Kingston Resources

Grabbing the lion by the tail

Kingston Resources' key asset is a ~70% interest in the 2.8Moz gold Resource at Misima Island, PNG. Surface exploration and drilling in 2018 has firmed up our belief that substantial opportunity still exists outside the current resource. We can't find a single ASX listed gold resource of such size trading at a lower EV$/oz Resource. We initiate with a Buy recommendation and a target price of $0.084ps, based on a valuation of $50/oz of gold Resources attributable to KSN.

Misima – a Tier 1 pedigree

The Misima mine milled 87mt of ore at an average grade of 1.6g/t gold between 1989 and 2004 producing 3.7Moz. Cash costs over its LOM averaged US$218/oz. The decision to close the mine was made in 1999, in a sub US$300/oz gold price environment, which largely explains why the previous owner left so much gold in the ground.

What could Misima look like?

Historical operating data, combined with industry comparisons indicate that Misima could be a low cost, large scale producer. ~ 200koz pa for ten plus years is clearly possible in our view. Proving up higher-grade starter pits could propel potential project returns. Hence, drilling success at new prospects could be compelling catalysts in 2019.

Livingstone in WA keeps getting better

Livingstone is a smaller higher-grade gold project which returned compelling drill results in November 2018; including 4m @ 76.25 g/t Au from 88m and 28m @ 2.26 g/t Au from surface. An extensive RC drill campaign to follow up these targets will commence shortly and could prove another share price catalyst in 2019.

Spec Buy, $0.084ps target price = ~$50/oz Au in Resource

We have derived a target price based on an analysis of industry peers and made subjective adjustments for size, sovereign risk and permitting stage. Successful drill results at compelling near surface prospects at both Misima and Livingstone will be the primary short-term share price catalysts in 2019.

Mining

12-month rating	**BUY**
12-m price target (A$)	0.084
Previous TP (A$ps)	n/a
Price (A$)*	0.019
Upside	344%
*Priced on 4/02/19	
BBG: KSN AU	

Trading data & key metrics

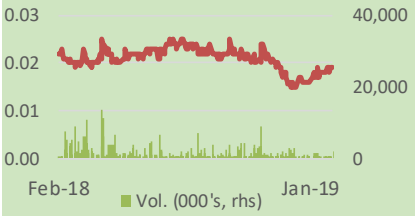
52-w range (A$ps)	0.015 - 0.025
Market Cap (A$m):	23
Shares on issue (m):	1,223
Avg daily volume (k):	1,557
Avg. daily volume ($k):	33

Directors:

Tony Wehby	NEC
Andrew Corbett	MD & CEO
Andrew Paterson	ED
Stuart Rechner	NED
Mick Wilkes	NED

Substantials:

Slipstream	11.1%
Sandfire Resources	9.3%
Farjoy Pty Ltd	9.1%



Analyst: Michael Evans
e: michael@acovacapital.com.au
t: 02 9137 2347
m: +61 428 514 557
Sales: Brendan Sullivan
e: brendan@acovacapital.com.au
t: 02 9137 2347
m: +61 479 126 568

Specific disclosure:
The analyst holds shares in KSN.

With regards to Misima:

"…the Company's exploration strategy is now firmly focused on discovering and defining near-surface satellite mineralisation at prospects including Ginamwamwa, Quartz Mountain, and Ara Creek. Adding near-surface resources is likely to be important in the early stages of any potential future mining operation…"

Kingston Resources – 18 February 2019

Misima – a Tier 1 pedigree

Misima Island is located 625km east of Port Moresby in the Solomon Sea. Gold was discovered on the island in 1888 with small scale underground mining continuing until WWII. Placer Dome Inc (Placer) commenced exploration in 1977, with production beginning in 1989. Misima was operated as an open pit gold mine from 1989 to 2001, with stockpiled ore treated for the final three years of the operation until 2004. Gold production over this period was 3.7Moz with significant silver credits.

Misima is Kingston's flagship asset containing 2.8Moz gold

Figure 1 – Location of Kingston's assets

Source: Company

KSN takes control of Misima in late 2017

In Dec 2011, WCB Resources entered into a farm in agreement with Pan Pacific Copper (PPC) to earn up to a 70% interest in the Misima Project (Exploration Licence EL1747) by spending $9m. When KSN merged with WCB Resources in late 2017, WCB's ownership was at 49%. KSN completed the 70% earn-in in September 2018 and are now increasing their stake in the project beyond 70% via a dilution formula.

