

## CLEAR VALUE IN CHILE, WITH THE BONUS OF POTENTIAL WINDFALL THROUGH CHATREE LITIGATION

- Kingsgate Consolidated Limited (KCN) offers compelling value, with its Chilean project, Nueva Esperanza nearing the end of DFS, and our valuation based on PFS data (discounted by 25%) generating a valuation of \$1.25 vs. KCN's current share price of \$0.43. We do not include Chatree in our base case valuation, but highlight the upside on the current insurance claim is \$200m, or \$0.89 per KCN share, with further potential upside through the current international arbitration with the Thai Government.**
- Nueva Esperanza a world class asset.** The silver-gold project, located in the highly prospective Maricunga Belt in Chile boasts 1.9Moz of gold equivalent resources (AuEq60 – meaning silver converted to gold on a ratio of 1 to 60), with the PFS released April 2016 showing average annual AuEq60 production of 91koz per annum, at AIC of \$US913/oz. DFS is due for completion 1H18.
- Chatree the wild card.** Since commencing production in 2001, the Chatree Gold Mine (Thailand) has produced approximately 1.8Moz gold and more than 8.6Moz silver, averaging 125-135koz gold per annum over recent years. In May 2016, the Thai Government announced all gold mines in Thailand (of which Chatree was the only one) were to be shut down by the end of 2016. KCN are currently pursuing the Kingdom of Thailand via The Australia Thailand Free Trade Agreement (TAFTA). In addition, the Company is pursuing a \$200m claim under its political risk insurance (mediation set for March 2018). We haven't assumed any value for this asset under our base case, but highlight the upside could be of the order of several \$100m.
- Further exploration upside.** KCN continues to enjoy exploration success in Chile, with the recent success at Cerro Blanco West. The Company holds 45km<sup>2</sup> within the Maricunga Belt in Chile, the site of defined gold resources of over 100Moz of AuEq60, including mines such as Salares Norte and La Coipa.
- Current Board Challenge not expected to be successful.** Metal Tiger PLC who owns 6.7% of KCN has requested a spill of the current board. Metal Tiger is an AIM listed Company capitalised at c£21m. We do not view their challenge as likely to succeed.

Year End June 30	2017A	2018F	2019F	2020F	2021F
Production (k oz AuEq60)	89.9	0.0	0.0	0.0	124.0
AISC (\$US/oz)	579.8	0.0	0.0	0.0	618.5
Reported NPAT (\$m)	8.3	(3.3)	(0.4)	(1.4)	57.9
Recurrent NPAT (\$m)	(5.7)	(3.3)	(0.4)	(1.4)	57.9
Recurrent EPS (cents)	(2.6)	(1.5)	(0.2)	(0.6)	25.9
EPS Growth (%)	na	na	na	na	na
EBITDA (\$m)	48.3	(4.7)	(0.7)	(0.7)	133.5
EV/EBITDA (x)	1.6	(18.3)	(154.3)	(170.2)	1.8
Capex (\$m)	0.0	0.0	0.0	247.2	8.0
Free Cashflow	(14.3)	(10.6)	(1.8)	(250.5)	104.0
FCFPS (cents)	(6.4)	(4.7)	(0.8)	(112.0)	46.5
PFCF (x)	(6.5)	(8.8)	(50.4)	(0.4)	0.9
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%	0%

30 November 2017

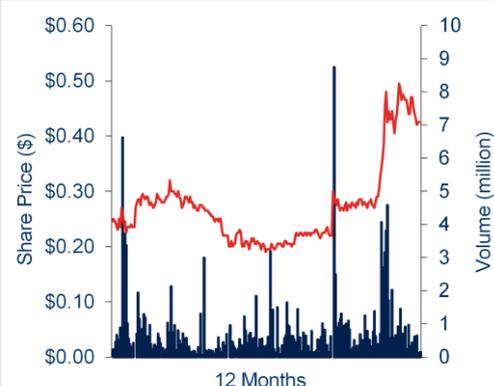
12mth Rating	BUY	
Price	A\$	0.42
Target Price	A\$	1.25
12mth Total Return	%	201.3

RIC: KCN.AX		BBG: KCN AU	
Shares o/s	m	223.6	
Free Float	%	100.0	
Market Cap.	A\$m	92.8	
Net Debt (Cash)	A\$m	-33.6	
Net Debt/Equity	%	na	
3mth Av. D. T'over	A\$m	0.30	
52wk High/Low	A\$	0.50/0.19	
2yr adj. beta		0	

Valuation:		
Methodology		DCF
Value per share	A\$	1.25

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### 12 Month Share Price Performance



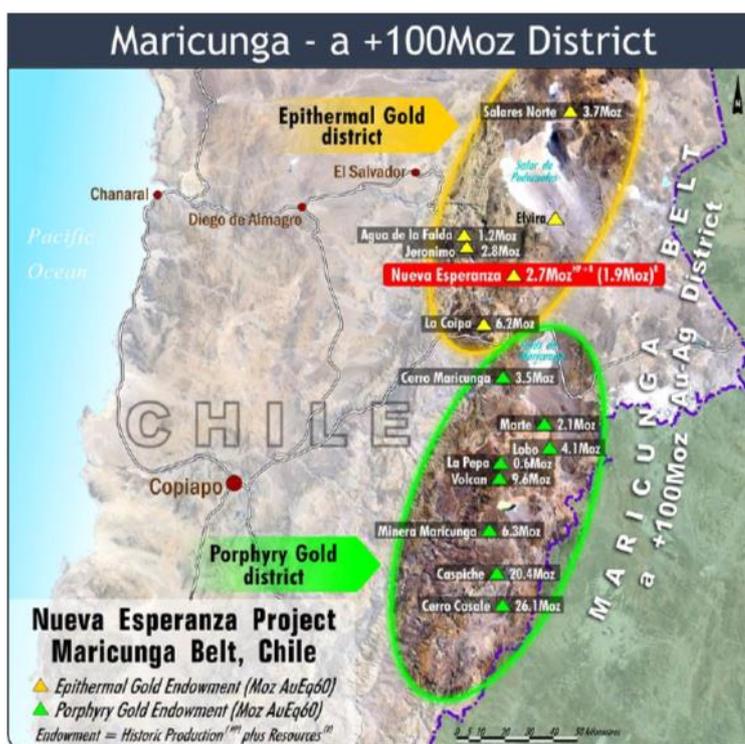
Performance %	1mth	3mth	12mth
Absolute	4.9	60.4	73.5
Rel. S&P/ASX 300	2.7	50.5	59.0

## HISTORY

KCN is very well known to the investment market through its successful operation of the Chatree gold mine in Thailand over a 15 year period. The mine did have a chequered history, most notably being delays in permitting the nearby Chokdee tenements, the extended voluntary suspension in 2015 over accusations that the mine was the source of elevated arsenic and manganese (which was subsequently disproven), and more recently the forced closure of the mine by the Thai government (KCN managed to turn an \$80m debt into a \$38m cash balance over the final 7 months of operation – a quite remarkable effort in such a short time frame). Despite the volatility, the mine has consistently delivered into guidance, and has received a number of awards for environment excellence, whilst generating considerable cash flow over its 15 year mine life. The Company is currently pursuing two separate legal cases to seek compensation over the premature closure of the mine. KCN acquired its Nueva Esperanza project in Chile through the agreed takeover of Laguna Resources NL in 2010. The project has been the subject of a number of feasibility studies, the most recent showing significant improvements through both the expanded resource base, and substantially lower cost inputs. The Company is currently focussed on finalising the DFS on the project, with results expected early in calendar 2018. Chile currently is the world's largest copper producer, and top 20 global gold producer, and is viewed as a highly favourable mining investment destination. Nueva Esperanza is located within the Maricunga Belt in Chile, where defined total gold resources exceed 100Moz AuEq60, with KCN's Nueva Esperanza project currently boasting 1.9Moz AuEq60. KCN also made a couple of less successful acquisitions in Dominion Mining, and Bowden's Silver project, and these investments have subsequently been divested.

