

# Kingston Resources Ltd

## Exploration and Development

17 December 2019

Rating  
**SPECULATIVE BUY**

Price Target  
**A\$0.60**

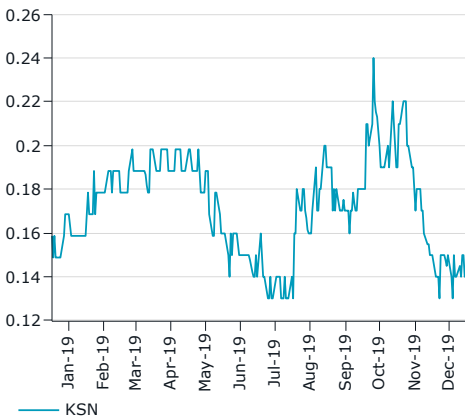
KSN-ASX

Price  
**A\$0.16**

### Market Data

52-Week Range (A\$) :	0.12 - 0.26
Avg Daily Vol (000s) :	266
Market Cap (A\$M) :	28.3
Shares Out. (M) :	176.6
Enterprise Value (A\$M) :	24.0

FYE Jun	2019A	2020E	2021E	2022E
EBITDA (A\$M)	(2.0)	(2.0)	(1.7)	(1.7)
Net Income (A\$M)	(2.2)	(2.0)	(1.7)	(1.7)



Source: FactSet

Priced as of close of business 17 December 2019

Canaccord Genuity (Australia) Limited through an affiliated company has received a fee as Lead Manager to the Kingston Resources share placement announced on 3 May 2019.

**Reg Spencer** | Analyst | Canaccord Genuity (Australia) Ltd. | reg.spencer@canaccord.com.au  
| +61.2.9263.2701

**Henry Renshaw** | Analyst | Canaccord Genuity (Australia) Ltd. | henry.renshaw@canaccord.com.au  
| +61.2.9263.2798

## Breathing life back into one of the Pacific's great gold mines

### Misima - a glorious past...

The Misima gold mine in Papua New Guinea (PNG) was one of Placer Dome's best performing operations in the 1990s, producing ~300kozpa at cash costs of <US\$300/oz over a +12-year life. At the time of KSN's acquisition in 2017, the project hosted a NI-43 101 Resource of 2.8 Moz at 1.1 g/t. Combined with additional Resource potential, significant infrastructure, a skilled workforce and a mining friendly jurisdiction, KSN has a substantial base from which to progress development opportunities for the project, in our view.

### ...and potential for a bright future:

KSN has been testing three key target areas on Misima for additional Resources and potential "starter pit" material, which we think could partially offset the costs of re-opening the original Umuna pit and support an accelerated start to gold production. Assays from drilling are expected in early 2020, but assuming exploration programs are successful, we see potential for Misima to be developed into a 160-180kozpa operation, with the large Resource base supporting a +10-year life, and relatively low strip providing for AISC of ~A\$1,230/oz. Subject to outcomes of drilling programs and potential Resource updates, KSN plans to commence initial development studies in mid-2020.

### Livingstone - high-grade gold in WA:

The Livingstone gold project is located 60km west of Westgold's Fortnum operation in the Bryah Basin region of Western Australia. Drilling has identified high-grade mineralisation over a strike of 1km, with further infill/extensional drilling planned for 2020. While earlier stage vs Misima, the high grades, large strike potential and proximity to third-party processing options make Livingstone an interesting target, in our view.

### Gold development pipeline is thin; few projects with scale potential:

We note the relatively thin gold development pipeline on the ASX (Figure 2), with few companies with advanced gold projects, and even fewer with projects of scale. KSN's 2.8Moz Resource makes it a standout in the peer group, and we believe its current EV/Resource oz multiple of A\$8/oz (vs peer-weighted average at A\$40/oz) offers an attractively priced entry point as Misima is de-risked in 2020.

### Valuation & Recommendation

We value KSN using a combination of NPV<sub>12%</sub> (based on our assumed development/production scenario for Misima including capex A\$445m, 160-180kozpa at A\$1,236/oz AISC from 2023), and a Resource-based multiple applied against the current 2.8Moz Resource. The 30:70 blend results in an initial project valuation of A\$124m, which combined with a nominal value ascribed to the Livingstone project, plus other adjustments, results in a diluted per share target price of A\$0.60.

With +270% potential upside to our target price, we initiate coverage with a SPECULATIVE BUY rating.

Figure 1: KSN Financial Summary

**FINANCIAL SUMMARY**

KINGSTON RESOURCES KSN:ASX

Analyst : Reg Spencer  
Date: 17/12/2019  
Year End: June

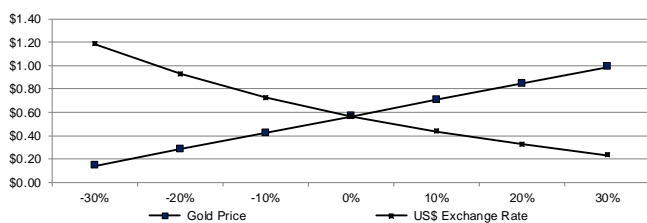
Rating:  
Target Price: **SPEC BUY**  
**A\$0.60**

Market Information		
Share Price	A\$	0.16
Market Capitalisation	A\$m	28.3
12 Month Hi	A\$	0.26
12 Month Lo	A\$	0.12
Issued Capital	m	176.6
Options	m	11.2
Fully Diluted	m	193.3

Valuation		
	A\$m	A\$/share
Misima (NPV12% + EV/Rsc oz blend)	124	0.58
Exploration & Projects	5	0.02
Corporate	(7)	(0.03)
Investments	-	-
Net Cash/(debt) + Bullion	4	0.02
<b>TOTAL NAV</b>	<b>126</b>	<b>0.59</b>
Price:NAV		0.27x
NAV @ Spot	Spot US\$1,477/oz., AUDUSD \$0.69	0.45
<b>Target Price (1.00 x NAV)</b>		<b>0.60</b>

Assumptions	2019a	2020e	2021e	2022e
Gold Price (US\$/oz)	1,262	1,504	1,538	1,558
AUD:USD	0.71	0.68	0.68	0.68
Gold Price (A\$/oz)	1,768	2,213	2,258	2,278

**Sensitivity**



Production Metrics				
	2019a	2020e	2021e	2022e
<b>Misima</b>				
Prod'n (koz)	0	0	0	0
AISC (A\$/oz)	0	0	0	0

GROUP				
	2019a	2020e	2021e	2022e
Prod'n (koz)	0	0	0	0
AISC (A\$/oz)	0	0	0	0

Reserves & Resources		Mt	Grade	Moz
<b>Reserves</b>				
Misima		0.00	0.0	0.00
<b>Reserves</b>	<b>TOTAL</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Resources</b>				
Meas+Ind		37.20	1.1	1.32
Inferred		45.00	1.0	1.45
<b>Resources</b>	<b>TOTAL</b>	<b>82.20</b>	<b>1.05</b>	<b>2.76</b>

**Company Description**  
Kingston Resources (KSN:ASX) is an Australian based gold exploration company whose primary assets are the Misima Island gold project in PNG (100% owned) and the 75% owned Livingstone Gold project in Western Australia.

Profit & Loss (A\$m)	2019a	2020e	2021e	2022e
Revenue	0.0	0.0	0.0	0.0
Operating Costs	0.0	0.0	0.0	0.0
Corporate, O'heads & Royalties	1.6	1.5	1.4	1.4
Exploration (Expensed)	0.5	0.5	0.4	0.4
<b>EBITDA</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-1.7</b>
Dep'n	0.0	0.0	0.0	0.0
Net Interest	0.0	0.1	0.1	0.1
Other	-0.2	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0
<b>NPAT (statutory)</b>	<b>-2.2</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-1.7</b>
Abnormals	-0.2	0.0	0.0	0.0
NPAT	-2.4	-2.0	-1.7	-1.7

EBITDA Margin	nm	nm	nm	nm
<b>EV/EBITDA</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>
EPS	\$0.00	-\$0.01	-\$0.01	-\$0.01
EPS Growth	nm	nm	nm	nm
PER	-94.14	-19.09	-20.02	-20.02
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
<b>Dividend Yield</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

Cash Flow (A\$m)	2019a	2020e	2021e	2022e
Cash Receipts	0.0	0.0	0.0	0.0
Cash paid to suppliers & employees	-1.5	-1.5	-1.4	-1.4
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	0.0	0.1	0.1	0.1
Other	0.0	-0.1	0.0	0.0
<b>Operating Cash Flow</b>	<b>-1.4</b>	<b>-1.6</b>	<b>-1.3</b>	<b>-1.3</b>
Exploration and Evaluation	-5.0	-5.3	-4.0	-4.0
Capex	0.0	0.0	0.0	0.0
Other	2.1	-2.7	0.0	0.0
<b>Investing Cash Flow</b>	<b>-2.9</b>	<b>-8.0</b>	<b>-4.0</b>	<b>-4.0</b>
Debt Drawdown (repayment)	-0.1	-0.1	-0.1	0.0
Share capital	5.3	9.1	5.0	6.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-0.1	-0.5	-0.2	-0.2
<b>Financing Cash Flow</b>	<b>5.1</b>	<b>8.6</b>	<b>4.7</b>	<b>5.8</b>
Opening Cash	4.4	5.2	4.1	3.6
Increase / (Decrease) in cash	0.8	-1.0	-0.6	0.4
FX Impact	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>5.2</b>	<b>4.1</b>	<b>3.6</b>	<b>4.0</b>

Op. Cashflow/Share	\$0.00	-\$0.01	-\$0.01	-\$0.01
P/CF	-175.6	-18.0	-26.1	-26.1
FCF	-4.32	-9.60	-5.31	-5.31
EV/FCF	nm	nm	nm	nm
FCF Yield	-15%	-34%	-19%	-19%

Balance Sheet (A\$m)	2019a	2020e	2021e	2022e
Cash + S/Term Deposits	5.2	4.1	3.6	4.0
Other current assets	0.1	0.0	0.0	0.0
<b>Current Assets</b>	<b>5.3</b>	<b>4.2</b>	<b>3.6</b>	<b>4.0</b>
Property, Plant & Equip.	0.1	0.1	0.1	0.1
Exploration & Develop.	14.0	18.7	22.3	25.9
Other Non-current Assets	0.0	4.0	5.0	6.0
Payables	0.4	0.0	0.0	0.0
Short Term Debt	0.1	0.0	0.0	0.0
Long Term Debt	0.1	0.0	0.0	0.0
Other Liabilities	0.0	1.0	1.8	2.6
<b>Net Assets</b>	<b>18.8</b>	<b>25.9</b>	<b>29.2</b>	<b>33.5</b>
Shareholders Funds	74.8	83.9	88.9	94.9
Reserves	0.7	0.7	0.7	0.7
Retained Earnings	-56.5	-58.5	-60.2	-61.9
<b>Total Equity</b>	<b>18.8</b>	<b>25.9</b>	<b>29.2</b>	<b>33.5</b>

Debt/Equity	0%	0%	0%	0%
Net Debt/EBITDA	3.5x	2.6x	2.7x	3.1x
Net Interest Cover	nm	nm	nm	nm
ROE	-13%	-8%	-6%	-5%
ROIC	-17%	-9%	-6%	-5%
Book Value/share	\$0.09	\$0.12	\$0.14	\$0.16

Source: Company Reports, Canaccord Genuity estimates

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## Investment highlights

**Misima – a new chapter for a once great gold mine:** Misima was one of the best performing operations for Placer Dome (now Barrick Goldcorp) during the 1990s, producing ~300kozpa at cash costs of <US\$300/oz over 12 years. Working off the strong base of a large-scale Resource of 2.8Moz at 1.1 g/t, KSN is now testing multiple exploration targets for “starter pit” Resources to support commencement of development studies in 2020.