Based predominantly on an extensive historical database, WCB announced an Initial Inferred Resource of 1.57Moz in October 2013 using a 0.36g/t cut-off in oxide, 0.50g/t cut-off in sulphide and a US$1,100/oz gold price. In August 2017, WCB announced an updated NI 43-101 Resource of 73Mt @ 1.0g/t for 2.3Moz Au.

The Misima Resource now stands at 2.8Moz at 1.1g/t gold (JORC)

Figure 2 – Misima JORC Resource – Nov 2017

	Tonnes	Gold	Silver	Au	Ag
	Mt	g/t	g/t	Moz	Moz
Indicated	37.2	1.1	4.9	1.3	5.8
Inferred	45.0	1.0	5.6	1.5	8.1
Total	82.3	1.1	5.3	2.8	13.9

Source: Company

The most recent Resource was published under the ASX recognised Australian JORC Code by KSN in November 2017. While there had been few changes to the project since the 43-101 Resource was published in August 2017, different reporting requirements meant the JORC Resource was larger, standing at 2.8Moz gold at 1.1g/t, split 1.3Moz in the Indicated category and 1.5Moz in the Inferred category.

Figure 3 – location of Misima and adjacent gold projects

Source: Company

2.8Moz gold Resource is the starting point

Significant intersections exist outside the resource…

We expect the current drilling campaign to increase the absolute size of the resource while potentially identifying areas of higher-grade gold and lower strip ratio. The importance of focusing on higher grade near surface resources is the materially positive impact this could have on any subsequent economic studies.

…including 120m at 1.57g/t gold from surface

Historic drill holes surrounding the current resource include:

- 120m @ 1.57g/t Au from surface in hole GRC1234
- 48m @ 4.09g/t Au from 38m in hole GDD002
- 60m @ 1.43g/t Au from 280m in hole PM1417
- 22m @ 2.14g/t Au from 172m in hole PM2027R
- 18m @ 2.26g/t Au from 344m in hole PM945
- 10m @ 6.00g/t Au from 180m in hole PM2235

Drill holes at Misima North include:

- 8m @ 4.68g/t Au from 8m in hole MNR2220
- 10m @ 3.20g/t Au from surface in hole MNR515
- 10m @ 2.36g/t Au from surface in hole MNR889
- 60m @ 2.29g/t Au from surface in hole EMD776

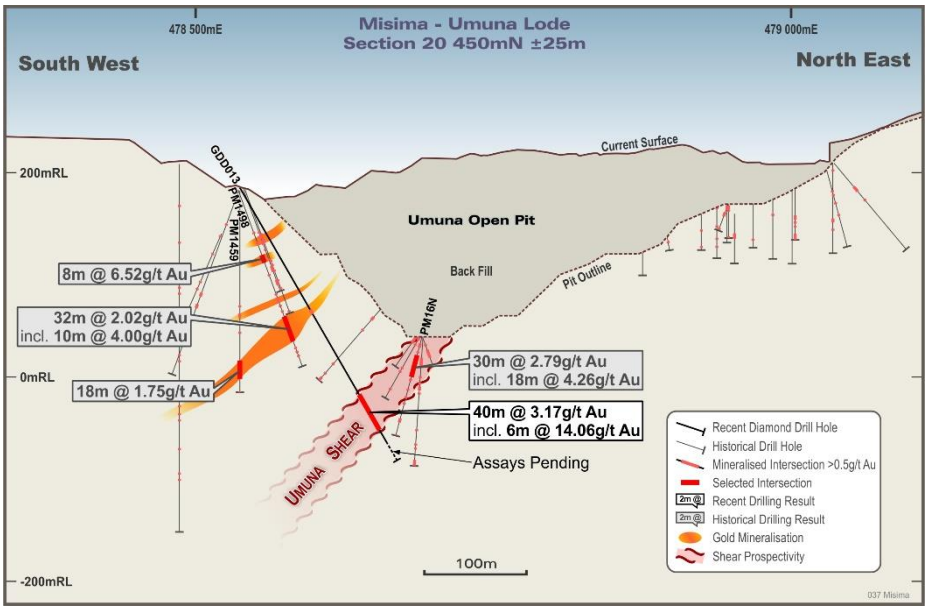
Misima exploration in 2018 has been successful

In 2018, the company set about testing the downdip extensions to the Umuna pit while proving up new prospects using surface exploration techniques including geochemical analysis and trenching.

