mineralising event destroys any fossil evidence), because the coral fossils are in fact breccia clasts, and a further indication of the sub-aqueous volcanic activity that resulted in Chatree and Chokdee.

Figure 15. Specimens of vg (visible gold) from Chokdee and Siliceous Chokdee 65.5g/t Drill Core

a. Specimen of vg in siliceous breccia



b. Specimen of vg in siliceous rock



c. Siliceous Chokdee 65.5g/t Drill Core



Chokdee certainly appears to contain a mineable orebody, but just where the best/most accessible part is (often in the SW corner, based on other orebodies we have seen, but as yet not drilled at Chokdee), and what size of plant it can support, may require two or more years of drilling. Chokdee is the most prominent of Issara’s anomalous areas, there are others in the SPLs and potential ones in the SPL applications both in the Chatree /Chokdee regions and other parts of Thailand.

Financial and Other Considerations

Although Akara was unable to conduct the IPO due to the credit crunch and the global financial crisis, the current circumstances are that Chatree **should be able to finance its own extension**, possibly delayed by one year, although piecemeal construction could take place as the cashflow is being generated. With the gold price at ~US\$950/oz and total cash costs heading for US\$350/oz (or less, they were US\$370/oz in January 2009, and material & diesel fuel costs are falling), then that is currently **a US\$600/oz margin**.

Should Chatree treat 2.4mtpa at 2g/t and achieve a 91% recovery, that is 140,000ozpa. However, Chatree is currently passing through a higher grade “patch” at A and C-North that could result in grades ~ 2.2g/t to 2.4g/t or so, resulting in 10% to 20% higher production or ~170,000ozpa (it could be even higher at **15,000ozper month in JQ09**). It makes sense to mine the higher grades in 2009 as Chatree’s BOI tax only changes on the 27 November 2009 from tax-free to 50% of 30% (ie 15% for the next 5 years to 2014). So with expected capex ~US\$100m (ERA’s estimates – they could be lower as equipment and steel capex costs have already fallen), **Chatree should be able to finance its own plant increase to 5mtpa, by Dec 2010, allowing for nominal dividends, and conservative costs.**

Although, the current plan is to move to lower grades when the underpass is completed, it would be **logical to continue focusing on the higher grade** ore to self finance the plant increase to 5mtpa (and use the tax advantages). KCN does not have any hedging and has financed itself to date mainly through profits on its investments to result in possible net debt ~A\$7m at 31 Dec 2008 (which should rapidly become cash positive). **It should be recognised that the production scenario given in Table 2 is an ERA scenario, and is just one of a number of possible scenarios that could occur.**

Table 2. Production and Cashflow Estimate for Kingsgate's Chatree operations

One of the big questions for Chatree this coming year to Dec 09...

...is what grade to use...

...as the model has dampened the average grades down to ~1.2g/t...

...whereas they could be up to 2.9g/t or so in the coming year

Our long-term profile assumes that the lower grades ~0.90g/t are treated at the end of the mine's life...

...extending it to 12 years to 2020

We have maintained the ~30% dividend payout ratio...

...although it could be higher

We have used a gold/silver pricing ratio of 60x, but it could be lower

The production is shown on a 100% basis..

...as that is the economic benefit...