## NUEVA ESPERANZA PROJECT (CHILE)

Figure 1: Location of Nueva Esperanza



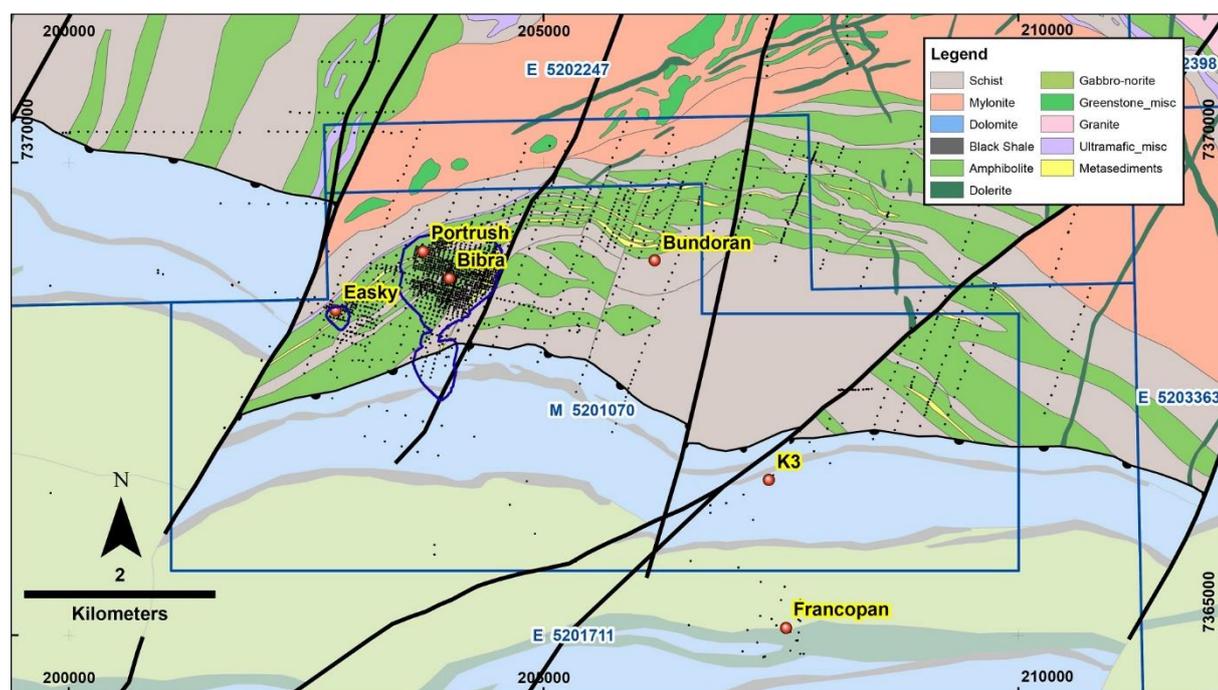
Source: Kingsgate Consolidated

KCN owns 100% of the Nueva Esperanza Project, located in the Domeyko Cordillera of the Atacama Region of Chile. The property comprises contiguous Mining Concessions with a total area of 9,326 hectares. The Company also owns and has the surface rights to an area of 4,020 hectares. The project is located in the Maricunga province, a +100Moz district boasting world class deposits such as Salares Norte and La Coipa.

Nueva Esperanza is a gold and silver deposit with c.73% of its revenue generated from silver. The project is currently at feasibility study stage, with the DFS due 1H 2018 (PFS released April 2016). The Nueva Esperanza project includes three orebodies - Arqueros, Chimberos and Teterita. Chimberos was previously mined as an open pit producing 4.2Mt at a grade of 0.23g/t Au and 294g/t Ag. Arqueros was previously mined as an underground mine producing 1.2Mt at a grade of 1.34g/t Au and 364g/t Ag. No historic mining has been undertaken at Teterita, which exhibits a similar style of mineralisation to Arqueros, but is characterised by having zero gold endowment, but very high grades of silver.

Mineralisation at Nueva Esperanza is an epithermal system characterised by silicified mantos silver deposits at Arqueros and Teterita, gold veins at Arqueros and gold and silver hydrothermal breccias at Chimberos. There are also a series of gold-bearing satellite silicified structures which are being systematically tested. Mineralisation is controlled by north, north east and North West trending silicified feeder structures with deposition occurring at the level of a paleo water table. Silver generally occurs as halide salts that are amenable to rapid leach kinetics in cyanide and gold as electrum and native gold.

Figure 2: Geological setting of Nueva Esperanza



Source: Kingsgate Consolidated

Chimberos was historically mined by Kinross Gold in 1998-99, with 700 koz AuEq60 at 5.1 g/t AuEq60 mined. KCN has extended the resource here, following the discovery of a westward extension from the historical pit, which delivered 250koz Au and 5.1 Moz Ag to the project inventory. Historical mining at Arqueros occurred via underground mining from 1999-2004, with 289koz AuEq60 at 7.5g/t AuEq60 mined. Mineralisation here is high sulphidation gold-silver mineralisation hosted in vuggy silica mantos and ledges.