In November 2018 drill hole GDD013 reported 40m @3.2g/t gold from 268m under the old Umuna open pit mine. Historical holes adjacent to this new hole have intersections of 32m @ 2.0g/t nearer to the surface – Figure 4.

In 2018 KSN hit 40m @ 3.2g/t below the Umuna open pit

Figure 4 – Umuna drilling in 2018



Source: Company

Is Ginamwamwa a game changer?

In 2018, trenching at several prospects has returned spectacular results. Trenching at the newly discovered Ginamwamwa prospect in particular has returned results sufficiently compelling to follow up with drilling in 1H 2019.

In late October 2018, the company reported the following trenching results:

- 34m @ 3.19 g/t, at surface
  - Incl. 8m @ 7.96 g/t
- 50m @ 2.06 g/t Au, at surface
  - Incl. 8m @ 5.38
- 5m @ 9.57 g/t Au, at surface
- 6m @ 1.6 g/t Au, at surface
- 10m @ 1.23 g/t Au, at surface
  - Incl. 2m @ 3.99 g/t

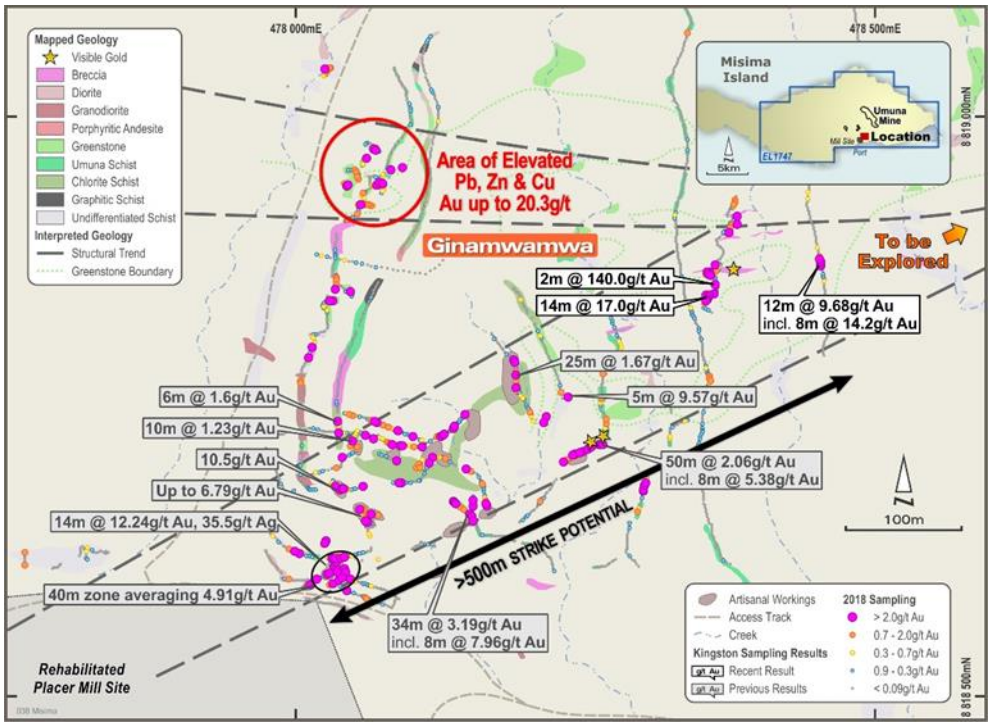
In late December 2018 the company reported further encouraging trenching results at Ginamwamwa which extended the large area of high-grade shallow gold. These results included:

- 14m @ 17.0g/t Au with fine visible gold
- 2m @ 140.0g/t Au
- 12m @ 9.68g/t Au

These trenching results and other historical results are shown in Figure 5. Given the history of exploration on the island has shown a broad correlation between good trenching and subsequent drilling results, it's very clear to us why KSN have prioritised drill testing at Ginamwamwa in early 2019.