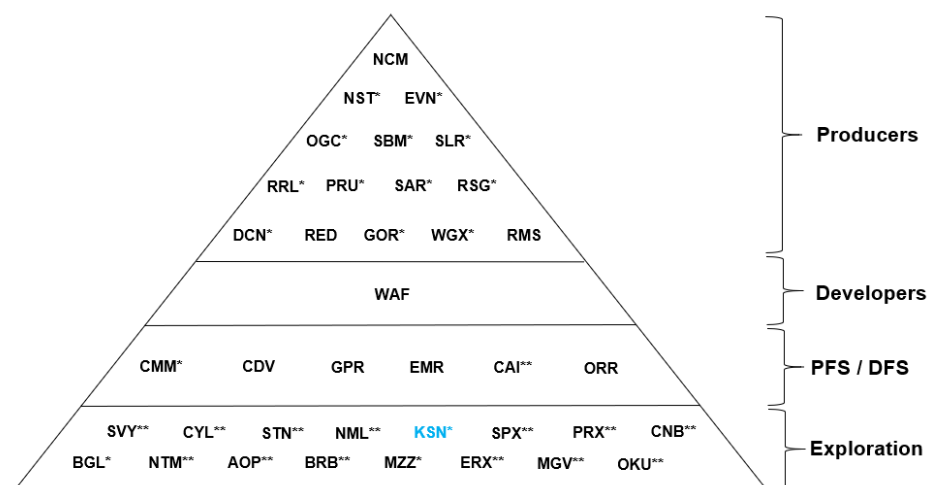
**Development pathway to be de-risked in 2020:** KSN has identified three key target areas, which we see as providing good opportunity for additional Resources and possible starter pit material. Should exploration be successful, we see potential for Misima to be developed into a +10 year, 160-180kozpa operation with the potential for low strip and easy dig conditions potentially leading to AISC of ~A\$1,230/oz (<US\$900/oz). Assays from drilling and Resource updates from several targets are expected in early 2020, providing potential share price catalysts as a development pathway is de-risked.

**Livingstone – high grade in WA:** The Livingstone gold project is located 60km west of Westgold’s (WGX-ASX: \$1.99 | BUY | Tim McCormack) Fortnum mine, with drilling to date identifying high grades (i.e. 10m at 11.95 g/t) over a strike of ~1km. Further infill is required to demonstrate continuity, but the high grades and proximity to third party processing capacity make it an interesting target, in our view.

**Significantly undervalued vs. peers:** KSN’s market cap belies the significant endowment of Misima and its development potential, in our view. As shown in Figure 8, KSN trades on an EV/Resource oz of A\$7, well below the peer group average of A\$51. As exploration advances and project development is confirmed via studies in 2020, we see room for KSN’s trading multiples to close the significant gap to peers.

**Opportunity highlighted by thin ASX gold development pipeline:** In an environment of few sizeable gold discoveries and even fewer companies in the development pipeline (Figure 2), we see KSN as offering an attractively priced entry for a project that already offers scale and near-term development potential.

**Figure 2: ASX gold development pipeline**



\* Under full coverage

\*\* Denotes CG Watch List constituent

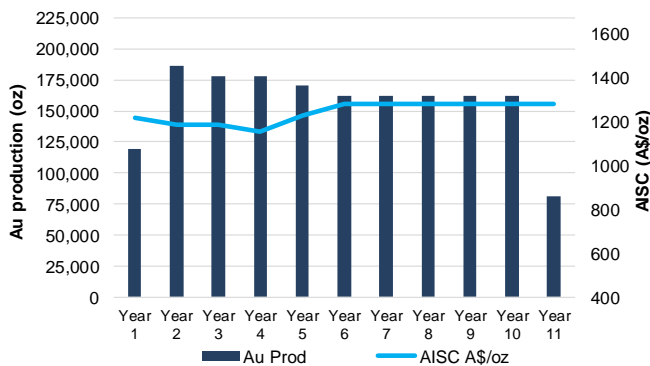
Source: Canaccord Genuity estimates

## Valuation

### CG Production scenario

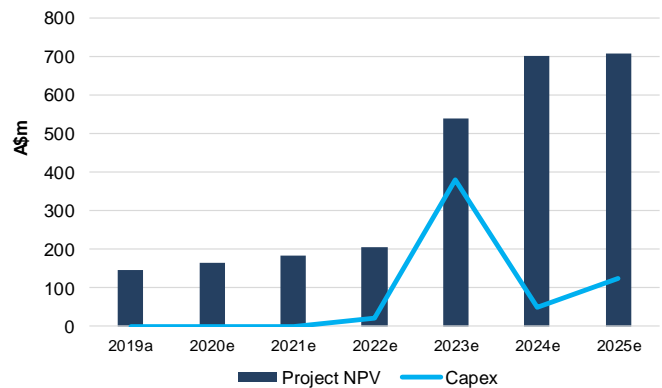
- We have modelled total gold production from Misima of 1.7Moz (vs. existing Indicated & Inferred Resources of 2.8Moz) over a 11-year period starting 2022/3, averaging 160koz pa (+180kozpa over the first 5 years). We model AISC averaging A\$1,236/oz over our LOM and assume first production in 2H 2023.
- Based on our modelled gold production and AISC (Figure 3), and assuming other project parameters as outlined in this report (see [CG Production Scenario](#)) we derive a project valuation (forward curve NPV<sub>12%</sub>, commodity price FX assumptions in Figure 5) of A\$154m.

Figure 3: Misima – CG production scenario



Source: Canaccord Genuity estimates

Figure 4: NPV estimates over time vs. modelled capex



Source: Canaccord Genuity estimates; NB: Jun year end

Figure 5: Commodity price and US\$/AUD\$ assumptions

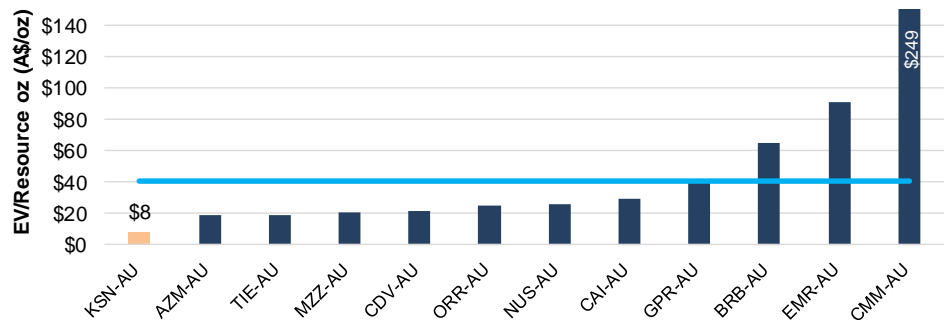
	2019e	2020e	2021e	2022e	2023e	2024e	2025e	LT
Gold (US\$/oz)	1,398	1,526	1,548	1,569	1,586	1,603	1,603	1,603
Silver (US\$/oz)	16.27	17.94	18.28	18.69	19.02	19.26	19.26	19.26
AUDUSD	0.694	0.679	0.682	0.686	0.686	0.686	0.686	0.686

Source: Canaccord Genuity estimates

### Resource multiple

- Given the early stage of development and the risk associated with eventual project development (exploration, permitting, financing risks), we have also undertaken a Resource-based valuation. We highlight that KSN is trading on the lowest EV/Resource oz multiple of the peer group (Figure 8), which in our view belies the scale of the Resource, long production history on the island and development potential.
- We estimate a *weighted average* EV/Resource oz for pre-development gold companies on the ASX at A\$40/oz, implying a Resource-based valuation for the Misima project of A\$111m.

Figure 6: ASX – pre-development gold companies EV/Resource oz



Source: Company Reports, Factset, Canaccord Genuity estimates

### Net Asset Valuation

- KSN agreed with Pan Pacific Copper in Nov'19 to acquire its 25% interest in Misima for A\$2.8m cash (\$0.5m on close, and balance by 30 April 2019). With KSN having a cash balance of A\$4.3m as at 30 Sep '19, and noting on-going exploration programs at Misima (and Livingstone) and overheads, we assume the company raises additional equity of \$6m at 14c in JunQ'20.
- Our per share valuation/target price is based on a diluted share count of 227m shares (including impact of assumed capital raising). Figure 9 details our NAV estimate for KSN, comprising our blended NPV/ Resource-based valuation (30:70 NPV<sub>12%</sub>/Resource multiple), a nominal value for the Livingstone gold project, net of corporate and other adjustments. With +270% potential upside to our initial target price of A\$0.60, we initiate coverage with a SPECULATIVE BUY recommendation.

Figure 7: CG NAV estimate

DCF DISCOUNT RATE		12%		Shares	176.592
Spot AUD:USD	0.6868			New shares	37.500
Spot CAD:USD	0.7597			Diluted	214.092
Spot AUD:CAD	0.9041				

	US\$m	A\$m	RISK ADJ.	EQUITY	A\$m	Diluted/share
Misima		123.8	100%	100%	123.8	\$0.58
SUB TOTAL		123.8			123.8	\$0.58
Exploration & Projects		5.0	100%	75%	5.0	\$0.02
Corporate		-6.6			-6.6	\$0.03
Investments		0.0			0.0	\$0.00
Forwards		0.0			0.0	\$0.00
Cash & Bullion		4.3			4.3	\$0.02
Debt		0.0			0.0	\$0.00
New equity		5.8			5.8	\$0.03
<b>TOTAL</b>		<b>132.19</b>			<b>132.19</b>	<b>A\$0.62</b>
					<b>Target (Rounded)</b>	<b>A\$0.60</b>
					<b>P/NAV</b>	<b>0.26x</b>

Source: Canaccord Genuity estimates

## Corporate & Finance

### Balance sheet

- KSN had a reported cash position of A\$4.3m as at 30 Sep '19. As noted under Valuation, we expect KSN will require additional equity in 2020 to fund 1) acquisition of the remaining 25% in the Misima gold project, 2) exploration and drilling at Misima and Livingstone, and 3) working capital.

### Capital Structure

- KSN's capital structure is shown in Figure 10 below. The outstanding options have a weighted average exercise price of A\$0.09, resulting in a fully diluted issued capital (including performance rights) of 193m shares. We note that ~70% of issued options carry vesting conditions based on reaching various Reserve milestones at the Misima Gold project.

**Figure 8: KSN Capital structure**

			Price	Expiry
<b>Issued Shares</b>	m	176.592	<b>\$0.16</b>	
Options 1	m	0.50	0.25	22/12/2019
Options 2	m	3.04	0.27	30/06/2021
Options 3	m	0.40	0.01	30/06/2021
Options 4	m	7.28	0.01	31/07/2023
Options 5	m	0.86		Perf rights
Options 6	m	1.65		Perf rights
Options 7	m	0.15		Perf rights
Options 8	m	2.43		Perf rights
Options 9	m	0.37		Perf rights
Options 10	m			
Total Options	m	11.22	0.09	
Fully Diluted	m	193.2713		

Source: Company Reports, Canaccord Genuity estimates

### Substantial Shareholders

- Substantial shareholders include private investment groups Winchester Investments (12%), and Delphi (9%). Management has an aggregate interest of 2%.