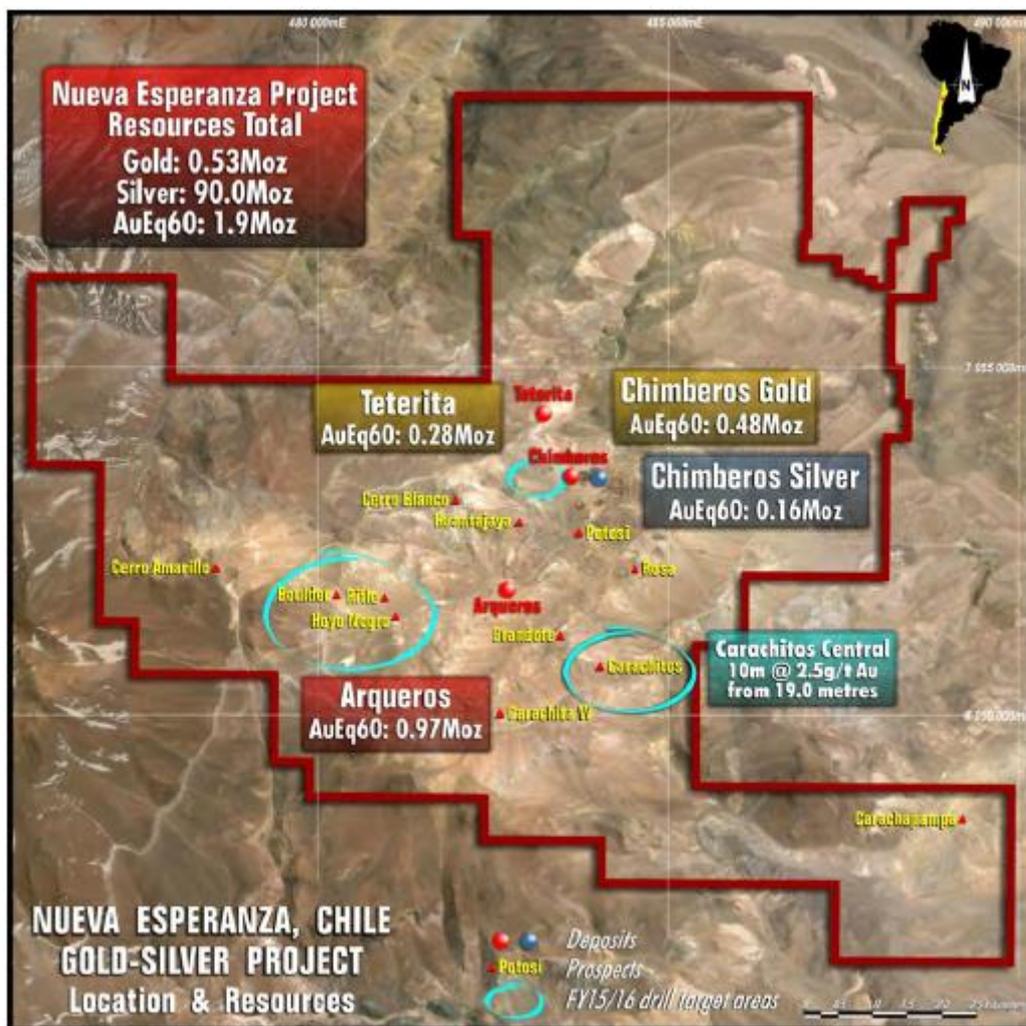
Figure 3: Nueva Esperanza Mineral Resource

Nueva Esperanza Project Total Mineral Resource (0.5g/t gold equivalent cut-off)									
Deposit	Category	Tonnes (Million)	Au (g/t)	Ag (g/t)	Au Eq60. (g/t)	Ounces (moz)			
						Au	Ag	Au Eq60	Ag Eq60
Arqueros	Measured	-	-	-	-	-	-	-	-
	Indicated	14.1	0.35	88	1.82	0.16	39.9	0.82	49.4
	Inferred	3.3	0.4	57	1.4	0.04	6.0	0.14	8.6
	<b>Subtotal</b>	<b>17.4</b>	<b>0.36</b>	<b>82</b>	<b>1.73</b>	<b>0.20</b>	<b>45.9</b>	<b>0.97</b>	<b>58.0</b>
Teterita	Measured	1.5	0.0	101	1.69	0.0005	4.87	0.08	4.90
	Indicated	3.5	0.0	92	1.54	0.001	10.4	0.17	10.4
	Inferred	0.7	0.0	71	1.2	0.0002	1.6	0.03	1.6
	<b>Subtotal</b>	<b>5.7</b>	<b>0.01</b>	<b>92</b>	<b>1.54</b>	<b>0.002</b>	<b>16.8</b>	<b>0.28</b>	<b>16.9</b>
Chimberos Silver	Measured	-	-	-	-	-	-	-	-
	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
	<b>Subtotal</b>	<b>3.6</b>	<b>0.15</b>	<b>74</b>	<b>1.39</b>	<b>0.02</b>	<b>8.6</b>	<b>0.16</b>	<b>9.6</b>
Chimberos Gold	Measured	-	-	-	-	-	-	-	-
	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
	<b>Subtotal</b>	<b>7.9</b>	<b>1.11</b>	<b>47</b>	<b>1.89</b>	<b>0.28</b>	<b>11.9</b>	<b>0.48</b>	<b>28.8</b>
Chimberos Total	Measured	-	-	-	-	-	-	-	-
	Indicated	9.2	0.84	59	1.83	0.25	17.5	0.54	32.4
	Inferred	2.3	0.7	40	1.4	0.05	3.0	0.10	6.0
	<b>Chimberos</b>	<b>11.5</b>	<b>0.81</b>	<b>55</b>	<b>1.73</b>	<b>0.30</b>	<b>20.5</b>	<b>0.64</b>	<b>38.5</b>
NUEVA ESPERANZA TOTAL	Measured	1.5	0.01	101	1.69	0.0005	4.9	0.08	4.9
	Indicated	26.8	0.47	79	1.78	0.41	67.7	1.54	92.2
	Inferred	6.3	0.5	52	1.3	0.09	10.6	0.27	16.2
	<b>Total</b>	<b>34.6</b>	<b>0.45</b>	<b>75</b>	<b>1.70</b>	<b>0.50</b>	<b>83.2</b>	<b>1.89</b>	<b>113.4</b>

Source: Company Reports, Patersons Securities Limited

## NUEVA ESPERANZA PROJECT SUMMARY

Figure 4: Location of the deposits comprising Nueva Esperanza



Source: Kingsgate Consolidated

The project is currently under Feasibility study (by Ausenco), which is due for completion H1 2018.

The current Pre-Feasibility Study was based on the following parameters:

- An April 2016 JORC 2012 compliant Mineral Resource of 39Mt at 0.39g/t Au and 66g/t Ag, which equates to 1.9Moz gold equivalent (60:1 silver to gold ratio) at a cut-off grade of 0.5g/t AuEq60;
- Open pit mining utilising a Chilean mining contractor;
- A 2Mtpa process flowsheet, with a traditional crush, grind, leach and Merrill Crow extraction process with dry stacked tailings to minimise water consumption and reduce the environmental footprint;
- Process plant and infrastructure built under an engineer, procure and construction management (EPCM) arrangement with the plant being owner managed; and
- Power will be supplied from the local grid, which requires 27km of overhead lines. The last 300m passes through the mining area and will be buried. Power costs have been based on a power study carried out by Systep in 2015. In order to make use of the 27km power connection an agreement to use a section of privately owned power line will be required. At this stage this has not been formalised.
- Water is supplied from a bore located 10km to the north east of the operation. There are two bores that have a combined flow rate of 3,900m<sup>3</sup>/day. Plant water consumption is estimated at 1,300m<sup>3</sup>/day. These bores are owned by Anglo American and a contract to supply water to KCN on a \$/m<sup>3</sup>basis is in place.

Mining will be completed in six years in order to bring forward high grade material for early processing. The Teterita pit is mined early in the plan due to its lower strip ratio. The deposit is silver only, but is the highest grade of the three pits (AuEq60) due to the exceptionally high silver grade. The Arqueros pit also starts early in the mine plan to provide a balance of mill feed and a second work area. The early start at Arqueros is also necessary to provide waste for building site roads and the base of the dry stack tailings facility. Chimberos is planned to be mined once Teterita is completed.