In 2018 KSN reported 14m @ 17g/t in trenches at Ginamwamwa

Figure 5 – trench results at Ginamwamwa



Source: Company

In addition to Ginamwamwa the company has several other prospects beyond the current resource along the northern strike of the orebody as well as to the East. These targets have also been identified by impressive historical channel sampling, including an area called Ara Creek, where channel samples of 140m @ 1.63g/t gold and 51m @ 1.2g/t gold beg for follow up drilling.

This historical trenching in this area was followed up with an auger program in 2018. KSN reported individual auger results of 4.18g/t gold and 8.45g/t gold, further defining the gold anomaly of around 400m strike.

While Misima already contains a significant endowment of 2.8Moz of gold, we see the relevance of the new prospects as having the potential to contain higher grade near surface gold, which if proven up should propel project returns to levels that would attract the required capital investment. KSN's strategy in 2019 is clear in this regard.

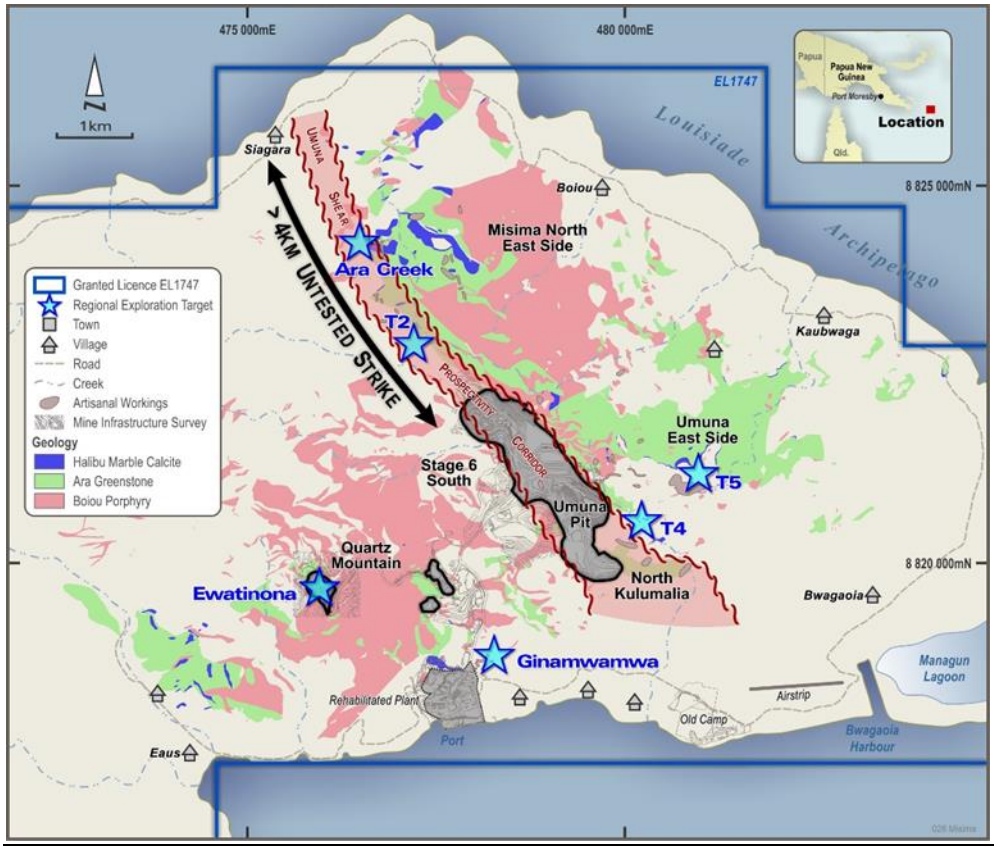
Where to for Misima in 2019?

"…the Company's exploration strategy is now firmly focused on discovering and defining near-surface satellite mineralisation at prospects including Ginamwamwa, Quartz Mountain, and Ara Creek. Adding near-surface resources is likely to be important in the early stages of any potential future mining operation…".

Figure 6 shows the high-level focus areas of exploration which have been developed based on historical drill holes and a successful 2018 exploration program.

Priorities in 2019 include Ginamwamwa, Quartz Mountain and Ara Creek

Figure 6 – Overview of exploration focus areas at Misima



Source: Company

Lidar Survey assists in zoning in on drill targets

In 2018 the company also completed an aerial Lidar survey over its Misima EL. The survey has given KSN an accurate and detailed terrain model which will assist and enhance the broader drilling and exploration program. The survey created highly accurate and detailed models of the surface terrain and has assisted in identify historical mining topography, current and historic artisanal mining, and potential geological features, as well as determining water drainage patterns.