### Directors & Management

See Appendix 2 for full Director bios

Non-Executive Chairman - Anthony Wehby

Managing Director – Andrew Corbett

Non-Executive Director – Mick Wilkes

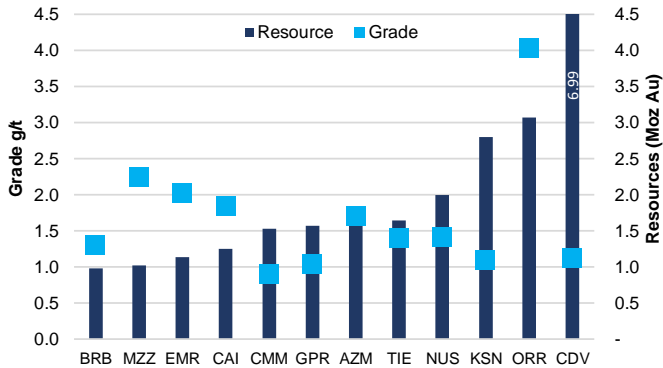
Non-Executive Director - Stuart Rechner

Chief Financial Officer – Chris Drew

Stuart Hayward – Exploration Manager

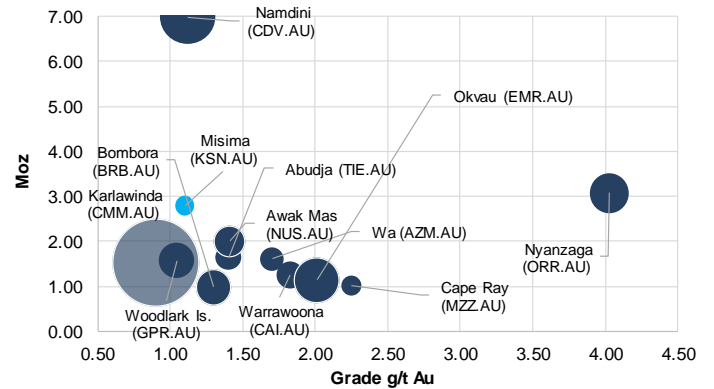
## Peer comps

Figure 9: Resources vs. gold grades



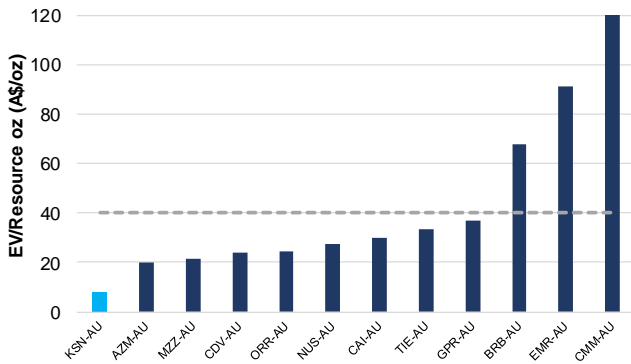
Source: Company Reports, Canaccord Genuity estimates

Figure 10: Resources vs. gold grades vs. EV



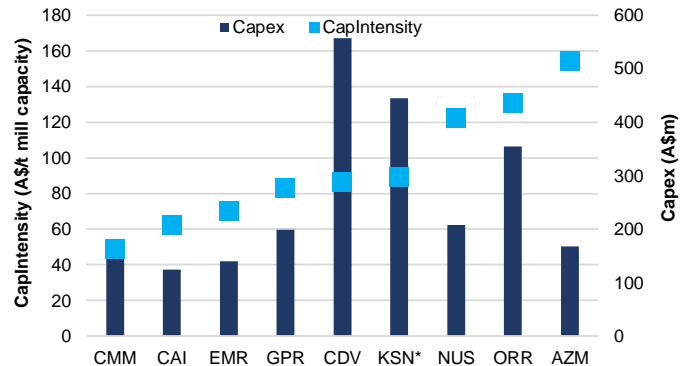
Source: Company Reports, Factset, Canaccord Genuity estimates; NB: Bubble size represents company EV in \$m

Figure 11: EV/Resource oz rankings



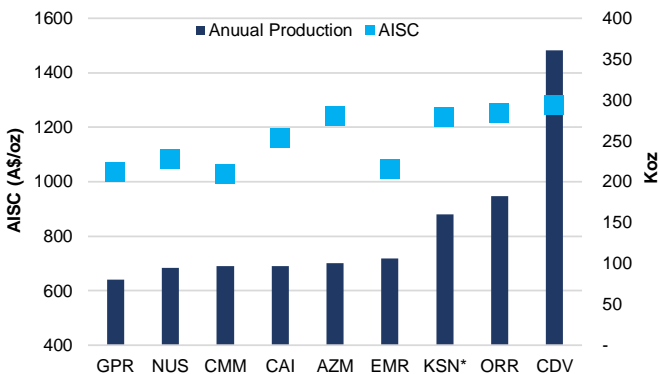
Source: Company Reports, Factset, Canaccord Genuity estimates

Figure 12: Capex vs. Capital intensity (A\$/t mill capacity)



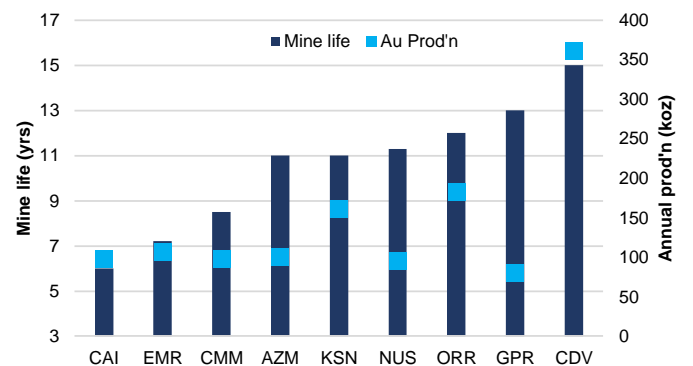
Source: Company Reports, Canaccord Genuity estimates; \*estimate based on CG production scenario

Figure 13: Annual Au production vs. AISC



Source: Company Reports, Canaccord Genuity estimates; \*estimate based on CG production scenario

Figure 14: Mine life



Source: Company Reports, Canaccord Genuity estimates; \*estimate based on CG production scenario



## Company Background

- KSN was re-listed as a mineral exploration company in 2013, with a focus on base metal exploration initially in South Australia, and later in Victoria. In conjunction with a change in management, KSN acquired a portfolio of hard rock lithium exploration assets in 2016, as well as a 75% interest in the Livingstone gold project in WA. KSN merged with Canadian-listed WCB Resources in mid'17, which brought with it an initial 49% interest in the Misima Gold project in Papua New Guinea. KSN's lithium assets were divested in mid-2018.
- KSN's primary focus is now the Misima Gold project (100% ownership from Nov'19), and the Livingstone Gold project in WA (Figure 19).

**Figure 15: Project location map**



Source: Company Reports

## Asset Overview: Misima Gold Project

### Location, Access & Infrastructure

- The Misima Gold Project is located on Misima Island, which is part of the Louisiade Archipelago within the Milne Bay province of PNG. The Island is 215km<sup>2</sup> in area, and is situated in the Solomon Sea, approximately 625km east of the capital Port Moresby. The island is accessible by sea and is serviced by regular commercial flights from Port Moresby.
- Misima Island is located in a prolific gold region, with numerous world class gold deposits on both the PNG mainland (Ok Tedi 17Moz, Porgera 24Moz, Hidden Valley 16Moz, Wafi Golpu 27Moz) and surrounding islands (Lihir 56Moz, Simberi 6Moz, Panguna 23Moz (Bougainville)), Figure 20.

Figure 16: Misima Project location map showing major PNG Gold deposits



Source: Company Reports

- The project area covers 180km<sup>2</sup>, and is serviced by infrastructure such as roads, deep water port and airstrip, which is a legacy of prior gold mining operations (see [Project History](#)). This established history of mining activity has resulted in a well-trained and skilled local workforce, with +100 Misima Islanders currently working on a FIFO basis on other PNG mine sites.
- The local climate consists of two main seasons – the monsoonal season which runs from Nov-May, and the normally drier Jun-Oct period which features predominant south-easterly trade winds. Annual rainfall averages ~3,000mm.

Figure 17: Misima Island showing Exploration Licence

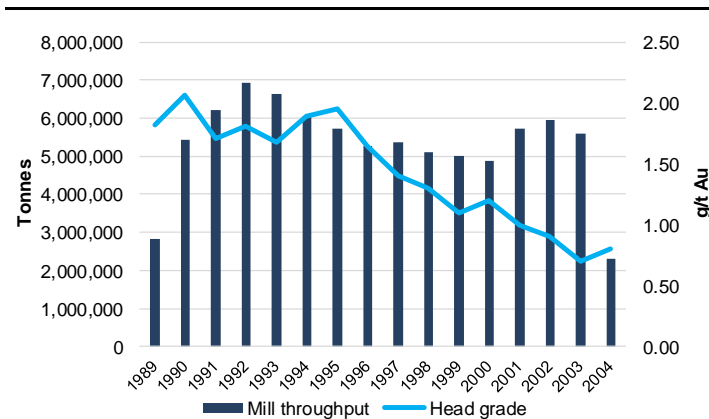


Source: Company Reports

### Project History – one of the great gold mines of the Asia-Pacific

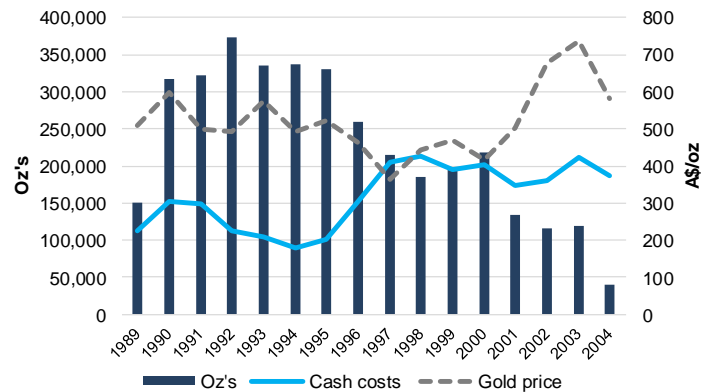
- Gold was first discovered on Misima Island in 1888, and by the early 1900s, the Island was the site of significant activity by Australian prospectors and miners, where up until World War II, ~230koz was estimated to have been produced from alluvial and underground workings. Modern exploration re-commenced in the late 1960s before Placer Dome (later acquired by Barrick Goldcorp [ABX-TSX: \$22.90 | BUY | Carey MacRury) acquired the property in 1977. Placer Dome subsequently proved up a Resource of 56Mt at 1.4 g/t, before construction of the mine commenced in 1988. The PNG Government granted Placer a Special Mining Licence (SML) in 1987, and later acquired a 20% interest in the project.
- Misima was a highly productive gold mine, and from 1989 until the mine was closed in 2004 (low gold prices were not sufficient to warrant a further pit cutback), it produced a total of 3.6Moz Au (plus 18Moz Ag), with an average of ~300kozpa (at ~1.8 g/t; 124% reserve grade overall) over the operation’s first nine years. A low strip ratio and silver by-products contributed to average cash costs over the total 16-year life of A\$294/oz.

Figure 18: Misima grade and mill throughput



Source: SNL Mining

Figure 19: Historical Misima gold production and cash costs vs. gold price



Source: SNL Mining

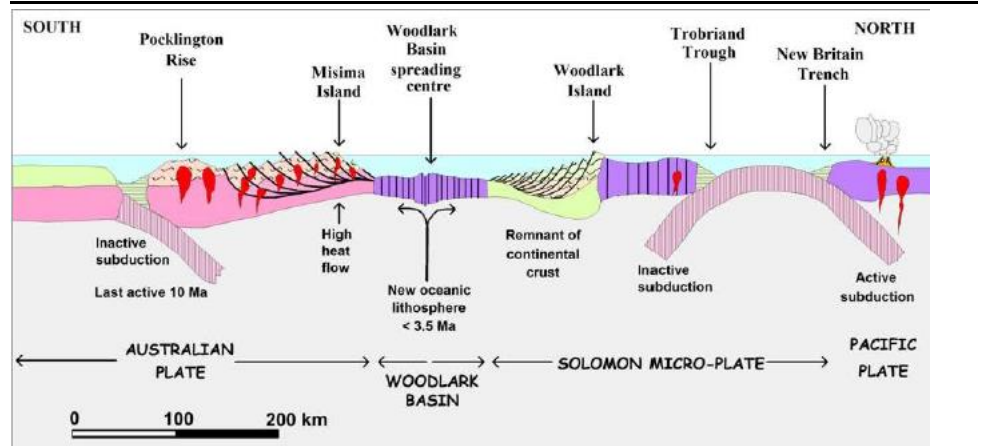
- In 2011, Canadian company WCB Resources entered into a farm-in agreement with major Japanese copper producer Pan Pacific Copper (“PPC”; JV between Nippon Metals & Mining and Mitsui Mining & Smelting) which held an Exploration Licence surrounding the Misima SML. Placer Dome completed rehabilitation and relinquished the SML in 2012. Under the farm in agreement, WCB could earn a 70% interest in the project through spending A\$9m over 4 years. WCB were targeting the discovery of a large porphyry Cu-Au at depth.
- KSN initially acquired its interest in the Misima project in 2017, when it announced a merger with WCB Resources (which at the time had earned an effective interest of 49%). KSN completed the 70% earn-in in Aug’18, and by Apr’19 had earned an interest of 75%. In November 2019, KSN reached agreement with PPC to acquire the remaining equity in the project for staged payments totalling A\$2.8m.