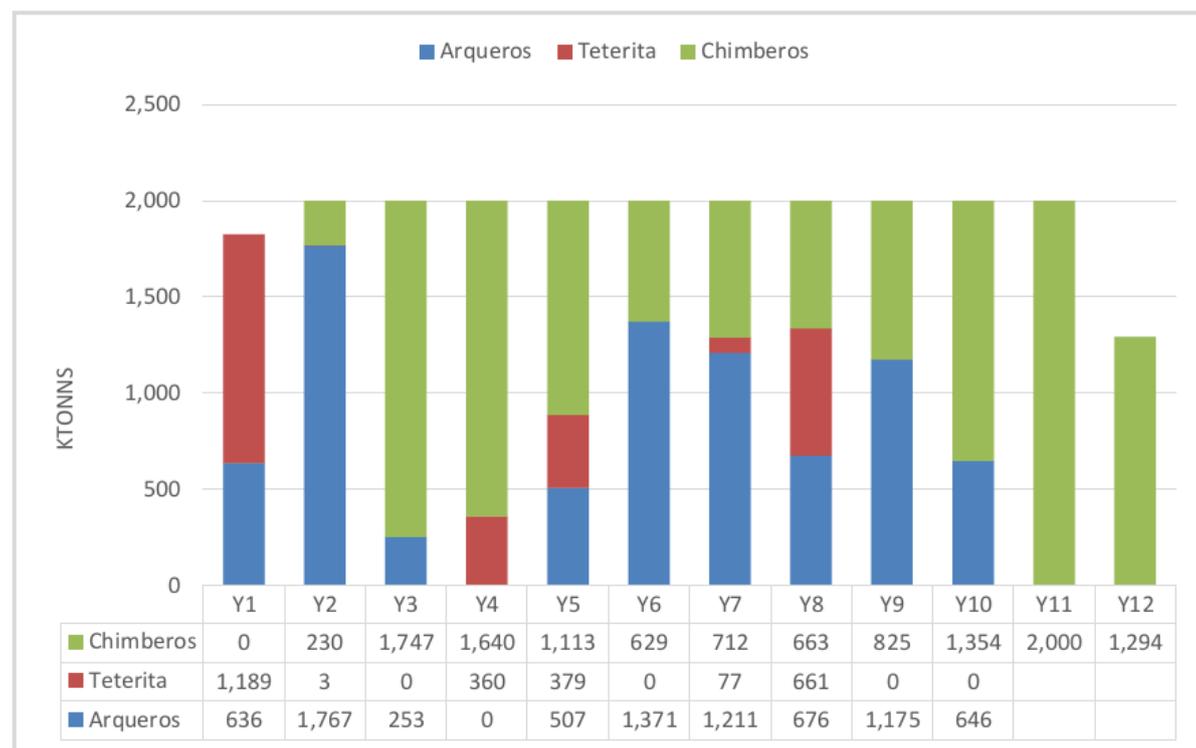
Figure 5: Mining Material

	Waste (t)	Ore (t)	S:R (W:O)	Au (g/t)	Ag (g/t)	Au Eq60 (g/t)
Arqueros	57	8	7.4	0.4	89	1.9
Chimberos	62	7	9.1	0.9	66	2.0
Teterita	12	3	4.5	0.0	135	2.3

Note: Strip Ratio includes the Inferred Resource category within the open pits.

Source: Kingsgate Consolidated

Figure 6: Annual Process Plant Throughput



Source: Kingsgate Consolidated

Figure 7: OPERATIONAL SUMMARY

NUEVA ESPERANZA		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
<b>PRODUCTION</b>																
Ore Milled	(k t)	0	0	0	1,700	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	1,400
Head Grade - Au	(g/t)	0.0	0.0	0.0	0.6	0.3	1.1	1.4	0.6	0.3	0.3	0.2	0.0	0.0	0.0	0.0
Head Grade - Ag	(g/t)	0.0	0.0	0.0	158.0	146.0	94.0	65.0	99.0	82.0	96.9	96.9	96.9	96.9	96.9	96.9
Recovery - Au	(%)	0%	0%	0%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80.0%
Recovery - Ag	(%)	0%	0%	0%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%	1
Production - Au	(k Oz)	0	0	0	26	13	57	69	28	13	15	8	2	2	2	2
Production - Ag	(k Oz)	0	0	0	7,255	7,887	5,078	3,511	5,348	4,430	5,236	5,236	5,236	5,236	5,236	3,665
Gold Equivalent	(k Oz)	0	0	0	124	119	125	117	109	73	86	78	73	73	73	51
Cash Cost	(\$/t)	0	0	0	37	37	38	51	65	28	28	28	28	28	28	28
Cash Cost	(US\$/Oz)	0	0	0	554	664	646	909	1233	811	694	760	817	820	823	825
AISC	(US\$/Oz)	0	0	0	618	731	710	978	1254	825	708	768	820	822	852	945
<b>PROFIT AND LOSS</b>																
Revenue	(US\$ M)	0	0	0	169	165	177	169	161	109	129	117	109	109	109	76
Operating Costs	(US\$ M)	0	0	0	64	74	75	101	130	56	56	56	56	56	57	40
Royalty	(US\$ M)	0	0	0	5	5	5	5	5	3	4	4	3	3	3	2
Operating Profit	(US\$ M)	0	0	0	100	86	96	63	26	50	69	58	50	49	49	34
Net Profit	(US\$ M)	0	0	0	48	34	41	-11	-68	28	42	34	27	30	37	26
Net Cash Flow	(US\$ M)	0	0	-247	92	78	88	55	24	49	68	57	50	49	47	28

Source: Patersons Securities Limited.

In figure 7 showing our operational estimates, whilst we have broadly assumed the pre-feasibility guidance given by KCN, we have injected a further element of conservatism due to the early stage of the project:

1. We have escalated operating and capital cost estimates by c.10-20%
2. Assumed a delayed start-up, with first production in July 2020 to allow one year for permitting and funding, and an additional year for construction following completion of the DFS in 1H/CY2018.
3. Valuation has been discounted by a further 25% to reflect the early stage of the project.

Figure 8: Pre-Feasibility Study Key Outcomes

Project and Operating parameters			
Investment capital (initial)	US\$M		206
Life of Project	Year		11.6
Gold Produced	Moz	206	0.275
Silver Produced	Moz	28	47
Gold Equivalent Produced	AuEq60 Koz	676	1,100
Annual Process rate	Mtpa		2.0
Mining stripping ratio	(Waste to Ore)	7.7	6.6
Gold recovery	Average %		80
Silver recovery	Average %		84
Annual production average	AuEq60 koz	135	91
Cash costs incl. royalties	AuEq60 US\$/oz	633	706
All-in-costs (AIC)	AuEq60 US\$/oz	840	913

