

## **CHAIRMAN'S ADDRESS--- AGM 2006 (15 November, 2006)**

As you are already aware Kingsgate achieved a net profit for the year of \$16.7 million from production of 140,071 ounces of gold and 459,701 ounces of silver, all up significantly on the previous year.

The result was achieved due to consistent mine production, improved processing capacity and a continued focus on costs which actually improved during the year in an environment where most producers have been severely impacted by rising costs.

A decision was made early in the past financial year to aggressively deliver into the hedge positions to allow investors greater leverage to the gold price and manage the new AIFRS accounting standards. The original gold hedge positions existed due to the original mine development being 100% debt financed in 2001 when gold prices were \$US260 per ounce.

Unfortunately these good times have not continued into the current financial year, and, as already reported in our first quarter's result, production is down and costs have increased due to an early onset of wet weather and a short term under performance on predicted grade. Whilst we still do not see this as more than a short term phenomenon, since there is still no significant improvement in this quarter so far it is clear that this half year's performance will be severely impacted, as both production levels and profits are strongly correlated to grade. The impact on the full year is too early to evaluate, but it is relevant to note that once production is lost it is very difficult to retrieve. Hence we are looking at a reduced production level for the full year but its extent is too early to predict.

The production conditions being experienced are typical of operating in the lower sections of a single pit in quite restrictive circumstances in hard rock. The A pit, whilst contributing some softer material, is so far fairly low grade as well and quite constrained in its configuration, although grades do increase with depth.

This only goes to highlight how important the granting of the North Chatree leases is to your company and how frustrating it has been to all concerned that this process has been unable to be accelerated. Everything has been done by your company to progress these Mining Leases and it is believed that the final major hurdle in the granting process – the Environmental Impact Assessment – is in the final stages of approval.

It was pleasing during the year to get approval for the granting of 50 Special Prospecting Licences and we are awaiting the balance of our Applications to be granted. In total this area covers about 1500 sq kms and we have little doubt that your company has identified and is sitting on one of the great unexplored gold provinces of the world. We would be disappointed if a number of new mines are not developed in these areas in coming years.

We also expect to announce next week the completion of the first stage of the sell down to Thai interests of some 51% in our operating subsidiary Akara Mining Ltd. to meet our obligations to the Thai Board of Investment which granted us certain investment incentives some 5 years ago. As previously announced the first stage will involve a combined debt and equity package designed to both satisfy the requirements and provide financing for the planned more than doubling of plant capacity once the North Chatree leases are granted. The second stage will involve an IPO on the Thai Stock Exchange within 2 to 3 years.

Last year I made some critical comments about the AIFRS new accounting standards being imposed on corporate Australia. In the first year of their implementation I see no reason to revise those early criticisms. They have certainly not improved information to end users but have only complicated things. I note that similar observations have been made by many other prominent company directors. Of particular significance to many mining companies is the treatment of hedge accounting. It is clear that it was not devised with the mining industry in mind and its implementation and ramifications not properly understood by even the accounting profession. It will continue to have a significant impact on many Australian mining companies. Significantly, as mentioned before, your company has done everything possible to minimise its impact and is on schedule to be free of its original hedging commitments by the end of June, 2007.

Of particular concern to you as shareholders is the performance of your shares and the integrity of the market. I have been around the stock market for some 35 to 40 years. I have no hesitation in declaring this the most manipulated market I've experienced. My observations relate to our stock but my informants tell me that it happens every day in many stocks. In recent weeks there has been constant selling in our stock but instead of meeting the market there has been a consistent effort to sell down the stock. I am reliably informed that much of the selling could have been achieved at least 10 to 20 cents higher and even more on some days. If one is a seller surely you should be looking for, and are entitled to receive, the best price you can get. To do otherwise is to exhibit sheer incompetency or there is some other motive. It is worth noting that there is a large short position in our stock (as there is in many other stocks at the present time).

There is little doubt in my mind that the activity of some hedge funds and many of the larger brokers is severely distorting our market. There was one day three weeks ago when our stock opened at \$3.75, sold down to \$3.65, moved up, 1.7 million shares were crossed at \$3.80, and it closed at \$4.24. Please don't tell me that is a either real or transparent market.

During the year your company made a takeover offer for Andean Resources Ltd. This move made a lot of sense for both sets of shareholders because Andean not only has an interesting deposit with similar characteristics to our Chatree but Andean lacks the expertise, knowledge and ability to develop it, whilst at the same time it is prudent for us to add some geo-political diversity to our mix. It was never intended to be hostile but was made so by the actions of the Andean Board, who, whilst welcoming the move initially and under the undue influence of the previous largest shareholder, put the "For Sale" sign up and tried to sell it around the world, whilst at the same time publicly denigrating your company.

Our offer was very generous and no other potential purchaser emerged, because it is still too early for anyone inexperienced in these types of deposits to put a value on it. We have emerged as the largest shareholder with 21.36% following a recent placement below market, despite your company's offer of technical and financial assistance. The offer of financial assistance was to underwrite, on a no fees basis, a rights issue to all shareholders. This offer was not accepted and the Andean Board decided to make a placement below the market to a select group of institutions thereby denying all other shareholders, including ourselves, the opportunity to participate. We will consider our options over the coming months in relation to this investment.

During the course of our offer it was reported in the press that Andean shares were purchased with the knowledge of information not available to the public. Apparently ASIC looked into this incident and could not find sufficient evidence to proceed. This is the second time in 3 or 4 years that an incident has occurred involving your company where, to most market observers, ASIC should have proceeded further.

Finally, a word about the political situation in Thailand. There is little doubt that the uncertain political environment existing for much of this calendar year has impacted on our ability to progress our various situations. Uncertainty in itself is sufficient to engender inaction in a normally cumbersome bureaucracy.

All of our advisers believe that the coup should improve the situation as the new ministers, unencumbered by baggage and keen to show the rest of the world the merits of the Thai economy, endeavour to reassure business and encourage foreign investment.

In concluding I must congratulate Gavin Thomas and his senior management team for their undying efforts to progress the company in a most difficult environment. There is no doubt in my mind that we have the best management team that we have ever had in the company. The Board shares their frustrations and commends them and their families for their dedication and the demands imposed on them which go well beyond that of a normal corporate environment. My sincere thanks also to fellow Board members John Falconer and Peter McAleer for their loyalty, strength and support over a decidedly difficult period. There is no doubt in my mind that all of our efforts will be rewarded and I hope in the very near future.

Ross Smyth-Kirk

15 November 2006