### Geology

- The regional geology can be best described by Misima’s location within a NW-SE trending island chain in the Solomon Sea that sits at the western end of the Woodlark Basin rift system. The Woodlark rift is an active crustal extensional

feature, which has resulted in the formation of metamorphic core complexes (i.e. island uplift), as shown in Figure 24.

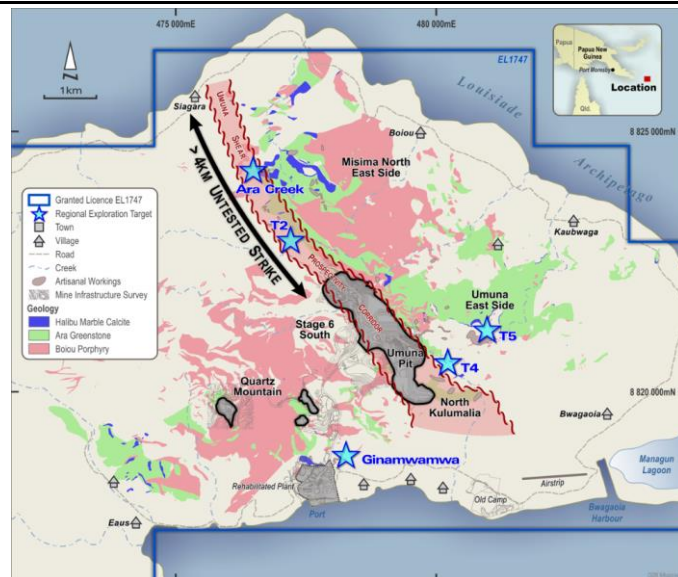
**Figure 20: Woodlark Basin south-north section**



Source: Company Reports

- Locally, Misima Island is divided by a large N-S thrust fault which separates the younger Sisa Association (host to the gold and copper mineralisation) in the east from the older and un-mineralised Awaibi Association to the west (Figure 25). Gold-silver mineralisation is classified as low sulphidation epithermal, consisting of multiphase breccias, stockworks, skarns and base metal carbonates. Most of the gold mineralisation at Misima is associated with the main Umuna Fault Corridor, with the principal gold deposits discovered to date being Umuna (the focus of Placer's large scale mining operation), and Quartz Mountain (where smaller pits were mined at Ewatinona, Maika and Kobel).

**Figure 21: Misima simplified geology map showing Umuna Fault corridor**



Source: Company Reports

- Misima remains prospective for the discovery of porphyry copper-gold deposits, based on the presence of widespread copper and molybdenum soil geochemistry, porphyry alteration signatures and copper skarn mineralisation. Scout drilling by prior operators identified widespread porphyry copper-gold mineralisation but failed to return economic intersections. In our view, the exploration for porphyry deposits could still be a valid exploration target at Misima, but we see more immediate opportunity for the exploration and development of the gold-silver Resources.

## Resources & Reserves

### Mineral Resources

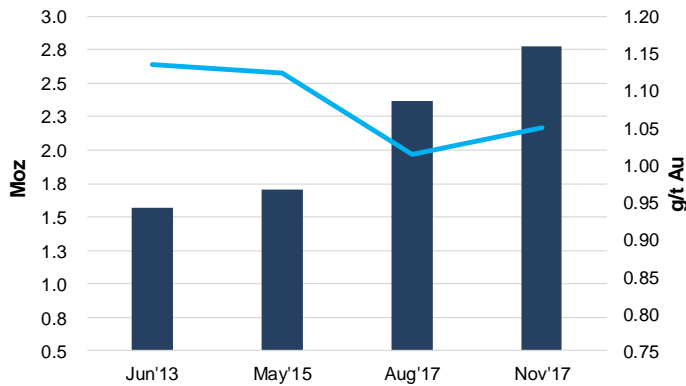
- WCB acquired an extensive database from Barrick in 2012, which included +45,000 surface samples (comprising soils, rock chips, trench and channel sampling), +2,600 assayed exploration drill holes and extensive blast hole data from prior mining operations. This data was used to estimate an initial Inferred Resource of 43Mt at 1.1 g/t for 1.57Moz (reported according to NI 43-101).
- Improved topographic controls, pit depth and pit fill data, plus additional trenching and inclusion of deeper drilling that had been previously excluded, resulted in a Nov'17 JORC compliant estimate 82Mt at 1.1 g/t for 2.8Moz (Figure 26).

Figure 22: Misima Mineral Resources - 2017

Deposit	Material	Resource Category	Cutoff (g/t Au)	Tonnes (Mt)	Gold (g/t Au)	Silver (g/t Ag)	Au Moz	Ag Moz	
Umuna	Sub-total	Indicated	0.5	37.2	1.1	4.9	1.3	5.8	
		Inferred	0.5	38.4	1.0	6.1	1.3	7.5	
	Total	Combined		75.7	1.1	5.5	2.6	13.3	
Ewatinona	Oxide	Inferred	0.5	1.0	0.9	3.4	0.03	0.1	
	Primary	Inferred	0.5	5.6	1.0	3.1	0.2	0.6	
	Sub-total	Inferred		6.6	1.0	3.2	0.22	0.7	
Misima Total	Indicated			37.2	1.1	4.9	1.3	5.8	
	Inferred			45.0	1.0	5.6	1.5	8.1	
Total Mineral Resource					82.3	1.1	5.3	2.8	13.9

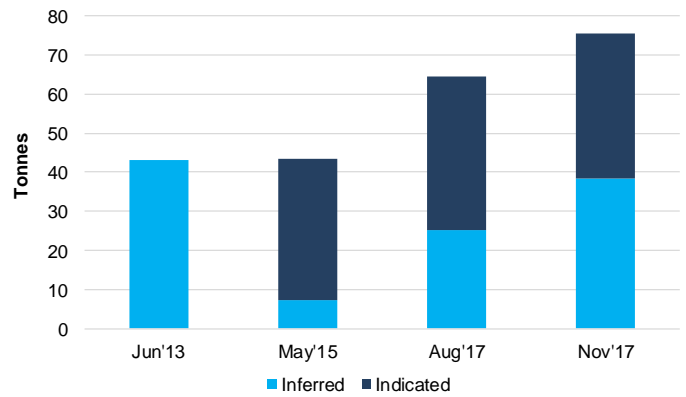
Source: Company Reports

Figure 23: Historical Resource estimate comparisons



Source: Company Reports, Canaccord Genuity estimates

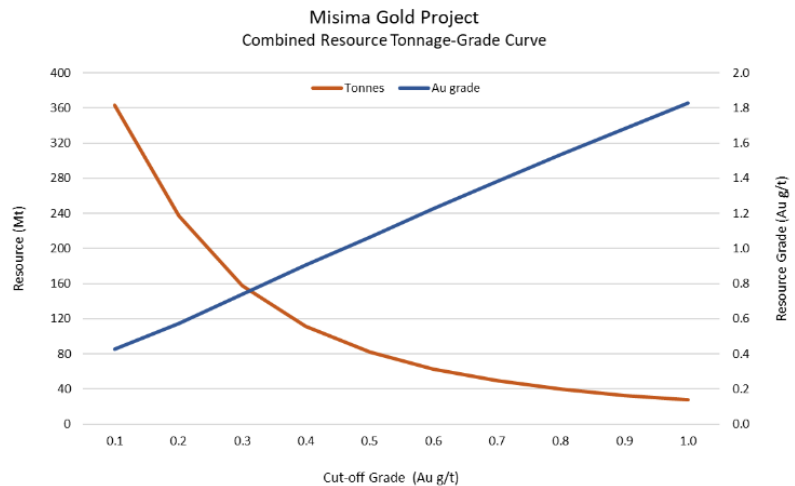
Figure 24: Indicated vs. Inferred Resources 2013-2017



Source: Company Reports, Canaccord Genuity estimates

- A grade-tonnage curve for the total Misima Mineral Resource estimate is shown in Figure 29 below. From this we highlight the Resource may be amenable to preferential treatment of higher grades in early years and stockpiling of lower grade material for treatment. Conversely, should the gold price support treatment of lower grades, dropping the cut-off could lead to a larger mining inventory and longer mine life in any production scenario.

Figure 25: Misima - combined Grade/tonnage curve

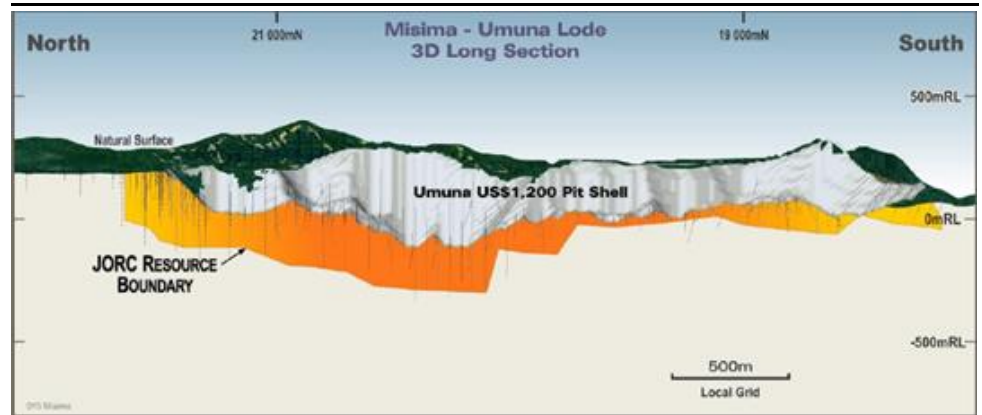


Source: Company Reports

- There is a further 10-20Mt at 0.8-1.2 g/t for (classified as an Exploration Target) within the block model which falls outside the Resource, which has been interpreted as the down dip extents of Umuna mineralisation beyond the limits of drilling.
- Mineral Resources are contained within two main deposits:
  - Umuna (2.6Moz at 1.1g/t) – hosts a clear majority of defined resources at Misima, and is a continuous zone of Au/Ag mineralisation that was previously mined as a single open pit over a combined strike length of 3.0km. Umuna sits at the southern end of the major Umuna Fault corridor, with mineralisation associated with areas of increased fracture density and

shearing. This structural setting provides an important vector for further exploration along the main fault zone. Umuna mineralisation remains open at depth (average drill hole depth 119m and only 9% of historical drilling >200m) and along strike to the north. We discuss key opportunities for further resource growth in [Key Exploration Targets](#) below.

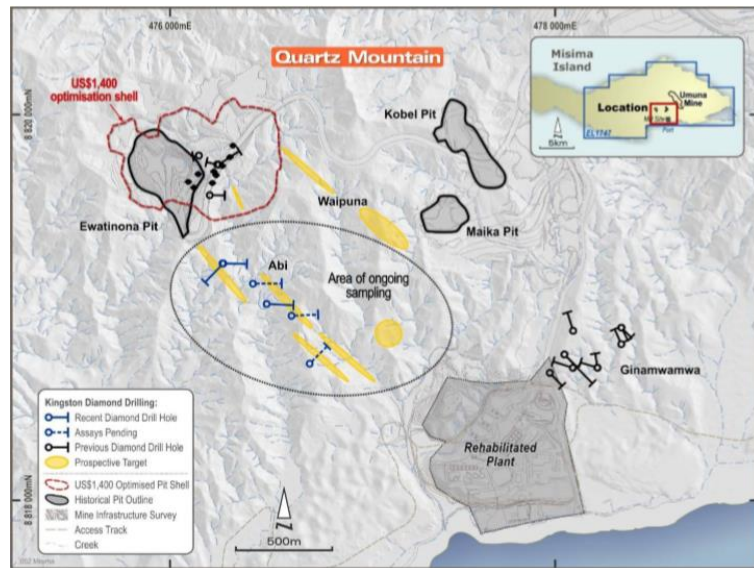
**Figure 26: Umuna long section**



Source: Company Reports

- Ewatinona (220koz at 1g/t) – is located 2.5km SW of the Umuna pit, and forms part of the Quartz Mountain prospect where Placer mined small pits at Ewatinona, Maika and Kobel (Figure 31). The prospect features a base metal carbonate breccia system with peripheral stockworks, with mineralisation hosted in structurally controlled sheeted veins, preferentially localised on the intersection of NW trending fault zones and lithological contacts. Ewatinona remains open on strike and at depth (noting that the historical average drilling depth was only 90m).