Source: Kingsgate Consolidated

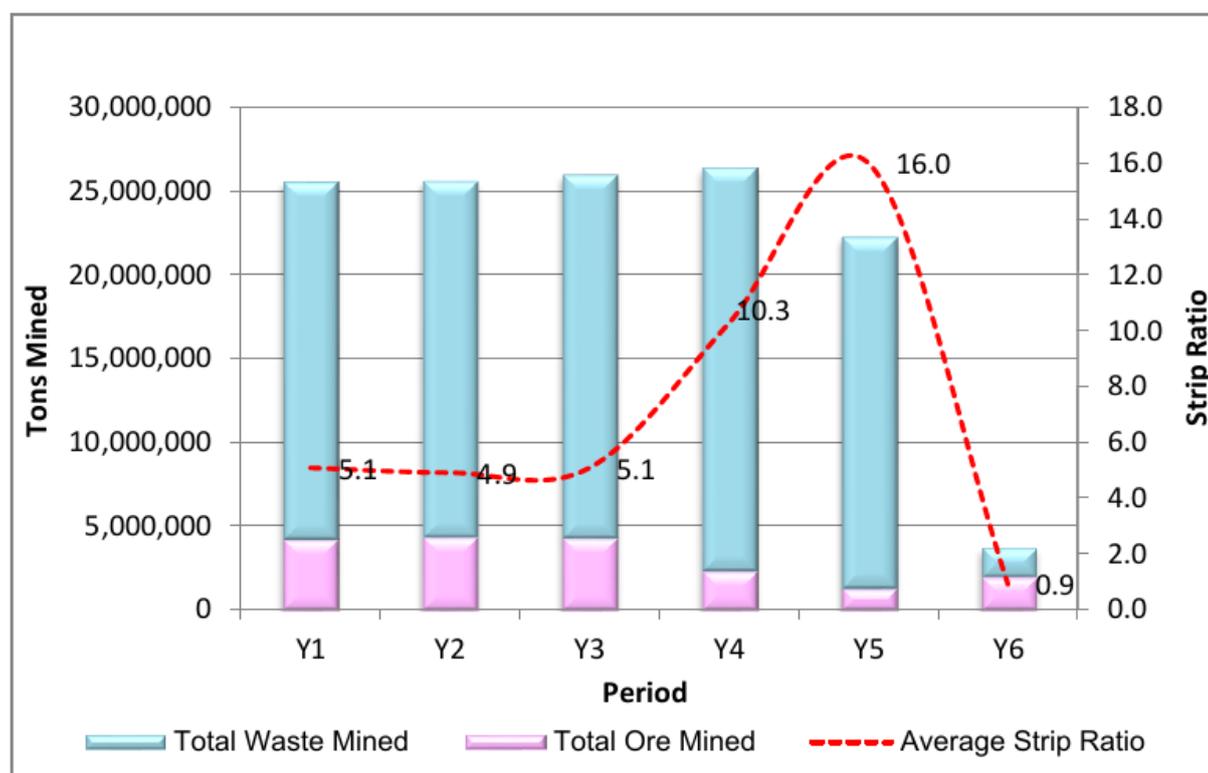
Figure 9, gives the breakdown of the pre-feasibility capital cost estimates, including what we view as a conservative \$US24m contingency allowance.

Figure 9: Capital Cost Estimate (US\$M)

CAPEX - AREA	\$M	Estimated by
Mine Development and Infrastructure	4.5	Ausenco
Process Plant	114	Ausenco
Site Preparation and Infrastructure	35	Ausenco
EPCM Temporary Facilities	7	Ausenco
EPCM Services and Owner's Cost	23	Ausenco
Contingency	24	Ausenco
<b>Subtotal Capex</b>	<b>206</b>	

Source: Kingsgate Consolidated

Figure 10: Total tonnes mined per period and strip ratio



Source: Kingsgate Consolidated

## EXPLORATION

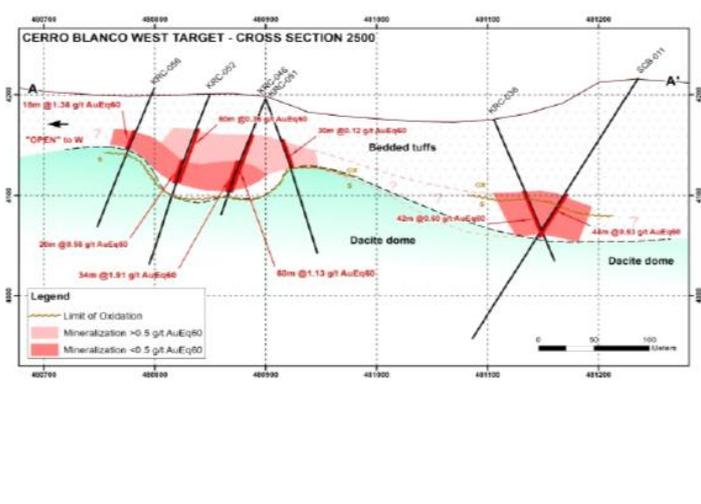
Figure 11: Nueva Esperanza District ~45Km<sup>2</sup> Alteration



Source: Kingsgate Consolidated

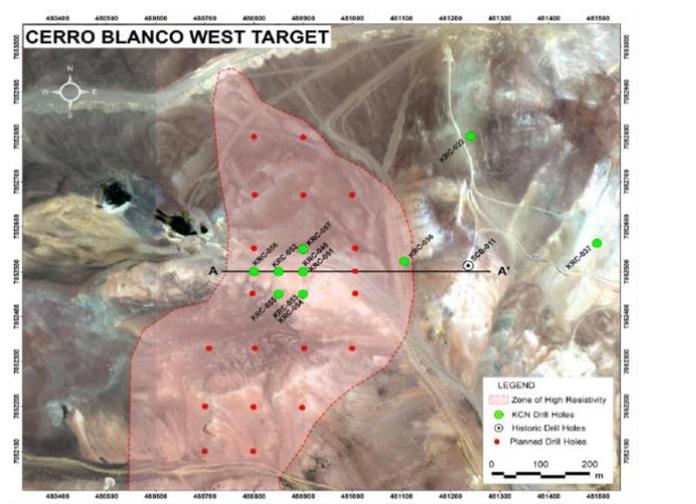
Nueva Esperanza remains relatively underexplored, with a 45km<sup>2</sup> alteration zone, and numerous walk up targets. KCN announced a new discovery zone at Cerro Blanco West in May 2017, and continues to report strong results from this area. US\$11m was budgeted for calendar 2017 on Nueva Esperanza with half allocated to exploration and drilling. Exploration budget for FY18 is c.US\$2.4m, with a clear focus on fully defining Cerro Blanco.

Figure 12: Cross section of Cerro Blanco West Target



Source: Kingsgate Consolidated

Figure 13: Planned drill program for the target



Source: Kingsgate Consolidated

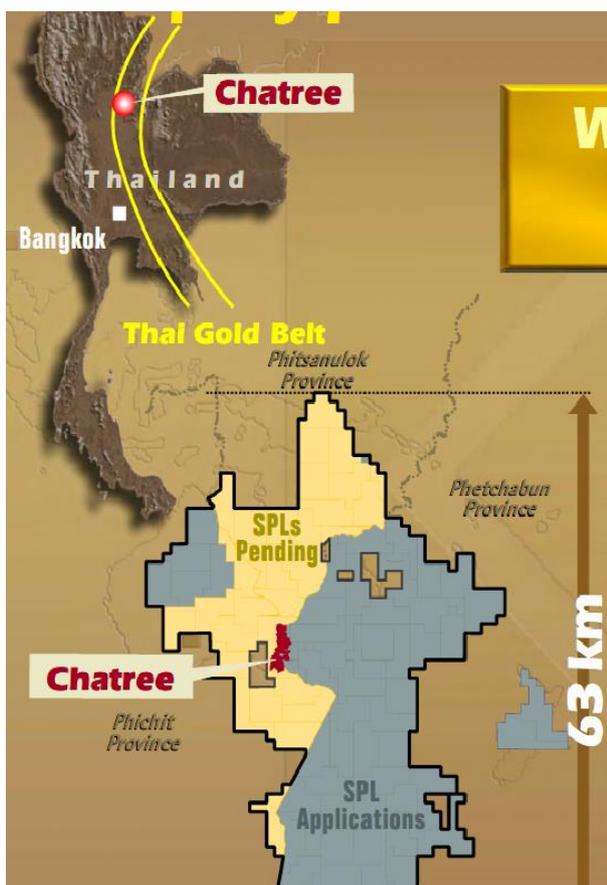
## CHATREE GOLD MINE (THAILAND)