... probably up to the eventual IPO

| Kingsgate Consolidated | | 2008 | DH08 | JH09f | 2009f | 2010f | 2011f | 2012f |
|------------------------------------------------------------------------------------------------------------------------|----------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Chatree Mine - Akara | | 4.35 | | | 1 | 2 | 3 | 4 |
| Production | | | | | | | | |
| Open-cut Milled | mt | 2.47 | 0.58 | 1.25 | 1.83 | 2.70 | 4.50 | 5.00 |
| Head Grade | g/t | 1.1 | 0.9 | 2.2 | 1.8 | 2.1 | 2.0 | 2.0 |
| Gold in-situ | 000oz | 86 | 17 | 89 | 106 | 182 | 289 | 313 |
| Recovery | % | 86.4% | 98.6% | 91.0% | 92.2% | 91.0% | 91.0% | 91.0% |
| Total Gold Sold | 000oz | 73 | 18 | 81 | 99 | 166 | 263 | 285 |
| Silver Head Grade | g/t | 6.8 | 5.6 | 20.0 | 15.4 | 18.5 | 18.0 | 17.0 |
| Silver Recovery | % | 42.8% | 41.4% | 45.0% | 44.6% | 45.0% | 72.8% | 75.0% |
| Total Silver Sold | 000oz | 228 | 44 | 362 | 406 | 722 | 1895 | 2050 |
| Revenues | | | | | | | | |
| Gold Spot Price | US\$/oz | 822 | 833 | 930 | 881 | 950 | 950 | 950 |
| Exchange Rate | A\$/US\$ | 0.897 | 0.783 | 0.656 | 0.719 | 0.650 | 0.700 | 0.700 |
| Gold Spot Price | A\$/oz | 916 | 1064 | 1418 | 1225 | 1462 | 1357 | 1357 |
| Gold Price Realised | US\$/oz | 825 | 837 | 930 | 913 | 950 | 950 | 950 |
| Silver Price | US\$/oz | 15.4 | 12.0 | 13.3 | 12.7 | 15.4 | 15.8 | 15.8 |
| Gold/Silver Price Ratio | x | 51 | 69 | 70 | 70 | 62 | 60 | 60 |
| Gold Revenue | US\$m | 60.4 | 14.7 | 75.5 | 90.2 | 157.3 | 250.2 | 271.0 |
| Silver Revenue | US\$m | 3.6 | 0.5 | 4.8 | 5.3 | 11.1 | 30.0 | 32.5 |
| Total Revenue | US\$m | 64.0 | 15.2 | 80.3 | 95.6 | 168.4 | 280.2 | 303.4 |
| Total Revenue | A\$m | 76.5 | 19.9 | 124.4 | 144.3 | 264.1 | 405.2 | 438.5 |
| Costs (Based on Mining o/cut US\$9/t to \$13/t, underground US\$40/t [2015], mill US\$6.50/t, admin US\$3.20/t) | | | | | | | | |
| Direct Mining & processing | A\$m | 40.1 | 22.3 | 46.6 | 68.9 | 88.4 | 124.2 | 144.7 |
| Royalties | A\$m | 3.6 | 1.2 | 8.0 | 9.2 | 17.0 | 26.8 | 29.0 |
| Total Cash Cost | US\$/oz | 421 | 911 | 368 | 462 | 333 | 279 | 305 |
| Corp Costs | A\$m | 8.1 | 4.0 | 4.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Exploration expensed | A\$m | 0.4 | 0.2 | 2.0 | 2.2 | 4.0 | 4.0 | 4.0 |
| Other(incl inventories, derivs | A\$m | 37.0 | 1.6 | 1.0 | 2.6 | 2.0 | 2.0 | 2.0 |
| EBITDA | A\$m | 61.3 | -6.3 | 64.8 | 58.6 | 148.7 | 244.2 | 254.8 |
| D & A | A\$m | -9.3 | -2.5 | -5.2 | -7.7 | -10.7 | -20.7 | -22.4 |
| D & A | US\$/oz | 94 | 110 | 42 | 54 | 42 | 55 | 55 |
| Total Costs | US\$/oz | 515 | 1021 | 410 | 516 | 375 | 334 | 360 |
| Interest | A\$m | -4.1 | -1.6 | -0.4 | -2.0 | -0.8 | 0.0 | 0.0 |
| Tax Paid/Received | A\$m | -11.7 | -1.5 | 0.0 | -1.5 | -12.0 | -33.5 | -34.9 |
| NPAT (100%) | A\$m | 36.2 | -11.9 | 59.2 | 47.3 | 125.3 | 190.0 | 197.5 |
| EPS | c | 38.9 | -12.8 | 62.9 | 50.3 | 132.3 | 200.4 | 208.3 |
| Attrib Simple Cashflow | A\$m | 45.5 | -9.4 | 64.4 | 55.0 | 136.0 | 210.7 | 219.9 |
| CFPS | c | 48.9 | -10.1 | 68.5 | 58.5 | 143.6 | 222.3 | 232.0 |
| DPS | c | 0.0 | 0.0 | 5.0 | 5.0 | 25.0 | 55.0 | 60.0 |
| No Shares | M | 93.0 | 93.0 | 94.1 | 94.1 | 94.7 | 94.8 | 94.8 |
| Cashflow | | 2008 | DH08 | JH09f | 2009f | 2010f | 2011f | 2012f |
| Sales Revenue | US\$m | 63.9 | 15.2 | 80.3 | 95.5 | 168.4 | 280.2 | 303.4 |
| Sales Revenue | A\$m | 71.0 | 19.4 | 122.4 | 141.8 | 259.1 | 400.2 | 433.5 |
| + Equity Raised | A\$m | 0.0 | 1.3 | 5.1 | 6.4 | 2.2 | 0.4 | 0.0 |
| + Borrowings | A\$m | 7.0 | 6.0 | 0.0 | 6.0 | 0.0 | 0.0 | 0.0 |
| + Interest Received | A\$m | 2.2 | 0.8 | 2.0 | 2.8 | 5.0 | 5.0 | 5.0 |
| + Sale of Investments | A\$m | 69.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Receipts | A\$m | 154.5 | 26.5 | 128.6 | 155.0 | 264.3 | 403.7 | 436.5 |
| - Operating Costs | A\$m | -35.0 | -19.2 | -44.6 | -63.8 | -84.4 | -120.2 | -140.7 |
| - Corporate Costs | A\$m | -8.1 | -4.0 | -4.0 | -8.0 | -8.0 | -8.0 | -8.0 |
| - Royalties | A\$m | -3.6 | -1.2 | -8.0 | -9.2 | -17.0 | -26.8 | -29.0 |
| - Other | A\$m | -8.9 | -10.9 | -4.0 | -14.9 | -8.0 | -4.0 | -4.0 |
| - Interest Paid | A\$m | -3.3 | -1.2 | -0.4 | -1.6 | 0.0 | 0.0 | 0.0 |
| - Tax Paid | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | -12.0 | -33.5 | -34.9 |
| - Divs Paid | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | -9.4 | -37.9 | -52.1 |
| - Explorn | A\$m | -4.7 | -5.2 | -5.0 | -10.2 | -14.0 | -15.0 | -15.0 |
| - Mine pty payments | A\$m | -8.0 | -16.2 | -2.0 | -18.2 | -9.0 | -10.0 | -5.0 |
| - Sustaining Capex | A\$m | -20.5 | -4.6 | -4.0 | -8.6 | -6.0 | -5.0 | -7.0 |
| - Extension capex | A\$m | 0.0 | 0.0 | -15.0 | -15.0 | -90.0 | -55.0 | 0.0 |
| - Other Capex | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Loans Repaid | A\$m | -27.0 | 0.0 | -6.0 | -6.0 | 0.0 | 0.0 | 0.0 |
| = Expenditures | A\$m | -119.0 | -62.5 | -93.0 | -155.5 | -257.8 | -315.5 | -295.7 |
| Total Expenditures | A\$m | -119.0 | -62.5 | -93.0 | -155.5 | -257.8 | -315.5 | -295.7 |
| Net Cash Flow | A\$m | 35.5 | -36.1 | 35.5 | -0.5 | 6.5 | 88.2 | 140.8 |
| Add divs | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 9.4 | 37.9 | 52.1 |
| Cash Flow | A\$m | 0.0 | 0.0 | 0.0 | -0.5 | 15.9 | 126.1 | 192.9 |
| ACTUAL Net Cashflow | A\$m | 0.0 | -6.9 | 0.0 | -7.4 | 15.9 | 126.1 | 192.9 |
| Net Cash for NPV | A\$m | 0.0 | 0.0 | 0.0 | -7.4 | 15.9 | 126.1 | 192.9 |
| NPV | 5.00% | | | | | | | |
| | | Yrs | A\$m | A\$ps | | | | |
| | | 12 | 1089 | 11.49 | | | | |