**Figure 27: Quartz Mountain regional gold corridor showing Ewatinona optimised pit shell, historic pits, and location of the Abi prospect**



Source: Company Reports



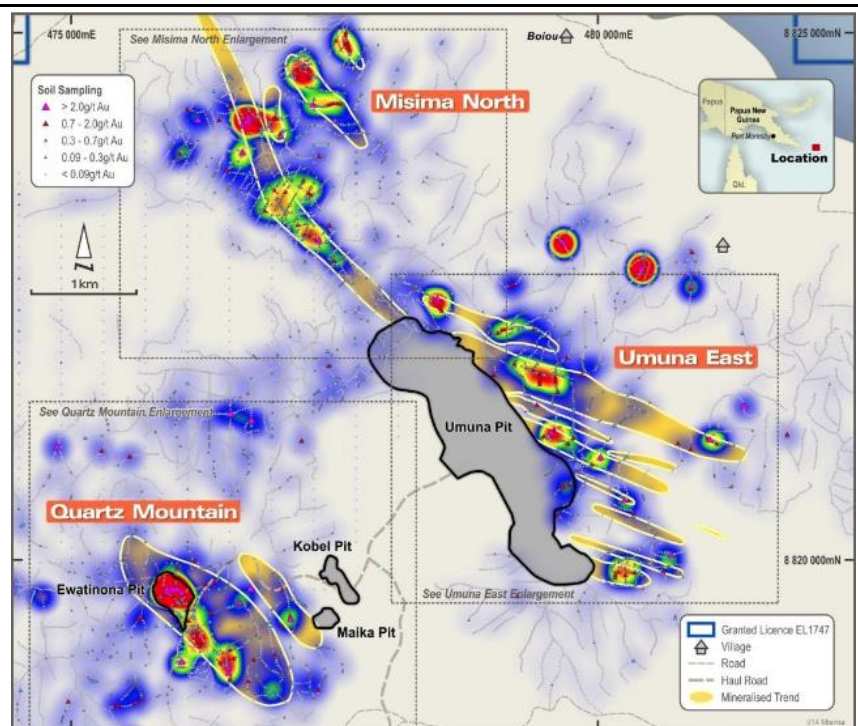
### Project development strategy

- In our view, Misima presents as a possible development opportunity based on the large existing Resource, presence of infrastructure and skilled local population. However, accessing the down dip extension of the Umuna lode will likely require both excavation of pit back fill (estimated volume of pit back fill is 60-80Mt) and a possible cutback of the existing open pit.
- In order to offset the capital costs of re-opening the Umuna pit and bring forward first gold production, KSN is currently focusing on the discovery of other near surface and/or high-grade Resource positions on the Island which could act as starter pit/s and initial plant feed in a development scenario.

### Key Exploration Targets

- KSN has identified 4 main target areas on the island, being:
  - Quartz Mountain
  - Umuna East
  - Umuna, and
  - Misima North.

Figure 28: Key exploration targets



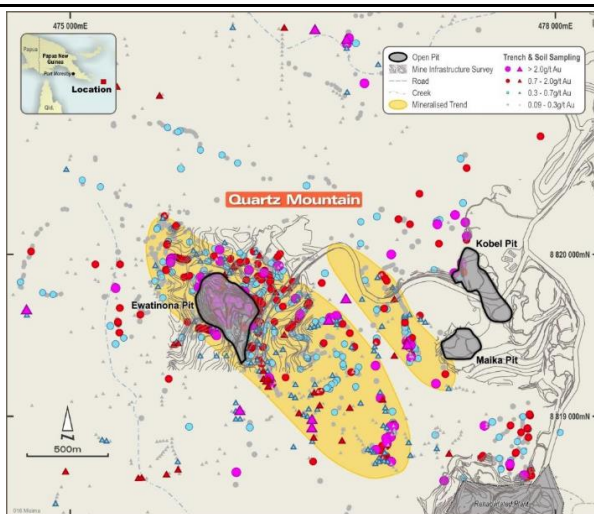
Source: Company Reports

### Quartz Mountain

- Quartz Mountain is located ~2km east of the former Misima plant site, and includes the existing 220koz at 1.1 g/t Resource at Ewatinona. The area also hosts the historical Kobel and Maika pits, which including Ewatinona, produced ~147koz at 1.77 g/t during Placer operations.

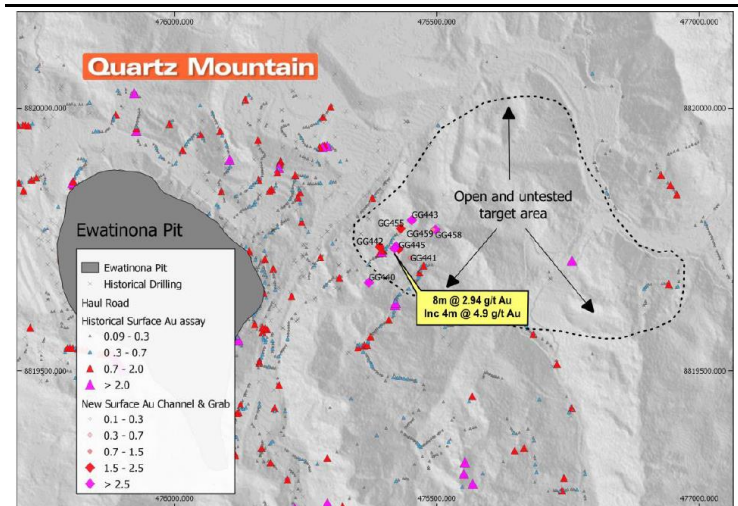
- The key exploration opportunity at Quartz Mountain is the extension of existing Resources at Ewatinona (remains open in all directions). KSN completed Stage 1 drilling at Ewatinona in mid-2019, with initial drilling re-confirming historical Placer results (best results included 20m at 1.8 g/t and 6.6m at 1.94 g/t).
- KSN has completed a review of all available Quartz Mountain data (drilling, geochem and structural mapping), and has concluded that mineralisation in the area is structurally controlled (mainly NW and NS trending high angle vertical faults), and not bounded by lithological controls as per the previous interpretation. With historical drilling featuring mostly near vertical holes, the re-interpretation of the geology at Quartz Mountain has opened up new targeting opportunities for the area.

**Figure 29: Quartz Mountain plan view showing mineralised trends as defined by surface sampling**



Source: Company Reports

**Figure 30: Ewatinona plan showing surface sample results on structural targets**



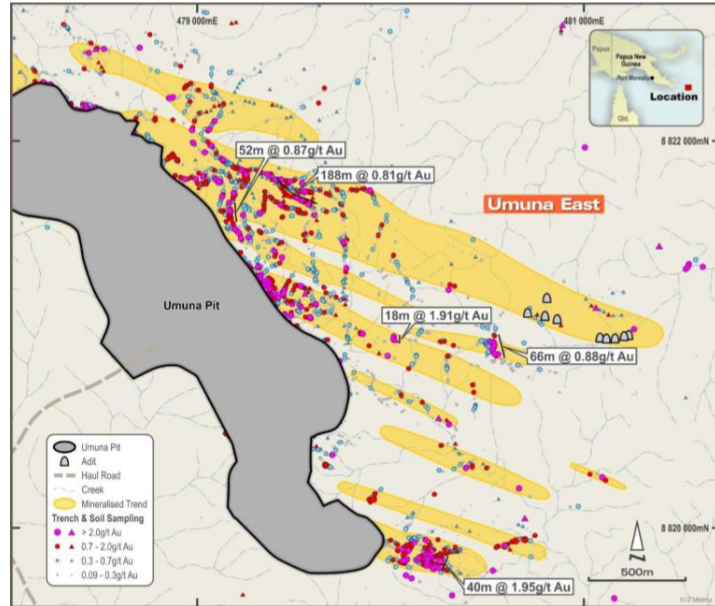
Source: Company Reports

- Stage 2 drilling has commenced, which will now focus on infill and extensional drilling at Ewatinona, as well as follow up on high grade intercepts from first pass drilling at the Abi prospect (highlights including 24m at 2.9 g/t from 17.5m), located <1km to the south, which displays the same mineralisation trend parameters at Ewatinona. Drilling from the Stage 2 program is expected to be included in an updated Mineral Resource estimate for Ewatinona in mid-2020. In our view, Quartz Mountain's proximity to the historical mill site makes it a priority target for a potential starter pit opportunity.

### Umuna East

- Umuna East is located adjacent to the eastern wall of the Umuna pit (Figure 35) and is interpreted to represent a sub-parallel deposit hosted by cross cutting structures and splays off the main Umuna shear. The prospect is characterised by widespread supergene mineralisation identified by historical surface sampling and drilling undertaken by Placer.
- Unlike down-dip extensions of the main Umuna lode which would require a capital intensive cutback of the existing pit walls, Umuna East has the potential for near surface oxide Resources which could be accessed via a starter pit. As at Oct'19, KSN had completed 13 holes to depths of 63-153m, testing an initial 500m x 500m area to the north east of the pit which features WNW/NW trending structures and co-incident geochem anomalies. Assays from this drilling are expected in early Q1'20.

**Figure 31: Quartz Mountain plan view showing strike length of Ewatinona mineralised trend and proximity to plant site**

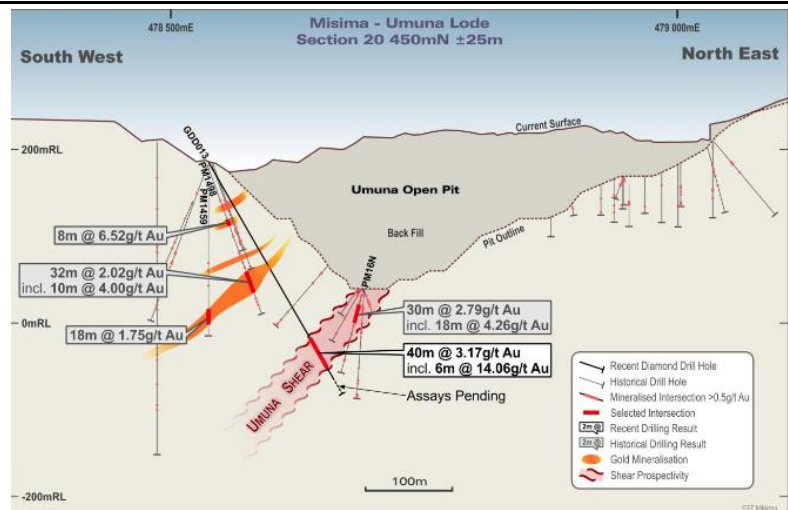


Source: Company Reports

### Umuna

- While not offering the potential for starter pit material, we highlight that there remains good potential for down dip extensions of the main Umuna lode. Historical deeper drilling has highlighted this potential and, notably, grades appear to be improving at depth. This observation is supported by more recent drilling by KSN in late 2018 which returned 40m at 3.17 g/t (Figure 36). In addition, we note historical drilling into the hanging wall, which identified additional mineralisation that would likely be accessed via any pit cutback.