The Chatree gold mine is located in Central Thailand, approximately 280km north of Bangkok, and has been operational since 2001 over which time the mine has produced over 1.8Moz of gold and 10Moz of silver. The mine was closed under government order on 31 December 2016. The mine has remaining Resources/Reserves of 1.9Moz AuEq60/1.1 Moz AuEq60. The plant has a rated capacity of 6Mtpa, with last production ~90koz production at \$500/oz in 1HFY17 (and more typical LOM annual production of 100-140koz). The Thai Government recently indicated that the Company could reapply for their metallurgical licence over the property. However, KCN remains concerned about the cost to reopen, give the deposit was preferentially mined over the last 8 months of life in an effort to reverse the Company's financial position from one of indebtedness to a solid cash position (which they achieved). We estimate reopening could cost up to \$50m, when taking into account the cut-back required, replacement of fleet, re-hire of staff and other restart costs. Given the closure occurred without any warning, we feel financing of any reopening costs could be problematic given questions on security of tenure here. On this basis, we have not included any valuation for Chatree in our base case valuation.

KCN has two outstanding legal proceedings over Chatree:

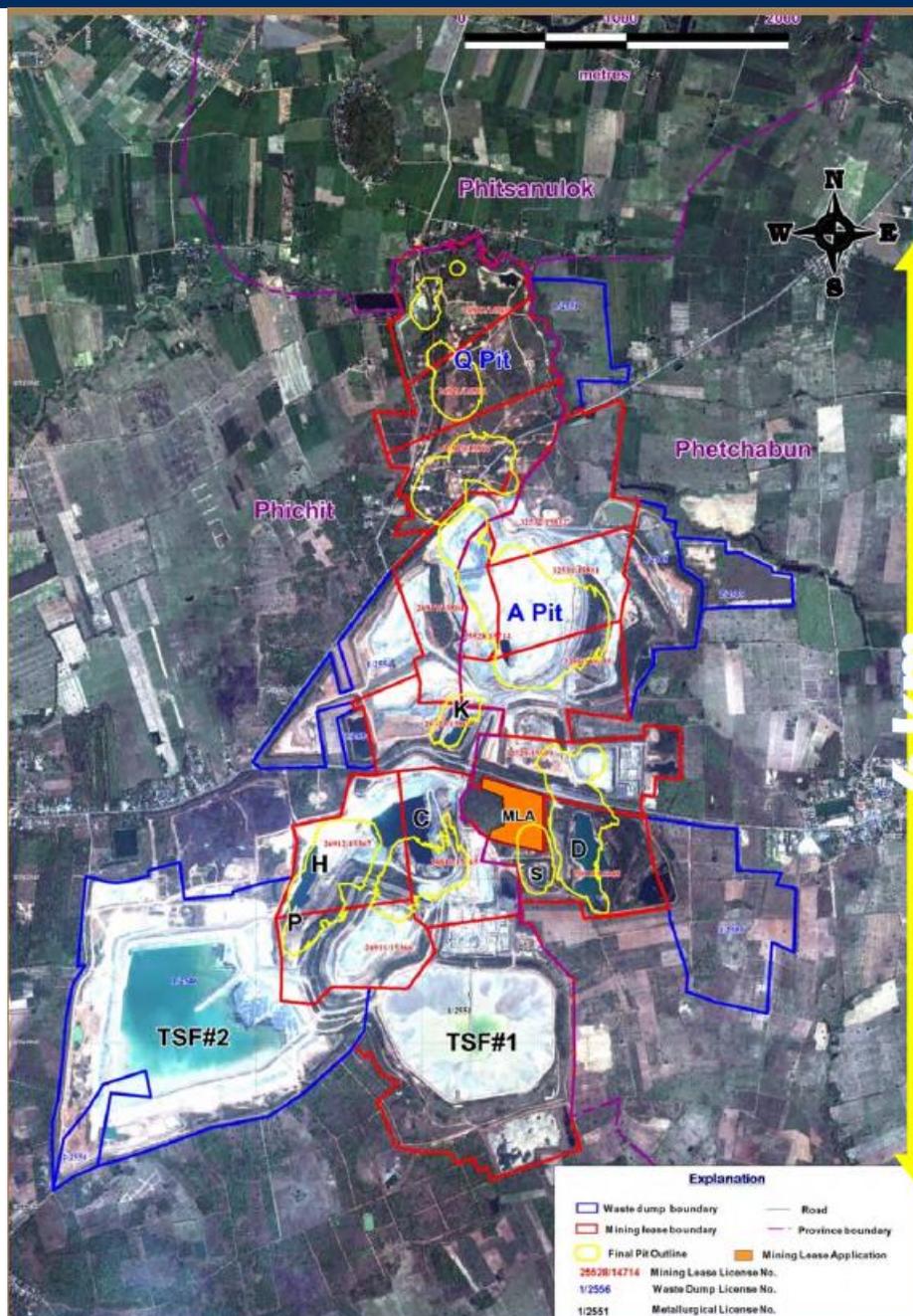
1. On 13 October, 2017, the Company announced it would be commencing proceedings in the Supreme Court of New South Wales against Zurich Australia Insurance Limited and other named insurers under a US\$200m Political Risk Insurance Policy.
2. On 2 November 2017, the Company announced that it would commence international arbitration proceedings against the Kingdom of Thailand under the Australia Thailand Free Trade Agreement (TAFTA) to recover substantial losses resulting from the unlawful expropriation of the Chatree Gold Mine in 2016 amongst other grievances.

Figure 14: Location of Chatree



Source: Kingsgate Consolidated

Figure 15: Site location of Chatree



Source: Kingsgate Consolidated

Figure 16: Chatree Mineral Resource

	Tonnes (Mt)	Grade (g/t Au)
Measured	73.2	
Indicated	49.8	1.10
Inferred	40.6	1.06
Total	163.6	1.10

Source: Kingsgate Consolidated

## VALUATION

Our base case assumes a 5% discount rate. We have applied a 25% discount to our valuation on Nueva Esperanza to reflect the early stage (DFS) this project is currently at. We have entirely removed Chatree from our base case valuation given the extreme uncertainty on the outcome of the two current litigation cases surrounding the mine, and the low probability of the mine recommencing production under the current ownership. We note that current litigation against the project insurers under the Company's political risk insurance has a cap of \$200m, or \$0.89/KCN share. Litigation under TAFTA is more difficult to determine, with any outcome expected to be potentially many years off. We have not applied the traditional funding dilution for Nueva Esperanza, as we are looking to any settlement under the insurance claim to comprise part of the funding package.

Figure 17: KCN Valuation

Valuation	A\$m	A\$/sh
Chatree	0.0	0.00
Nueva Esperanza	258.4	1.16
Forwards	0.0	0.00
Exploration	10.0	0.04
Unpaid capital	0.0	0.00
Corporate	(2.7)	(0.01)
Cash, bullion and net current assets	15.8	0.07
Debt and current liabilities	(2.0)	(0.01)
<b>NPV (@ 0% discount rate)</b>	<b>279.6</b>	<b>1.25</b>
<b>Price Target</b>		<b>1.25</b>

Source: Patersons Securities Limited

## MANAGEMENT

**Ross Smyth-Kirk. Executive Chairman.** Ross Smyth-Kirk was a founding Director of the former leading investment management Company, Clayton Robard management Limited. He has been a director of numerous companies in Australia and the UK.