Table 3. Sensitivity Analysis of Kingsgate (earnings based on 94.8m shares in issue, NPV @ 5% constant money)

The sensitivity to the gold price is quite high...

...adding ~23c per US\$10/oz increase in the gold price

The other sensitivities could occur too

| Sensitivity Analysis | | Year | NPV | 2009e | 2010e | 2011e | 2009e | 2010e | 2011e |
|------------------------------------|------|-------------|------------|----------------------------|--------------|--------------|--------------------------------|--------------|--------------|
| Gold Price US\$/oz (A\$/oz) | | A\$ | A\$ | A/tax Profit (A\$m) | | | Earnings per Share (Ac) | | |
| US\$950/oz (A\$1460/oz) | 950 | 11.49 | 47.3 | 125.3 | 190.0 | 50.3 | 132.3 | 200.4 | |
| US\$1000/oz (A\$1540/oz) | 1000 | 12.65 | 50.5 | 135.0 | 205.1 | 53.7 | 142.6 | 216.4 | |
| US\$900/oz (A\$1385/oz) | 900 | 10.27 | 43.7 | 115.0 | 174.2 | 46.5 | 121.5 | 183.7 | |
| Gold Production | | A\$ | A\$ | A/tax Profit (A\$m) | | | Earnings per Share (Ac) | | |
| Base | 0% | 11.49 | 47.3 | 125.3 | 190.0 | 50.3 | 132.3 | 200.4 | |
| | +5% | 12.59 | 47.3 | 135.6 | 203.3 | 50.2 | 143.3 | 214.5 | |
| | +10% | 13.68 | 47.3 | 146.0 | 216.7 | 50.2 | 154.2 | 228.6 | |
| Direct Mining Costs | | A\$ | A\$ | A/tax Profit (A\$m) | | | Earnings per Share (Ac) | | |
| Base | 0 | 11.49 | 47.3 | 125.3 | 190.0 | 50.3 | 132.3 | 200.4 | |
| | -10% | 12.42 | 51.7 | 133.0 | 200.2 | 55.0 | 140.5 | 211.2 | |
| | -20% | 13.35 | 56.2 | 140.7 | 210.4 | 59.7 | 148.6 | 222.0 | |
| Sensitivity Analysis | | Year | NPV | 2009e | 2010e | 2011e | 2009e | 2010e | 2011e |