Prioritising drill targets the challenge for KSN in 2019

The challenge for KSN in 2019 is to prioritise several very appealing drill targets where trenching has returned spectacular results.

Background on Misima

Placer mined 87.5Mt at 1.6g/t Au producing 3.7Moz of gold and 22Moz of silver over its 14-year mine life. At the end of 1990 the Reserve grade stood at 1.26g/t, however, the mined grade averaged 1.53g/t delivering reserve grade reconciliation of 121%. The mill had nameplate capacity of 5.5Mtpa, easily workable ore saw a maximum throughput of 6.9Mtpa achieved.

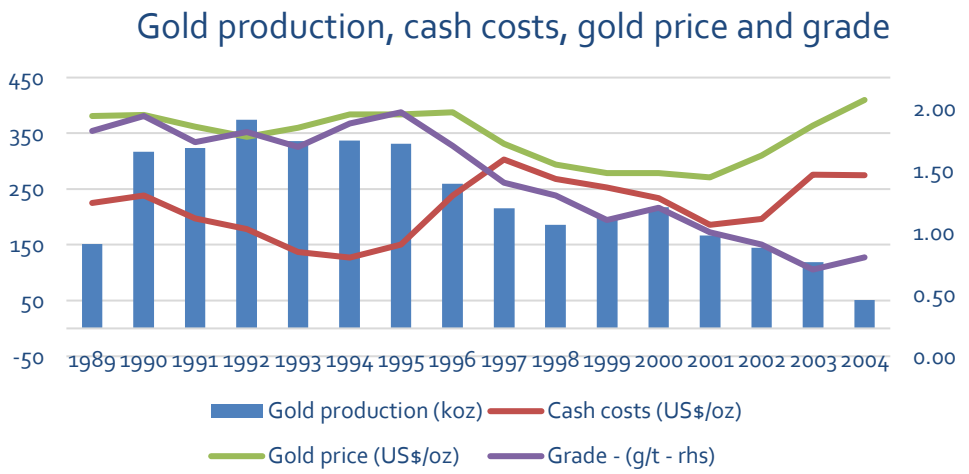
Misima was closed when gold prices were sub US$300 per oz

Gold recoveries averaged 91.5% and costs averaged US$218/oz, resulting in an average margin of US$128/oz (37%). At the time the decision was made to close the mine, the gold price was below US$300/oz. The mill was subsequently decommissioned and removed by 2005. The site has since been rehabilitated, with the PNG Mineral Resource Authority signing off on the successful rehabilitation in 2012.

The production profile, cash costs and revenues of the historical operations are summarised in Figure 7.

Misima operating margins were 37% over its LOM

Figure 7 – historical production and mining costs



Source: Placer Annual Reports, acova capital

What could Misima look like?

While early days, we believe, given the large tonnage, lower grade nature of the deposit, the project lends itself to high tonnage mill throughput, and we can envisage something in the order of 200kozpa gold production for at least ten years. We believe there already exists sufficient gold resources for such an operation which, crucially, will drive unit costs down as all fixed costs associated with remote island mining are diluted over a larger production base.

Why we think there's already ten years at ~200kozpa

The NI 43-101 Canadian exchange compliant Resource published in August 2017 by WCB Resources is, by the code's requirements, contained in a mineable pit shell. The larger JORC compliant Resource, published subsequently in November 2017 by KSN, includes tonnes outside the pit shell, located adjacent to the current pit, as well as at depth. The significance of the 2.3Moz Resource located in a pit-shell, is that the NI 43-101 is a closer proxy to a Reserve than a JORC Resource, in our view. If more than 2moz are ultimately proven up into a Reserve, the project would have around ten-years mine life at a production rate greater than 200koz per annum, assuming future recoveries are in line with historical recoveries of around 91%.

Figure 8 – Conceptual throughput rates and production levels

Throughput	mtpa	4.0	6.0	8.0
Grade	g/t Au	1.0	1.0	1.0
Recovery	%	91%	91%	91%
Annual production	koz	117	176	234

Source: Acova.

Can you make money at 1g/t gold?

