

# Thai gold will only get bigger

Exploration success around the Chatree mine suggests the makings of a substantial gold system.

By Tim Treadgold

**P**roduction of 150,000 ounces of gold a year and a discovery rate of 125,000 oz of gold a month. That's the key to understanding the future of Kingsgate Consolidated, and it doesn't take a rocket scientist to see that any company that is growing its resource base at a rate that is 10-times faster than output is poised to launch a major growth phase.

Just how it handles this high-quality question of maximising the value from gold in the ground at the Chatree mine in Thailand is occupying most of the waking time of Kingsgate management.

There is already chatter in the market about a "super pit" stretching over 4km and the addition of a second processing plant on the Chatree goldfield. There is equally optimistic speculation from outside analysts about Chatree eventually being recognised as a truly world-class project containing between five and ten million ounces of gold.

Some stockbroking firms are already telling their clients Kingsgate will make a

decision early next year to lift Chatree to a production rate of more than 300,000 oz a year (double the current level) with production costs kept to a low \$US200 per ounce.

"There is a lot speculation about what we'll do, and some of it is close to the mark," said Kingsgate chief executive Gavin Thomas.

"But the reality is we are still gathering the facts. It is fair to say the outlook is extremely positive, and we have a number of options to handle what has been an exceptionally successful exploration program at Chatree."

When not planning a substantial expansion of Chatree, Kingsgate management has found time to expand exploration into South America and acquire a strategic investment in the emerging Victorian gold explorer/producer Goldstar Resources.

But South America and Victoria are very much in the future category for Kingsgate. The immediate focus is Chatree because



*Kingsgate Consolidated chief executive Gavin Thomas: "There's no doubt we have a major resource in the ground, and now we're converting that into a reserve which will underpin our next expansion phase".*

it is there that remarkable exploration success continues to be enjoyed, with the latest drill results featuring a 6m intersection assaying 19.3 grams per tonne of gold and another of 8m at 19.4gpt.

Good as those hits are, the more important was a 10m section at 7.3gpt, which extended the area of known mineralisation another 350m to the north — in other words, Chatree continues to expand its footprint and has untested potential at depth.

"The latest drill results have been extremely encouraging," said Thomas.

"They add weight to the belief that the mineralisation extends along a geophysical trend that we have identified. Should we continue to be successful there might be scope for a semi-continuous open pit some 4km long and 1.4km wide."

It is exploration success that has been driving Kingsgate's revival on the stock market. Last year, investors were spooked by concerns about the ownership structure of Chatree, and the need to meet a Thai government requirement that local investors be given the opportunity to buy into the project.

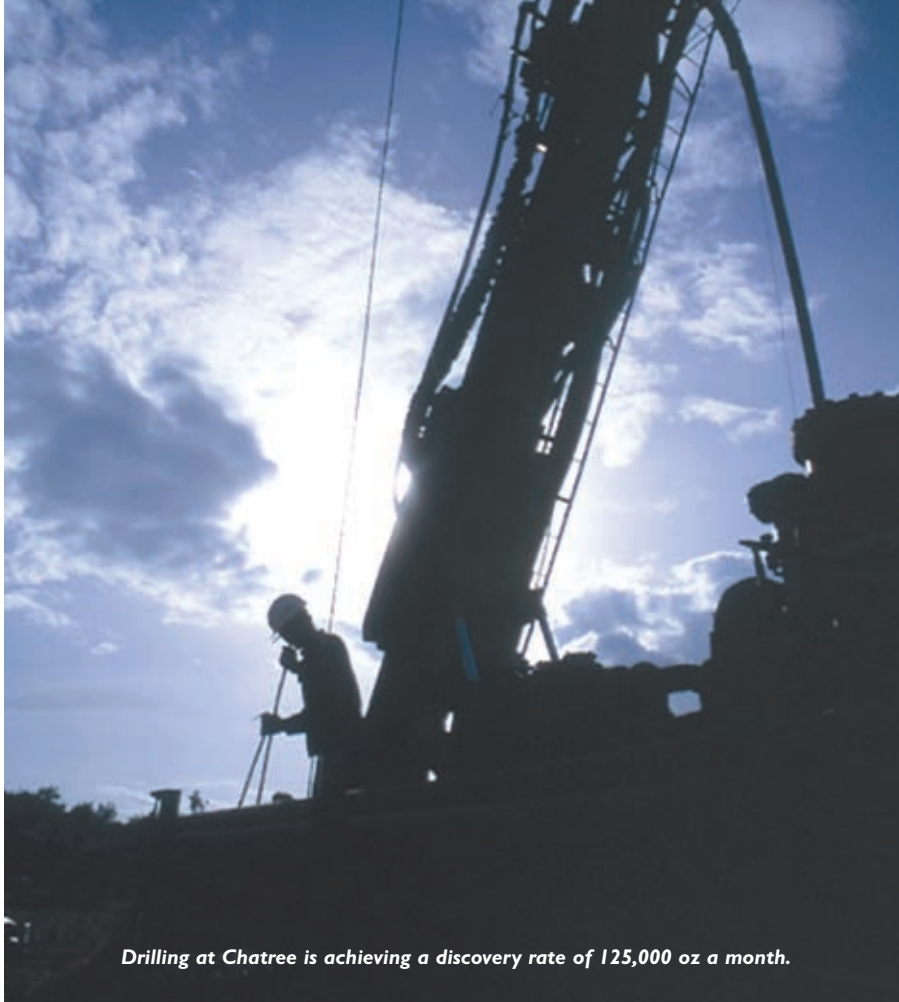
Those worries saw Kingsgate's share price slip to a low of \$2.02 in March this year. However, since that low point was reached the stock has been steadily marching higher, reclaiming the \$3 mark by June, and looking set for a push back above \$4, thanks to the twin forces of self-improvement by exploration and a continued uplift in the world gold price.