**Figure 32: Umuna cross section**

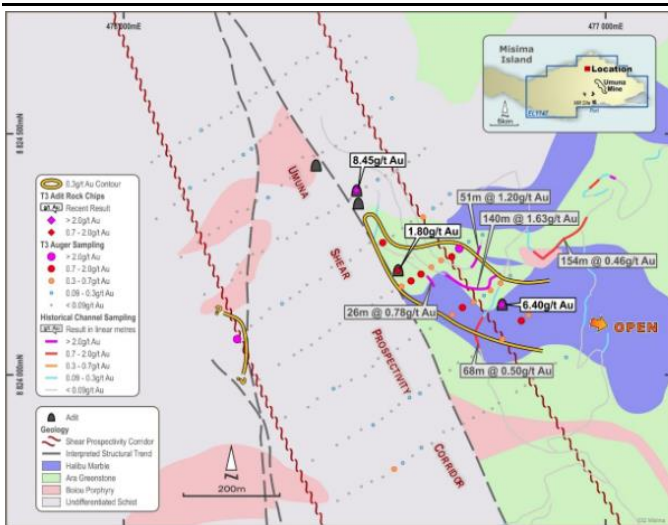


Source: Company Reports

### Misima North

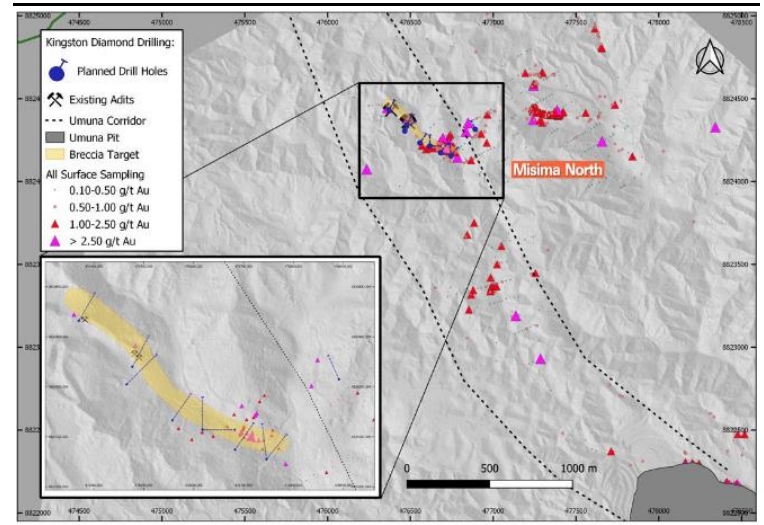
- The Misima North-Ara prospect is a 4km long prospective target corridor located ~2km north of the former Umuna open pit (Figure 37). The area was the site of small scale UG workings in the 1940s on high grade quartz veins.
- Recent fieldwork and structural re-interpretation carried out by KSN suggests that previous drilling undertaken by prior operators did not properly test the shear position and subsidiary structures. Known anomalism and mineralisation at Misima North is indicative of supergene enrichment within structures adjacent to and within the Umuna fault corridor. This enrichment supports the potential for high grades (further evidenced by historical drill assays inc. 8m at 4.68 g/t from 8m, 10m at 2.36 g/t from surface, 10m at 3.2 g/t from surface; plus UG adit sampling recording 16m at 21 g/t), and as such, we see this area as presenting an excellent opportunity for the discovery of higher-grade mineralisation.
- Work undertaken by KSN includes trenches across interpreted structure and coincident geochemistry (assays included 12m at 3.76 g/t and 15m 1.98 g/t), surface rock chips (individual spot grades up to 44.6 g/t from brecciated material), and an initial 10-hole drilling program targeting a 500m long, supergene enriched breccia zone (Figure 38) which was completed in Nov'19. Assays from drilling are expected in early Q1'20.

Figure 33: Misima North sampling locations and results



Source: Company Reports

Figure 34: Misima North breccia drilling target and drill plan



Source: Company Reports

### CG Development/Production Scenario

- While exploration is ongoing and mining studies are yet to commence, we have modelled a development scenario for the Misima project which revolves around the discovery and exploitation of an initial starter pit/s (see [Key Exploration Targets](#)) ahead of removal of pit back fill and a pit wall cutback to access the main Umuna Resource.
- The volume of pit back fill material is estimated at 60-80Mt, which assuming a \$2.50/t mining cost would add ~\$150m to upfront construction costs (see Capital Costs). We estimate that a "Starter pit/s" might need to provide a mineable inventory of ~400koz (or, ~2 years production assuming ~5Mtpa of milling capacity) to cover the cost of the cutback and support initial construction costs.

- In assessing the various characteristics and location of the key exploration targets, we have based our model on an assumed “starter pit/s” resource of 9.5Mt at 1.30 g/t for 400koz. This is assumed to be made up of:
  - Ewatinona – given the existing 220koz resource (see Figure 26), grade and its proximity to the former mill site, we see this as providing a key initial source of plant feed.
  - Misima North – while yet to host a Resource, the presence of super gene enriched gold mineralisation offers the potential to increase average grades through ore blending
  - Umuna East – easy-dig oxides and proximity to mill;
  - Historical “Stockpiles” – KSN has identified an estimated 3.6Mt of mineralised waste from historical operations grading 0.5-0.7 g/t which could also present as possible commissioning material
- An outline of the project parameters for our assumed development scenario is shown in Figure 39, where we model a +10 year, 160kozpa (180kozpa first 5 years) conventional open pit mining and CIL operation, with upfront capex of A\$445m and average LOM AISC of A\$1,234/oz.

**Figure 35: Misima Gold project – CG development/production scenario parameters**

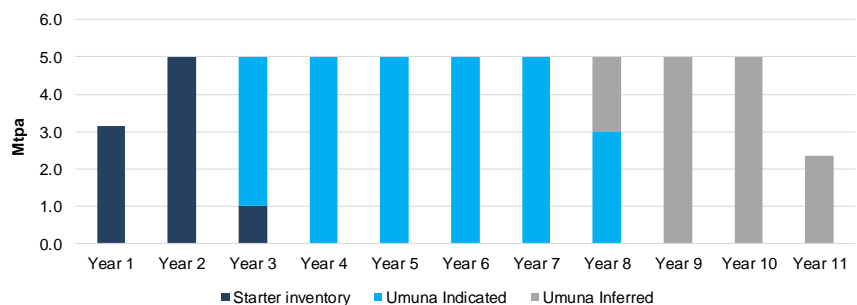
“Starter” inventory	9.5Mt at 1.3 g/t	Au production (kozpa)	160
Total inventory (Mt)	51.0	Ag prod'n (kozpa)	335
LOM (years)	11	<b>Au production (years 1-5)</b>	<b>180</b>
<b>Upfront Capex (A\$m)</b>	<b>445.0</b>	Sustaining capex (A\$m p.a.)	4.0
Ore mined (Mtpa)	5.0	OP mining costs (A\$/t)	3.70
Strip ratio (ex-pre-strip)	4	OP process+G&A costs (A\$/t)	23.00
Ore processed (Mtpa)	5.0	Royalty	2.25%
Avg head grade (g/t Au)	1.1	Cash costs (A\$/oz)	\$1,157
Recoveries	92%	<b>AISC (A\$/oz)</b>	<b>\$1,236</b>

Source: Canaccord Genuity estimates

### Mining inventory

- Our assumed mining inventory of 51Mt consists of our assumed “Starter pit/s” inventory of 9.5Mt, and 41Mt mined from the existing 76Mt Umuna Resource. Within this, we assume a 75% conversion of Indicated Resources, and conversion of a further 34% of Inferred.

**Figure 36: CG development/production scenario – modelled ore sources**

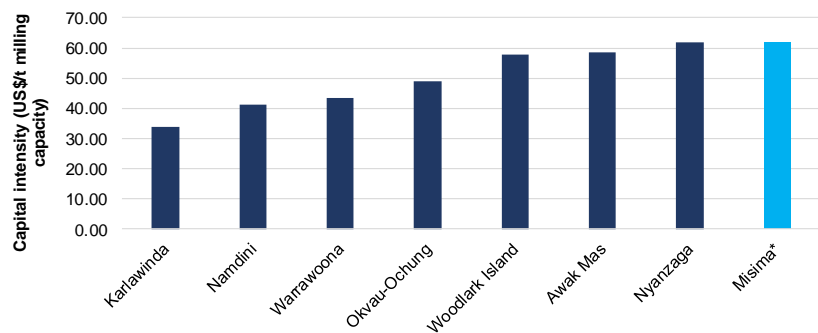


Source: Canaccord Genuity estimates

### Capital costs

- We have conservatively modelled total upfront capital costs for our assumed 5Mtpa project at A\$445m (US\$310m), with project benchmarking (gold projects with completed studies) suggesting an average capital intensity of ~US\$50/t mill capacity (Figure 41). However, we expect upfront capital costs could be lower than our assumptions (despite the remote island location) due to the preference in PNG for DSTP (no land-based tailings storage will result in significant reductions in upfront capital costs), and the significant infrastructure remaining from previous mining operations (roads, port, airstrip etc).

**Figure 37: Pre-production gold project capital intensity**



Source: Company reports, Canaccord Genuity estimates; \*based on CG development scenario assumptions

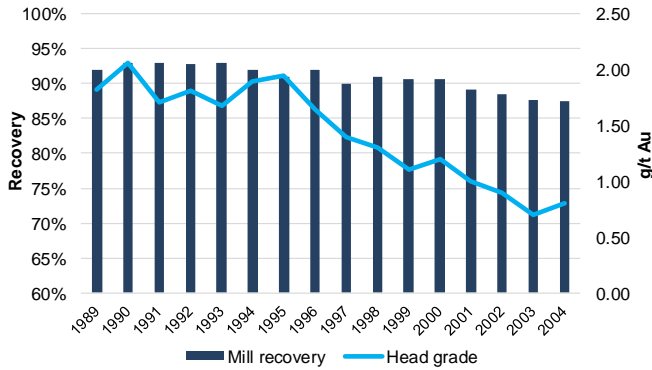
### Mining

- We model Misima as a conventional 5Mtpa open pit operation, with an average LOM operating waste:ore ratio of ~4:1. Misima was known for its soft ore and easy dig mining conditions, although we note that at times, heavy wet weather conditions made operating in oxidised ground conditions more difficult.

### Processing

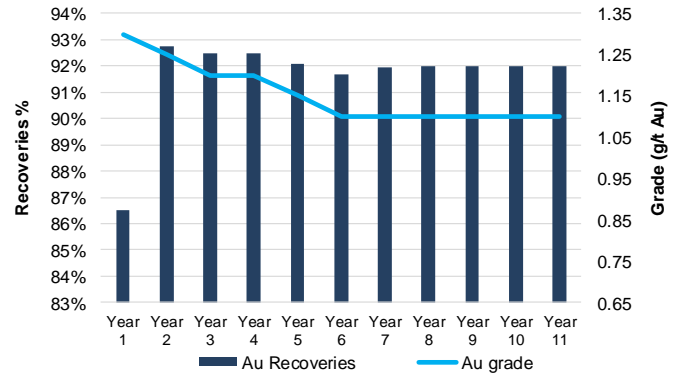
- The former Misima processing treatment plant had a nameplate capacity of 5.5Mtpa, and consisted of a SAG/Ball mill grinding circuit, leaching and carbon-in-pulp (CIP) circuits and Zadra stripping circuit. Zinc precipitation of precious metals was then carried out to produce a dore product. CIP tailings were washed in a decantation circuit before disposal via DSTP. Favourable mineralogy led to high gold recoveries over the life of the mine, averaging 91% despite the treatment of low grade stockpiles in the last several years of operations. Moreover, we also note the potential for throughput to exceed nameplate by virtue of the soft nature of mill feed (i.e., mill throughput rates exceeded design for the first 6 years of operation, Figure 22).
- Given the success of the former operation and simple metallurgy, we don't expect a departure from standard CIL processing, and assume average LOM recoveries at ~92%. In addition, we highlight an opportunity to optimise silver recoveries, which averaged ~40% during historical operations. Our modelled mill feed and grade assumptions are illustrated in Figure 43.