While Misima's Resource gold grade is low relative to several ASX listed developers and producers, there are examples of Australian producers with assets of similar grade generating lucrative margins. Australia's Regis Resources (RRL AU) produced 324koz in FY17 at an AISC of $945/oz mining an average head grade of 1.1g/t gold, repeating a similarly impressive FY16 performance – Figure 9.

Regis mined 1.1g/t gold in FY17 at an AISC of $944/oz

Figure 9 - RRL – recent production performance

		FY16	FY17	FY18	Moolart Well FY16
Ore mined	Mbcm	4.6	4.6	4.6	1.5
Waste mined	Mbcm	22.6	25.6	20.1	5.8
Stripping ratio	w:o	4.9	5.6	4.4	3.9
Ore mined	Mt	10.8	10.9	10.6	3.0
Ore milled	Mt	10.3	9.8	10	2.9
Head grade	g/t	1.03	1.11	1.19	0.9
Recovery	%	90%	93%	94%	91%
Gold production	koz	305	324	361	76
AISC	A$/oz	927	944	901	934

Source: Regis Resources

A closer look at Regis' Moolart Well Operations

Regis' Duketon production comes from several mines processed through three processing plants, having a cumulative processing capacity of around 10mtpa. In Figure 9, we separate the Moolart Well's FY16 performance to illustrate that, despite the low grade and low throughput, Regis was still capable of achieving AISC's averaging $934/oz over FY16 for a relatively low mill throughput operation of 3mtpa.

We view the Regis comparison as instructive because we think the high-level production metrics at Regis operations - specifically, tonnage, strip ratio and recovery - are broadly what may ultimately be achieved at KSN's Misima operation.

Digging into Regis' costs

Firstly, we believe that Regis is one of the better managed and operating gold mining companies on the ASX, continually meeting or exceeding targets, and replacing depletion with additional Reserves and Resources.

If we assume the same unit mining (for both ore and overburden) and milling costs in FY17 and FY16, we can back calculate milling and mining unit costs by taking into consideration total operating cash costs at the operations, and the difference in strip ratios in both FY16 and FY17. Using these assumptions and logic, we estimate the average unit milling costs at Regis and unit mining costs are around $7.00/t and $2.40/t respectively over FY16 and FY17.

Regis' low operating costs prompted us to look further at the technical aspects of the project that could be assisting in driving the low unit costs. The Moolart Well gold deposit is a large oxide/laterite deposit. The ore is relatively soft, which would be one factor leading to its low operating costs.

Moolart Well metallurgy has low Bond Work Indexes and relatively high grind sizes which assist in lowering milling costs. Similarly, Misima has similarly favourable technical characteristics, which should assist in achieving similarly low costs in our view.

Misima ore has relatively low energy consumption - key for operating costs

Figure 10 – Technical aspects of Regis' Moolart Well vs Misima

Technical / Commercial comparison	Moolart Well Ops.	Misima
Power source	Diesel	Diesel
Ore / Waste material	Kaolinite / Shales	Carbonitite
Optimum grind size (microns)	150	100 - 450
Bond Work Index - Oxide	7	7
Bond Work Index - laterite / fresh ore	17	11
Lime consumption - oxide	4 - 5	4 - 4.5
Lime consumption - laterite / sulphide	9 - 10	

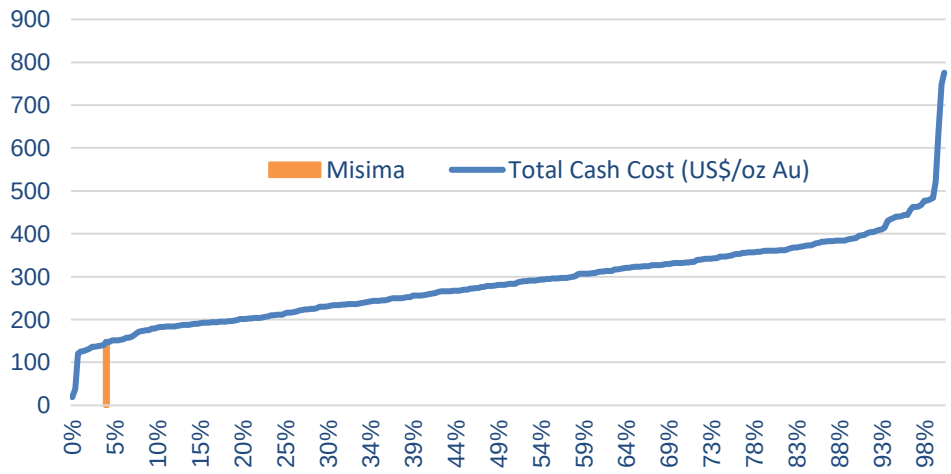
Source: Various company reports, Technical studies

Back in the day, Misima was around the 5th percentile

Perhaps the clearest evidence of Misima's competitiveness is where it sat historically on the cash cost curve. Figure 11 is a 1995 global cash cost curve showing Misima at around US$150/oz. That compares to the 50th percentile of around US$300/oz. The average grade mined at Misima in 1995 was 1.97/gt gold.