Upside Potential

It is often remarked in the market, that Sino Gold's and Kingsgate's share prices should be about the same and periodically they are. There are a number of differences between the shares, but also some similarities. However, Kingsgate's number of shares in issue has barely changed in the past 3 years to 93m shares so its market cap at \$4.35 is **only ~\$405m**, compared to Sino Gold's more than doubling to 292m for a market cap at \$5.06 of **\$1.48bn**. So now there is a **share price and a market cap difference**.

Management

Board of Directors

Ross Smyth-Kirk – Non-Executive Chairman. Ross is a Fund Manager who was appointed to the Board in November 1994 and was a founding director of the investment management company Clayton Robard. Ross has more than 28 years' experience as a director of a number of companies.

Gavin Thomas – CEO & Managing Director. Gavin joined Kingsgate in February 2005. Gavin is a geologist with over 30 years' international experience in developing exploration companies into mid-tier gold or copper mining entities throughout the world. Gavin is also a director of Mercator Minerals.

John Falconer – Non-Executive Director. John is a Chartered Accountant who was appointed to the Board in 1995 and has over 30 years' experience in corporate financial management. He is a principal of a firm of Chartered Accountants with small publicly listed companies and family businesses as clients.

Peter McAleer – Non-Executive Director. Peter was appointed to the Board in 2000, and has over 30 years' experience in resource companies having been involved in the discovery and/or successful development of over 10 base and precious metal deposits in Europe, Australia, South and North America. Peter is also Chairman of Westmag Ltd and Kenmare Resources plc & was CEO of Equatorial Mining Ltd.

Craig Carracher – Non-Executive Director. Craig was appointed to the Board in 2007, and has been managing director of an international law firm in Thailand for many years. Craig has wide experience in Asian business circles & beneficial knowledge of mining & resources. Craig also has other directorships.

Peter Warren – Company Secretary.

Senior Management

Peter Warren – CFO. Peter is a Chartered Professional Accountant with over 25 years' experience who joined Kingsgate in March 2006. Peter has held a number of CFO positions previously with Equatorial Mining Ltd & prior to that the Alusuisse Australian Group whose assets include the Gove alumina project.

Phil MacIntyre – COO & GM Akara Mining. Phil is a metallurgist with over 30 years' of experience partly at Kidston and Porgera, who joined Kingsgate as GM of Chatree from its inception as a mine in July 2001.

Stephen Promnitz – Corporate Development Manager since August 2005. Stephen is a geologist with over 20 years' experience of which 15 years' was spent with WMC, RIO and Placer Dome in Australia, Asia, the Americas and Europe. Stephen combines practical resource experience with corporate finance and financial analysis having also been an investment banker with Westpac, and an analyst at Citigroup.

Chart of Kingsgate over the past year (March 2008 to March 2009) (Source : www.yahoo.com)

**KCN has begun to recover, breaking through the \$4.00/share resistance area and now testing ~\$5.00...
...as Chatree North moves into production**



Disclosure

Kingsgate Consolidated Limited commissioned Keith Goode (who is a Financial Services Representative of Taylor Collison Ltd ACN 008 172 450, and is a consultant with Eagle Research Advisory Pty Ltd ACN 098 051 677) to compile this report, for which Eagle Research Advisory Pty Ltd has received a consultancy fee. At the date of this report Keith Goode and his associates held interests in shares issued by Kingsgate Consolidated Limited. At the date of this report, Taylor Collison Limited or their associates within the meaning of the Corporations Act, may hold interests in shares issued by Kingsgate Consolidated Limited.

Disclaimer

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