**Peter Alexander. Non-Executive Director.** Peter Alexander has had 44 years' experience in the Australian and off-shore mining and exploration industry. He was Managing Director of Dominion Mining Limited, and is currently a director of Doray Minerals and Caravel Minerals Limited.

**Peter Warren. Non-Executive Director.** Peter Warren was Company Secretary and Chief Financial Officer of Equatorial Mining Limited and of the Australian subsidiaries of the Swiss based Alusuisse Group and has held various financial and accounting positions for Peabody Resources and Hamersley Iron.

**Sharon Skeggs. Non-Executive Director.** Ms Skeggs has consulted to a number of major companies including Telstra, Westpac, News Limited, Visa (Australia & Asia) and Woolworths on a variety of corporate matters including business and marketing strategies, change management, communication programs and cost reduction initiatives. She was previously a Director for Saatchi & Saatchi (Australia) for 15 years and the Australian Jockey Club.

**Ross Coyle. Chief Financial Officer and Company Secretary.** Ross Coyle joined KCN in March 2011 following the Company's acquisition of Dominion Mining Limited and was with the Dominion group for over 25 years. He is a qualified accountant and has over 31 years' experience in finance and accounting within the resource industry. He was Finance Director of Dominion from 1996.

## Remuneration

Given KCN currently do not have a Managing Director, we cannot comment fully on the remuneration structure, however, former Managing Director (Greg Foulis) received total remuneration in FY2016 of \$628k, which we view as reasonable. The base fee for non-executive directors in FY2017 was \$90,000 per annum, which we also view as reasonable, particularly in the light of the small board (only 4 directors in total).

## Risk Analysis

Surprisingly given the volatile history of Chatree, and location of both projects, we only rate the risk related to KCN as moderate, and initiate without a speculative tag on our recommendation. The Company currently has a modest net cash position, and could potentially receive sufficient settlement from the outstanding litigation claims to fully or partially fund its development project, Nueva Esperanza.

1. **Project risk.** Given Nueva Esperanza is currently under DFS, we consider the project to be moderate risk. With average AIC of US\$913/oz AuEq60 over the LOM, the project is considered low cost, with development capital adding a further US\$187/oz AuEq60, taking total project costs to US\$1100/oz AuEq60, there remains a strong margin compared to the current spot gold price.
2. **Funding.** We do not see funding as a significant risk for this project, with potential part or full funding if the current litigation is successful, and the project of size to potentially be of interest to JV partners.
3. **Country Risk.** KCN key project is located in Chile, an area with significant historic mining presence and a well-known and understood mining code. Whilst the Company's second project, Chatree is located in Thailand which would be currently considered a high risk location, we are excluding any value on this project in our base case valuation. As such, we attribute a low risk to our valuation based on location.

## Sensitivity

The tables below show the valuation is most sensitive to changes in the silver price, which is not surprising given the bulk of the revenue is derived from silver sales.

Figure 18: Valuation sensitivity to Gold Price and Silver Price

Price Target	Silver Price							
		-30%	-20%	-10%	0%	10%	20%	30%
Gold Price	-30%	-0.50	-0.05	0.42	0.93	1.47	2.04	2.64
	-20%	-0.39	0.05	0.53	1.03	1.57	2.14	2.75
	-10%	-0.28	0.16	0.64	1.14	1.68	2.25	2.85
	0%	-0.17	0.27	0.74	1.25	1.79	2.36	2.96
	10%	-0.06	0.38	0.85	1.36	1.90	2.47	3.07
	20%	0.04	0.49	0.96	1.47	2.00	2.57	3.18
	30%	0.15	0.59	1.07	1.57	2.11	2.68	3.29

Source: Patersons Securities Limited

Figure 19: Valuation sensitivity to Head Grade and operating costs.

Price Target	Gold Grade							
		-30%	-20%	-10%	0%	10%	20%	30%
Operating Costs	-30%	1.05	1.36	1.68	1.99	2.31	2.62	2.93
	-20%	0.80	1.11	1.43	1.74	2.06	2.37	2.69
	-10%	0.55	0.87	1.18	1.50	1.81	2.13	2.44
	0%	0.31	0.62	0.94	1.25	1.57	1.88	2.20
	10%	0.06	0.37	0.69	1.00	1.32	1.63	1.95
	20%	-0.19	0.13	0.44	0.76	1.07	1.39	1.70
	30%	-0.43	-0.12	0.20	0.51	0.83	1.14	1.46

Source: Patersons Securities Limited

Figure 20: Valuation Scenarios (\$/share)

Base Valuation	\$1.25
Spot Gold	\$1.21
Spot Gold + 20%	\$1.42
Spot Gold - 20%	\$1.04

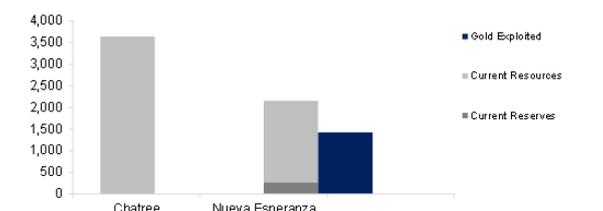
Source: Patersons Securities Limited

Kingsgate Consolidated		\$0.42
Valuation	A\$m	A\$/sh
Chatree	0.0	0.00
Nueva Esperanza	258.4	1.16
Forwards	0.0	0.00
Exploration	10.0	0.04
Unpaid capital	0.0	0.00
Corporate	(2.7)	(0.01)
Cash, bullion and net current assets	15.8	0.07
Debt and current liabilities	(2.0)	(0.01)
<b>NPV (@ 0% discount rate)</b>	<b>279.6</b>	<b>1.25</b>
<b>Price Target</b>		<b>1.25</b>

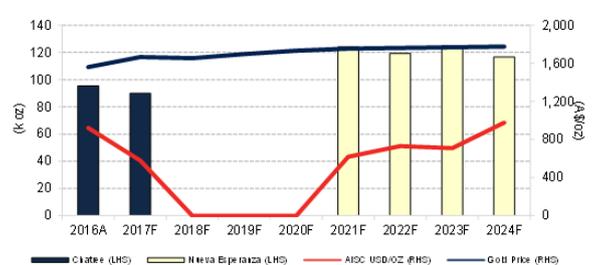
#### NPV Sensitivity

NPV(nom) @ 10% disc.	0.73
NPV(nom) @ 8% disc.	0.91
<b>Hedging</b>	<b>koz 1-Year 3-years % Reserve</b>

#### Gold exploited as a subset of reserves/resources (k ozAueq60)



#### Gold Production Summary (k ozAueq60)



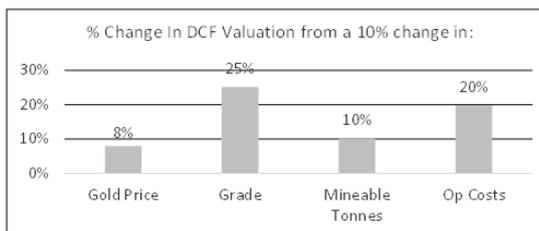
#### Reserves & Resources

Reserves	Mt	Au g/t	Ag g/t	Aueq60 koz
Chatree				
Nueva Esperanza	17.1	0.5	85.0	275
<b>Total</b>	<b>17.1</b>	<b>0.5</b>	<b>85.0</b>	<b>275</b>
Resources	Mt	Au g/t	Ag g/t	Au koz
Chatree	163.6	0.7	5.6	3,640
Nueva Esperanza	39.4	0.4	66.0	1,880
<b>Total</b>	<b>203.0</b>	<b>0.6</b>	<b>17.3</b>	<b>5,520</b>