Figure 38: Historic Misima mill recoveries & head grades



Source: Company Reports, Canaccord Genuity estimates

Figure 39: CG production scenario – modelled grade vs. recoveries

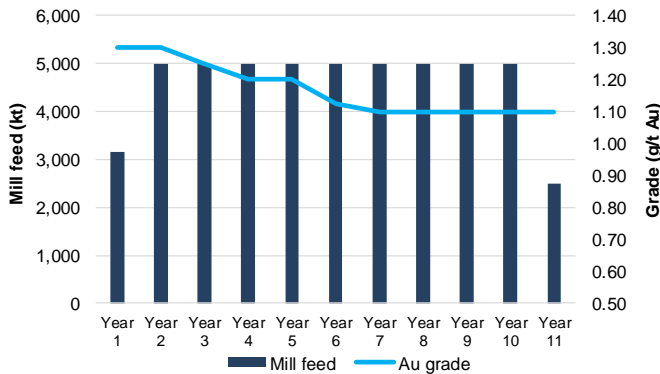


Source: Company Reports, Canaccord Genuity estimates

**Production & Operating costs**

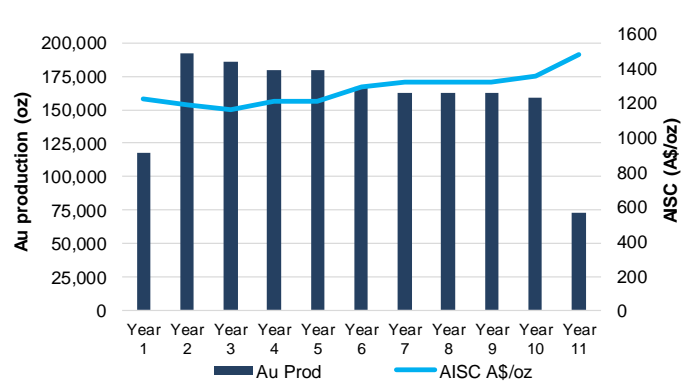
- Figure 44 illustrates our modelled mill feed and grade assumptions for our development scenario, which results in average annual gold production of 160kozpa (175kozpa over the Years 1-5) over our modelled 11-year mine life.
- We estimate average annual AISC of A\$1,236/oz, with unit cost assumptions based on St Barbara’s (SBM-ASX: \$2.47 | BUY | Reg Spencer) Simberi operation.

Figure 40: CG production scenario – modelled mill throughput & grade



Source: Canaccord Genuity estimates

Figure 41: CG production scenario – modelled gold production & AISC



Source: Canaccord Genuity estimates

**Project benchmarking – Simberi a good analogy?**

- We see St Barbara’s Simberi operation as the most directly comparable project with which to benchmark a possible production scenario at Misima.

Figure 42: Simberi vs. Misima

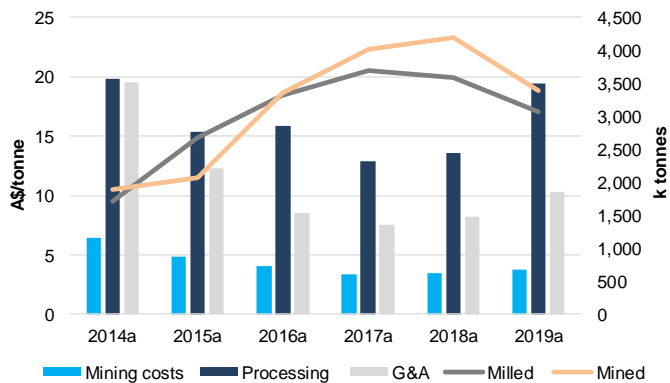
	Simberi	Misima (Placer)	Misima CG scenario
Location	Simberi Island, PNG	Misima Island, PNG	
Mineralisation	Epithermal Au	Epithermal Au	
Resources	90Mt*	82Mt	
Resource grade	1.44 g/t*	1.05 g/t	
Strip ratio	2:1	2.8:1	4:1
Throughput	4 Mtpa	5.5 Mtpa^	5 Mtpa
Process	CIL	CIP	CIL
Head Grade	1.26 g/t	1.7 g/t	1.17 g/t
Recoveries	84%	91%^	92%
Avg Prod'n	104kozpa**	300kozpa^	160kozpa#
AISC (A\$/oz)	1,311		1,266#

Source: Company Reports, Canaccord Genuity estimates

\*includes oxides+sulphides; \*\*2014-2019; ^Placer operations; ^ avg for first 9 years; # avg LOM

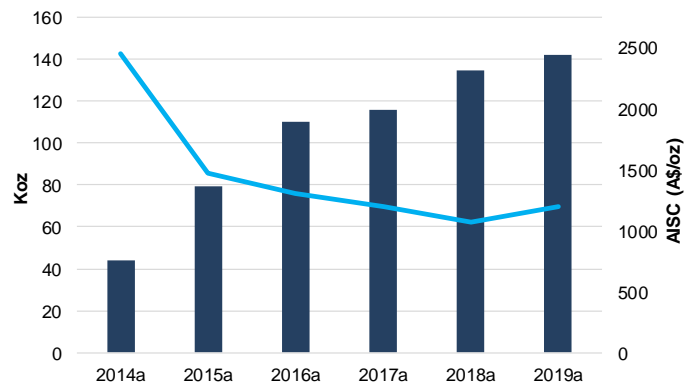
- Simberi's low grades, mill capacity, and its PNG island location make it a useful analogy to assess likely unit cost assumptions for our production scenario. As shown in Figure 47, SBM has achieved a significant improvement in all key facets of the operation since 2014, with improved material movements helping drive reductions in unit mining costs, while improved mill utilisation/throughput has seen a general improvement in processing and G&A unit costs. Given the numerous similarities with Misima, we have used these unit costs as the basis for our AISC estimates.
- However, we note the possibility for Misima costs to come in below our estimates, due primarily to easy dig conditions (less drill and blast) in shallower material, shorter haul distances, with softer ore potentially allowing plant throughput to exceed design rates (average throughput from 1990-1997 was +20% vs. design, see Figure 22).

Figure 43: Simberi material mined/processed + unit costs



Source: Company Reports

Figure 44: Simberi gold production & AISC



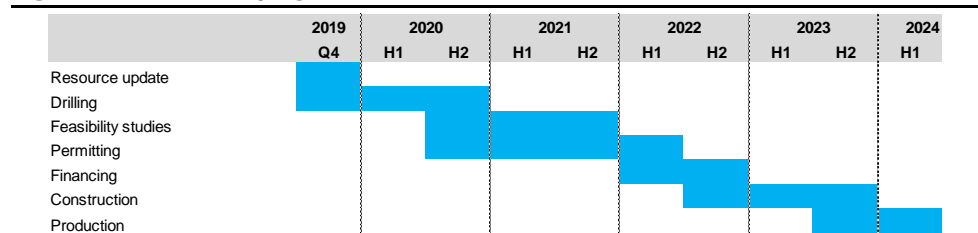
Source: Company Reports



**Project timetable**

- KSN is targeting the commencement of mining studies for Misima in mid-2020, post completion of Resource upgrades, following initial drilling programs at Quartz Mountain, Umuna East and Misima North.
- Our production scenario envisages a timeline as outlined in Figure 49 below, where we assume completion of feasibility studies in 2021, ahead of an 18-month permitting timeline for EIA approvals and grant of a Mining Lease (we note that Kula Gold’s [KGD:ASX | Not rated] ML grant for the Woodlark Island project took three years, but note the successful production history at Misima provides for well-understood geology and metallurgy, a substantial data base and previously disturbed site could see a shorter permitting timeline).
- In consideration of the above, our modelled project timetable assumes commencement of construction in 2H22, and first production in 2023 based on an 15-18 month construction period.

**Figure 45: Assumed project timetable**



Source: Canaccord Genuity estimates

**Asset Overview: Livingstone Gold Project**

**Location & Background**

- The Livingstone Gold project covers 204km<sup>2</sup> and is located ~140km NW of Meekatharra, Western Australia, and ~60km west of Westgold’s Fortnum operation. The project was first acquired in late 2016, when KSN entered into an agreement to purchase a 75% interest through the issue of 5.5m shares and 5m options, and a small expenditure commitment.

Figure 46: Livingstone Project Location map



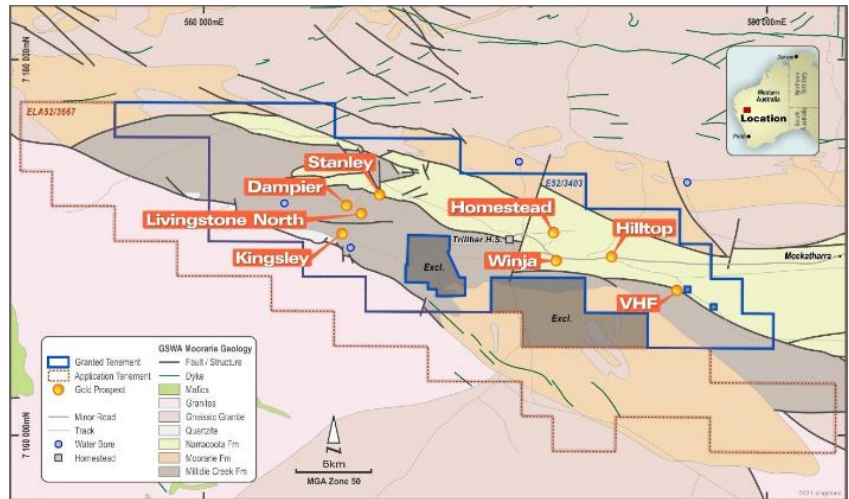
Source: Company Reports

### Geology & Resources

- Livingstone is located within a W-NW trending arm of the arm of the Palaeoproterozoic Bryah and Padbury Basins, enclosed to the north, west and south by Archaean rocks of the Yilgarn Craton. The project area is dominated by a series of west to west-northwest trending strike parallel faults – the Livingstone Shear Zone – which display a spatial association with gold mineralisation. The majority of work by previous gold explorers has focused on the potential of the shear zone, which traverses the entire project with a combined strike length of more than 31km.
- Key prospects at Livingstone include:
  - Homestead – gold mineralisation at Homestead is associated with steep dipping quartz-carbonate-pyrite veining. Lode thickness varies from 1-5m, and outcrops in places. Homestead hosts an Inferred Resource of 50koz at 1.6 g/t. Most historical drilling at Homestead was limited to shallow holes.
  - Winja – prior drilling had identified high grades up to 7.85 g/t over 18m, with mineralisation interpreted to be hosted in a NW plunging chute or pipe. Opportunity exists for repetitions of the high grade structure.
  - Livingstone's Find – includes several targets which are defined by a ~2km long geochemical anomaly, with gold mineralisation occurring in steeply dipping quartz veins. The area was the site of some historical gold production from the high grade veins, but remains underexplored.
  - Kingsley – Kingsley was identified in mid-2018 through a broad spaced RAB drilling program. The prospect is characterised by high

grade gold bearing quartz structures over a strike length of ~1km, with historical gold workings.

**Figure 47: Livingstone Gold Project – key prospects**

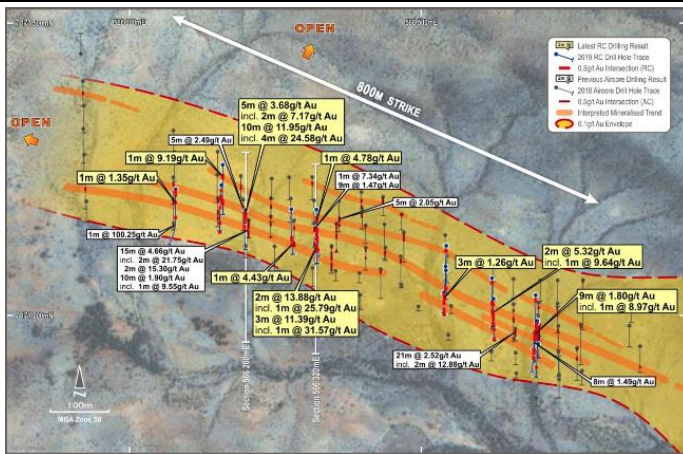


Source: Company Reports

### Kingsley Prospect

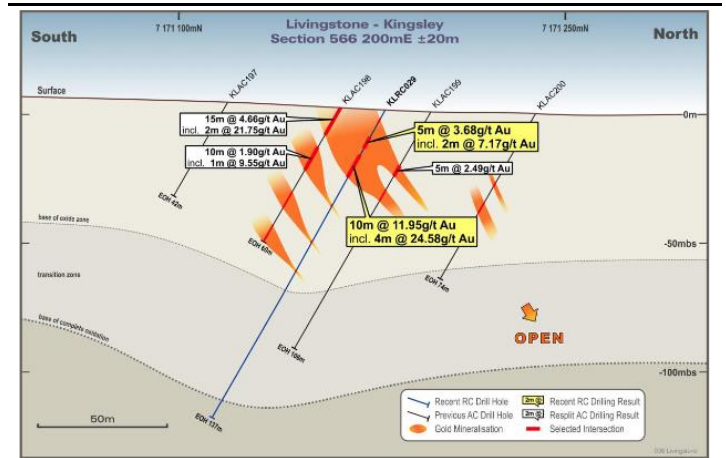
- In our view, Kingsley represents the most immediate opportunity at Livingstone, with drilling undertaken by KSN identifying high grade gold mineralisation over a strike length of ~1km (remains open to the West). Highlights from drilling over 2018-19 include:
  - 4m at 76 g/t from 88m
  - 10m at 11.95 g/t from 20m
  - 5m at 6.6 g/t from 49m
  - 4m at 7 g/t from 8m
  - 3m at 11.39 g/t from 88m

Figure 48: Kingsley prospect plan showing strike and selected drilling results



Source: Company Reports

Figure 49: Kingsley cross section



Source: Company Reports

- KSN plans to follow up these results with further infill and extensional drilling in 2020. While the structures are proving to be high grade in areas, we see infill drilling as going some way to proving continuity. Furthermore, the depth potential of the mineralisation is yet to be adequately tested.
- KSN's dual focus with Misima has meant that Livingstone has not been able to be advanced at the same rate as exploration success might normally warrant. However, Livingstone's proximity to WGX's Fortnum operation (60-70kozpa via a 1Mtpa plant) *could* provide an accelerated production pathway should resource drilling be successful. Conversely, the project could also be divested to provide funding for ongoing exploration and development work at Misima.