"The market is starting to appreciate that we've hit every target we've set ourselves at the mine, and that we are carefully managing the process by which we introduce local Thai investors into Chatree," said Thomas.

"It will not be a case of giving anything away; it will be a sell down at a fair price, and we will very much retain control of the project." To understand Kingsgate it



*The Chatree mine in Thailand, which has the makings of the next Super Pit - in terms of length at least.*



Drilling at Chatree is achieving a discovery rate of 125,000 oz a month.

is necessary to understand Chatree and the Thai investment environment, which is very pro-business and pro-foreign investment. The mine itself is located in central Thailand, due north of the capital Bangkok. Production started in 2001, with Kingsgate quickly earning a reputation as one of the top gold producers in the Asia Pacific region.

In the latest financial year to June 30, the mine produced 126,550 oz of gold and 353,275oz of silver at a cash cost of \$US216/oz and a total production cost of \$US266/oz. Revenue and profit were down on the previous year because the mined grade dipped from 3.1gpt to 2.4gpt and the strip ratio rose.

After allowing for the traditional slow first quarter in the current year, when production is effected by the wet season, and from processing lower-grade ore, Chatree will rise to a new and higher level of production. Thomas said the budget is for a 35% increase in plant throughout, thanks largely to the installation of a pebble crusher that will lift plant capacity by 35% to 2.35 million tonnes per annum by the end of calendar 2005.

The real key to Kingsgate, however, is not the current operation, it's the promise of what comes next, and for that it is best to look at the exploration effort where more than \$US9 million a year is being sunk into a program aimed at converting resources to reserves inside a belt of mineralisation that extends over a length of more than 10km.

"Last year, we invested heavily on exploration and delivered 1.5Moz to the resource category of our gold inventory, and 400,000 oz to reserves," said Thomas.

"We're pretty confident we'll do it again this year, and the results of this work will potentially enable us to double annual production to more than 300,000 oz a year."

The most recent glimpse into what lies ahead for Chatree came in late-August when Kingsgate released its latest mineral resource and ore reserve statement. The combined Chatree and Chatree North area is now estimated to contain a resource of more than 3Moz of gold and 22.75Moz of silver, and a reserve of more than 1.5Moz of gold and 12.7Moz of silver — an increase over the past year of 66% in resources and 39% in reserves. By the time Kingsgate holds its annual meeting on November 8, there is every chance that those numbers will rise again.

"It's fair to say that we've experienced a dramatic improvement in our understanding of the field thanks to the application of geophysical tools and the ultimate measure of what's in the ground, drilling," Thomas said.

"You simply cannot find 150,000 oz (of gold) a month, at a discovery cost of between \$US5/oz and \$US7/oz, without there being a world-class resource. We believe Chatree is one big system related to a deep dioritic intrusive, with smaller related events. It's leading us to see the eventual creation of one large, semi-continuous open pit up to 4km long and 1.4km wide.

"The pit at Chatree North is going to be, essentially, a new super pit, not as deep, but in terms of length and breadth it will be another super pit. There's no doubt we have a major resource in the ground, and now we're converting that

into a reserve that will underpin our next expansion phase."

Thomas said with eight drill rigs working at Chatree, the rate of discovery was highly likely to continue. "There's no reason for our rate of discovery, at that \$US7/oz mark, to not continue for the next three-to-four years," he said.

What he could also add is that Kingsgate's knowledge of Chatree is limited by the depth of its drilling. So far, most pit modelling is down to a depth of 180-200m deep, with drilling down to 250-280m, and still in ore — which points to the possibility of a future underground mining option.

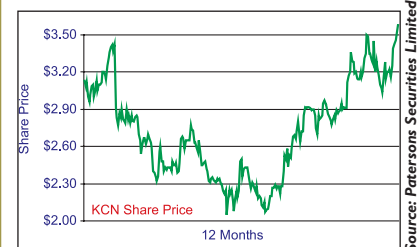
"That's a long way off," said Thomas when asked about an underground phase. "We've got at least 10 years of open pit mining ahead of us, but there is certainly a lot to look at under the pits in the future."

Which leads to the next key decision, stepping up production. "When we have the titles granted we will make our next big capital investment decision, and all the indications are that we will double production," Thomas said.

"It's possible that we will simply put a second mill alongside the existing plant so we have critical spares common to both mills, plus all the other infrastructure services that we need."

But whatever decision is made, there is no doubt that Chatree, and Kingsgate, are about to become a lot bigger. **RS**

### kingsgate consolidated ... at a glance



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#### MARKET CAPITALISATION

\$276 million (at press time)

#### MAJOR SHAREHOLDERS

National Nominees (19.47%)  
ANZ Nominees (17.7%)  
Westpac Custodian Nominees (6.89%)  
JP Morgan Nominees (4.53%)