#### Directors

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

Commodity Assumptions	Year End June 30					
	2017A	2018E	2019E	2020E	2021E	2022E
A\$:US\$	0.75	0.78	0.77	0.77	0.75	0.73
Gold (US\$/oz)	1,253	1,283	1,307	1,335	1,359	1,389
Silver (US\$/oz)	17.81	17.16	17.60	18.00	18.00	18.72
Gold (A\$/oz)	1,666	1,654	1,697	1,734	1,756	1,762



Production Summary	2017A	2018E	2019E	2020E	2021E	2022E
<b>Chatree</b>						
Ore Milled (kt)	2,773	0	0	0	0	0
Head Grade (g/t Au)	1.2	0.0	0.0	0.0	0.0	0.0
Recovery (%)	82%	0%	0%	0%	0%	0%
<b>Production (k oz Au)</b>	<b>90</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cash Cost (\$/t)	16	0	0	0	0	0
Cash Cost (\$/oz)	500	0	0	0	0	0
<b>AISC (\$/oz)</b>	<b>580</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Nueva Esperanza</b>						
Ore Milled (kt)	0	0	0	0	1,700	2,000
Head Grade (g/t Au)	0.0	0.0	0.0	0.0	0.6	0.3
Head Grade (g/t Ag)	0.0	0.0	0.0	0.0	158.0	146.0
Recovery (% Au)	0%	0%	0%	0%	80%	80%
Recovery (% Ag)	0%	0%	0%	0%	84%	84%
<b>Production (k oz Au)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26</b>	<b>13</b>
<b>Production (k oz AuEq60)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>124</b>	<b>119</b>
Cash Cost (\$/t)	0	0	0	0	37	37
Cash Cost (\$/oz)	0	0	0	0	554	664
<b>AISC (\$/oz)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>618</b>	<b>731</b>

#### GROUP ATTRIBUTABLE

<b>Production (k oz AuEq60)</b>	<b>90</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>124</b>	<b>119</b>
<b>Cash Costs (A\$/oz)</b>	<b>500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>554</b>	<b>664</b>
<b>Sustaining All In Costs (A\$/oz)</b>	<b>580</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>618</b>	<b>731</b>
<b>Realised Price (A\$/oz)</b>	<b>1,666</b>	<b>1,654</b>	<b>1,697</b>	<b>1,734</b>	<b>1,756</b>	<b>1,762</b>

Profit & Loss (A\$m)	2017A	2018E	2019E	2020E	2021E	2022E
<b>Sales Revenue</b>	<b>176.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>226.3</b>	<b>226.7</b>
Other Income	2.3	0.0	0.0	0.0	0.0	0.0
Operating Costs	96.9	0.0	0.0	0.0	92.1	108.4
Exploration Exp.	9.0	0.7	0.7	0.7	0.7	0.7
Corporate/Admin/Other	24.1	4.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>48.3</b>	<b>(4.7)</b>	<b>(0.7)</b>	<b>(0.7)</b>	<b>133.5</b>	<b>117.6</b>
Depn & Amort	50.9	0.0	0.0	0.0	47.7	55.5
<b>EBIT</b>	<b>(2.6)</b>	<b>(4.7)</b>	<b>(0.7)</b>	<b>(0.7)</b>	<b>85.8</b>	<b>62.2</b>
Interest	2.1	(0.1)	(0.2)	1.3	3.1	1.6
<b>Operating Profit</b>	<b>(4.7)</b>	<b>(4.6)</b>	<b>(0.5)</b>	<b>(2.0)</b>	<b>82.7</b>	<b>60.6</b>
Tax expense	1.0	(1.4)	(0.2)	(0.6)	24.8	18.2
FX Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Abnormals	14.0	0.0	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>8.3</b>	<b>(3.3)</b>	<b>(0.4)</b>	<b>(1.4)</b>	<b>57.9</b>	<b>42.4</b>

<b>Normalised NPAT</b>	<b>(5.7)</b>	<b>(3.3)</b>	<b>(0.4)</b>	<b>(1.4)</b>	<b>57.9</b>	<b>42.4</b>
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Cash Flow (A\$m)	2017A	2018E	2019E	2020E	2021E	2022E
<b>Operating Cashflow</b>	<b>57.0</b>	<b>-3.6</b>	<b>0.2</b>	<b>-1.3</b>	<b>114.0</b>	<b>95.5</b>
- Capex (+ asset sales)	5.7	0.0	0.0	-247.2	-8.0	-8.0
- Exploration	-2.7	-2.0	-2.0	-2.0	-2.0	-2.0
<b>Free Cashflow</b>	<b>60.0</b>	<b>-5.6</b>	<b>-1.8</b>	<b>-250.5</b>	<b>104.0</b>	<b>85.5</b>
- Dividends (ords & pref)	0.0	0.0	0.0	0.0	0.0	0.0
+ Equity raised	0.0	0.0	0.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	-85.9	-11.6	0.0	0.0	0.0	0.0
+ Other	11.6	6.6	0.0	0.0	0.0	-0.0
<b>Net Change in Cash</b>	<b>-14.3</b>	<b>-10.6</b>	<b>-1.8</b>	<b>-250.5</b>	<b>104.0</b>	<b>85.5</b>
Cash at End Period	22.0	11.4	9.6	-240.9	-136.9	-51.4
<b>Net Cash/(LT Debt)</b>	<b>10.4</b>	<b>11.5</b>	<b>9.6</b>	<b>-240.8</b>	<b>-136.9</b>	<b>-51.4</b>

Balance Sheet (A\$m)	2017A	2018	2019	2020	2021	2022
Cash	22.0	11.4	9.6	-241	-137	-51
Total Assets	134	119	117	-133	27	175
Total Debt	11.6	0.0	0.0	0.0	0.0	0.0
Total Liabilities	33.4	16.2	16.2	16.2	16.2	16.2
Shareholders Funds	101	103	101	-149	10	159

#### Ratios

Net Debt/Equity (%)	na	na	na	-830496%	-472006%	-177075%
Interest Cover (x)	na	na	na	na	1.8	1.1
Return on Equity (%)	0.0	0.0	0.0	0.0	0.0	0.0

## Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
17 Mar 15	Resources Review	0.66	0.66	H	
06 May 15	Gold Quarterly Report	0.66	0.74	H	
11 Sep 15	Quarterly Gold Review	0.66	0.64	H	
17 Sep 15	Resources Review	0.67	0.68	H	
06 Nov 15	Quarterly Gold Review	0.67	0.69	H	
21 Jan 16	Hot off the Press	0.44	0.25	H	
05 Feb 16	Quarterly Gold Review	0.40	0.25	H	
09 Mar 16	Ceased Coverage	0.00	0.00		
	Current Share Price		0.43		

**Stock recommendations:** Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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**\*Warning.** The Directors of Kingsgate do not endorse the value statements or projections set out above, which may not be reliable in any event. This extract from the Patersons' Report is referred to in order to reinforce the Kingsgate Board's view that Kingsgate's principal focus is Nueva Esperanza, with the PRI and TAFTA claims representing potential upside.

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