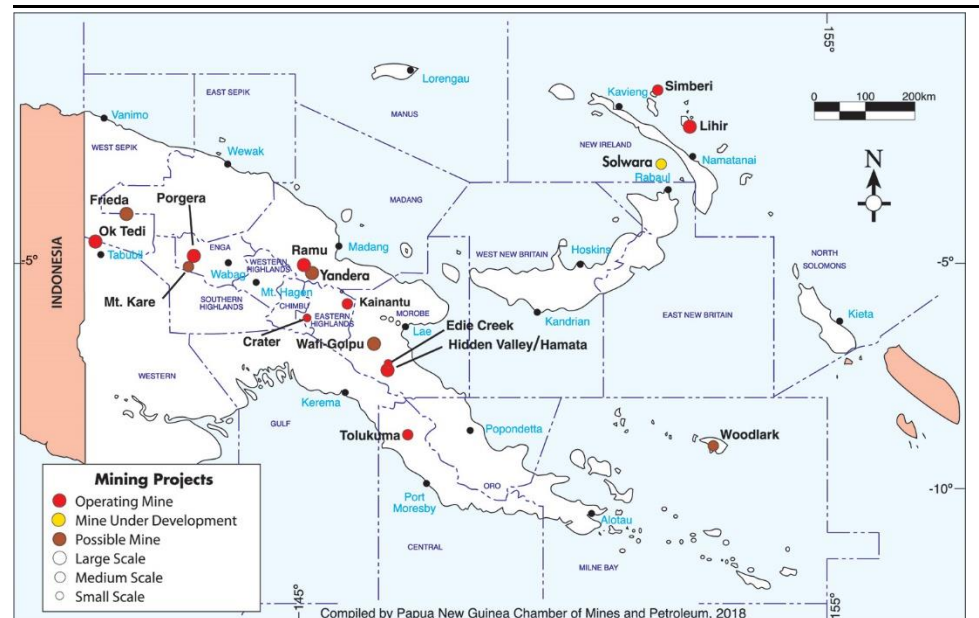
## Appendix 1 – Papua New Guinea Country Info

<b>Location:</b>	South-west Pacific; bordered by Indonesia (West Papua) to the west
<b>Capital:</b>	Port Moresby
<b>Area:</b>	462,840km <sup>2</sup>
<b>Population:</b>	8.1m (2019)
<b>Official language:</b>	Tok Pisin, Enga, English
<b>Government:</b>	Commonwealth
<b>Religion:</b>	Catholic (26%)

### Mining in Papua New Guinea

- Mining and mineral exports (including gold, copper, oil, natural gas and other minerals) form the large majority of PNG's export earnings (~75%), and as such is an integral part of the country's economy. Aside from PNG's large oil and gas industry, there are numerous world class mines currently in operation, including the Porgera (250kozpa), Ok Tedi (280kozpa Au + 100ktpa Cu) and Lihir (0.9Mozpa) gold mines, and the +40ktpa Ramu nickel/cobalt operation. In addition to operating mines, PNG also hosts a number of world class development projects including Wafi Golpu (27Moz) and Frieda River (20Moz Au + 13Mt Cu).

Figure 50: PNG major mines and deposits



Source: PNG Chamber of Mines

### Key legislation

- The Mining Act 1992 is the principal legislation governing mining exploration and development in PNG. Under the Mining Act, all minerals existing on, in or below the surface of any land in PNG, including any minerals contained in any water lying on any land in PNG, are the property of the State. The Mining Act provides a regulatory regime for the exploration and production of minerals and is administered by the Minerals Resources Authority (MRA). The MRA was established under the Minerals Resources Authority Act 2005 as a self-funded body that administers the Mining Act.
- Key tenements which may be granted under the Mining Act include:
  - Exploration licence
  - Mining lease
  - Special mining lease
  - Alluvial mining lease
- Royalties are set at 2% of the value of the mined product and are payable to the state, with landowners entitled to 20% of the royalty paid. There is also a small levy of 0.25% payable to the MRA. Corporate income tax is typically levied at 30%.
- The PNG Government has a long-standing policy that the State has a right to acquire up to a 30% stake in mining projects (acquisition price specified as the pro rata share of accumulated exploration expenditure on the exploration licence). However, this right is typically not taken up on small and medium-sized projects (Figure 55). In addition, the Government may negotiate for an equity interest in projects of up to 5% on behalf of local landowners.

**Figure 51: PNG Gold Projects & Government/landowner equity details**

Company	Gold project	ML grant	Project size	Reserves	PNG Government/Landowner initial stake
Placer Pacific	Misima	1987	Medium	4Moz	PNG Govt elected to take up 20%
Placer Pacific/ Highlands Gold	Porgera	1989	Large	23Moz	PNG Govt + landowners elected to take up 10%
Dome Resources	Tolukuma	1994	Small	<1Moz	No equity by either Govt or landowners
Lihir Gold	Lihir	1995	Large	36Moz	PNG Govt + landowners elected to take up 30%
Macmin PNG	Sinivit	1996	Small	<1Moz	No equity by either Govt or landowners
Highlands Pacific	Kainantu	2002	Medium	4Moz	No equity by either Govt or landowners
Harmony Gold	Hidden Valley	2005	Medium	4Moz	No equity by either Govt or landowners
Allied Gold	Simberi	2007	Small	2Moz	No equity by either Govt or landowners
Kula Gold	Woodlark Island	2014	Small	1 Moz	No equity by either Govt or landowners

Source: Company Reports, Kula Gold prospectus

### Possible changes to the Mining Act

- We note recent media reports on possible changes to PNG's Mining Act. Possible changes are being contemplated by the Government which would relate to capturing downstream value through in country refining (in the case of concentrate production), payment of social levy to landowner groups (and hence royalty structure), and possible changes to Government ownership in projects.

## Appendix 2 – Board of Directors

### ***Anthony Wehby – Non-Executive Chairman***

Mr Wehby was a founding director and subsequently Chairman of Aurelia Metals Ltd, an ASX-listed mining company. In his role he oversaw the progression of the company from exploration through to production. Prior roles include Chairman of Tellus Resources and a director of Harmony Gold (Aust) Pty Ltd. Prior to 2001 Mr Wehby was a partner in PricewaterhouseCoopers for 19 years where he managed the corporate finance operation of the Australian business.

### ***Andrew Corbett - Managing Director***

Mr Corbett has operated in the mining industry for over 22 years. Prior roles include Portfolio Manager of the Global Resource Fund at Perpetual Investments and General Manager with Orica Mining Services, based in Germany. Mine management and operational experience includes contractor and owner mining experience combined with statutory mine management responsibilities, mining engineer and project evaluation/feasibility work. Mr Corbett has a Bachelor of Engineering Mining (Honours) from Western Australian School of Mines, an MBA from Newcastle University and a First Class Mine Managers Certificate.

### ***Mick Wilkes - Non-Executive Director***

Mick is a mining engineer with 35 years of international experience, predominantly in precious and base metals across Asia and Australia. Mick is currently CEO of OceanaGold Corporation, with prior roles including Executive General Manager of Operations at OZ Minerals responsible for the development of the Prominent Hill copper/gold mine and General Manager of the Sepon gold/copper project in Laos. His earlier experience included 10 years in various project development roles in Papua New Guinea. Mick holds a Bachelor of Engineering from the University of Queensland, an MBA from Deakin University, and is a member of both the Australian Institute of Mining and Metallurgy, and the Australian Institute of Company Directors.

### ***Stuart Rechner - Non-Executive Director***

Mr Rechner (BSc LLB GAIG GAICD) holds degrees in both geology and law from the University of Western Australia and is a graduate member of the Australian Institute of Geoscientists and the Australian Institute of Company Directors. For over 10 years Mr Rechner was an Australian diplomat responsible for the resources sector with postings to Beijing and Jakarta.

## Appendix 3 – Investment risks

### **Geopolitical risks**

KSN's key asset is located in Papua New Guinea, which is considered an emerging market. As such, KSN, through the Misima project, carries a higher degree of economic, political, social, legal and legislative risk. While Papua New Guinea has a well-established and stable mining and minerals industry, we note the potential for changes to the country's Mining Act, which may result in changes to State ownership and/or fiscal frameworks.

### **Financing risks**

As a pre-production company with no material income, KSN is reliant on equity and debt markets to fund development of its assets and progressing its regional exploration pipeline. Total development and working capital requirements are subject to completion of feasibility studies. There are no guarantees that studies will result in a positive investment decision for the Misima Gold project. Further, we can make no assurances that accessing these markets will be done without further dilution to shareholders.

### **Exploration risks**

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further mineral Resources nor that the company will be able to convert the current mineral resource into minable Reserves.

### **Operating risks**

If and when in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

### **Commodity price and currency fluctuations**

As with any mining company, KSN is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand factors. These factors could reduce the profitability, costing and prospective outlook for the business.



## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: December 17, 2019, 19:02 ET

Date and time of production: December 17, 2019, 19:02 ET

### Target Price / Valuation Methodology:

Kingston Resources Ltd - KSN

Our valuation/target price is based on an forward curve NPV12% for our assumed production scenario at the Misima Gold project, blended (30:70) with a EV/Resource oz multiple applied to the existing project Resource of 2.8Moz.

### Risks to achieving Target Price / Valuation:

Kingston Resources Ltd - KSN

### Geopolitical risks

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Rating	Coverage Universe		IB Clients
	#	%	%
Buy	528	60.14%	51.70%
Hold	210	23.92%	36.19%
Sell	19	2.16%	21.05%
Speculative Buy	121	13.78%	78.51%
	878*	100.0%	

\*Total includes stocks that are Under Review

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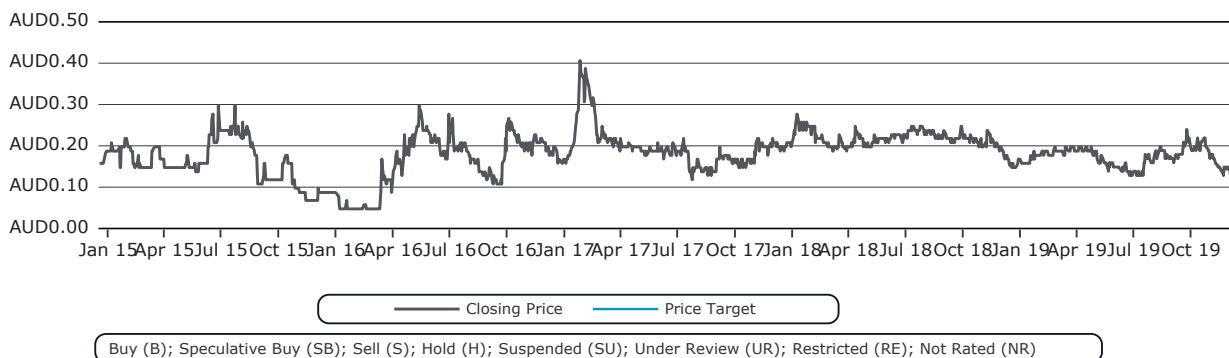
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