Misima was around the 5th percentile in global cash costs in 1995

Figure 11 – Global gold total cash cost curve – US$/oz



Source: Wood Mackenzie

The Tonnage-grade curve provides options

While the overall Resource grade is currently 1.1g/t for 2.8Moz, it is more a factor of economics driven by cut-off grade assumptions. The cut-off grade for the 2.8moz is 0.5g/t gold. However, at higher cut-off grades, the Resource is still material. The grade tonnage table for the current JORC Resource is shown in Figure 12.

Grade tonnage curves indicate optionality to maximise returns

Figure 12 – Misima JORC Resource – Tonnage-grade table

Cut-Off (g/t Au)	Tonnes	Au grade	Contained Gold
g/t Au	Mt	g/t	Moz
0.5	82.3	1.1	2.8
0.6	62.8	1.2	2.5
0.7	49.5	1.4	2.2
0.8	39.9	1.5	2
0.9	32.8	1.7	1.8

Source: Company Resource announcement – November 2017

The tonnage-grade table illustrates there is clear scope to process higher grade ore in the early years and stockpile lower grade ore for processing at the end of the mine life. The trade-off is sometimes higher up-front strip ratios and increased working capital commitments. However, this high grading was pursued when the mine was originally operating, and we suspect it will be a value accretive opportunity when the time arises to optimise the mining schedule in future economic studies.

The wealth of historical operating data and technical analysis performed on Misima as part of the previous operation is a major benefit for KSN in our

view. This should assist in expediting and increasing the confidence of future economic studies.

What could capital costs look like?

Given the nature of the deposit lends itself to high volume mining, we expect the capital costs will be material. Figure 13 is a selection of recent large-scale open cut gold projects where a PFS or FS has been completed, showing the mill throughput and initial capital expenditure requirements. As expected, the capital intensity (as measured by capex divided by mill throughput per annum) decreases when throughput is higher. However, this can be more than offset by lower grades in some cases.

$60/t capex intensity equates to $420m at 7mtpa throughput

Figure 13 – Capex intensity selected gold projects

Project	Location	Mill throughput mtpa	Capex $m	Capex intensity $/t mill throughput
Woodlark	PNG	2.40	199	83
Awak Mas	Indonesia	2.50	194	78
Dalgaranga	WA	2.50	86	34
Karlawinda	WA	3.00	132	44
McPhillamy's	NSW	7.00	215	31
Gruyere	WA	7.50	532	71
Namindi	Ghana	9.50	552	58
Average				**57**

Source: Various company reports, Technical studies

At the upper end of the capex intensity is the PNG Woodlark project now under the control of GeoPacific Resources (GPR AU). The original DFS was completed in 2012 in a higher gold price environment and reported a capex of US$160m. In 2017 Geopacific took control of the project and reported an updated DFS in November 2018 with updated capex of $199m and throughput of 2.4mtpa, giving a resulting capex intensity of $83/t annual throughput.

At the lower end of the capex intensity chart is Regis Resources McPhillamy's project located in central NSW. That includes a water pipeline at an estimated $38m. At a proposed throughput of 7mtpa, the PFS capex estimate of $215m results in a capex intensity of $31/t annual mill throughput. By way of comparison, Gold Road's Gruyere project has an estimated DFS level capex of $532m or $71/t annual throughput based on a 7.5mtpa plant.

By looking at comparable projects and taking a subjective view on the differences, we expect the capital intensity for a gold mine in Misima to be in the range of A$40-60/t annual throughput, which if we assumed a similar throughput rate to McPhillamy's and Gruyere, or 7mtpa would be around $280-$420m. If Misima was to commence mining and milling at a rate of 4-5mtpa, capex could be significantly less.

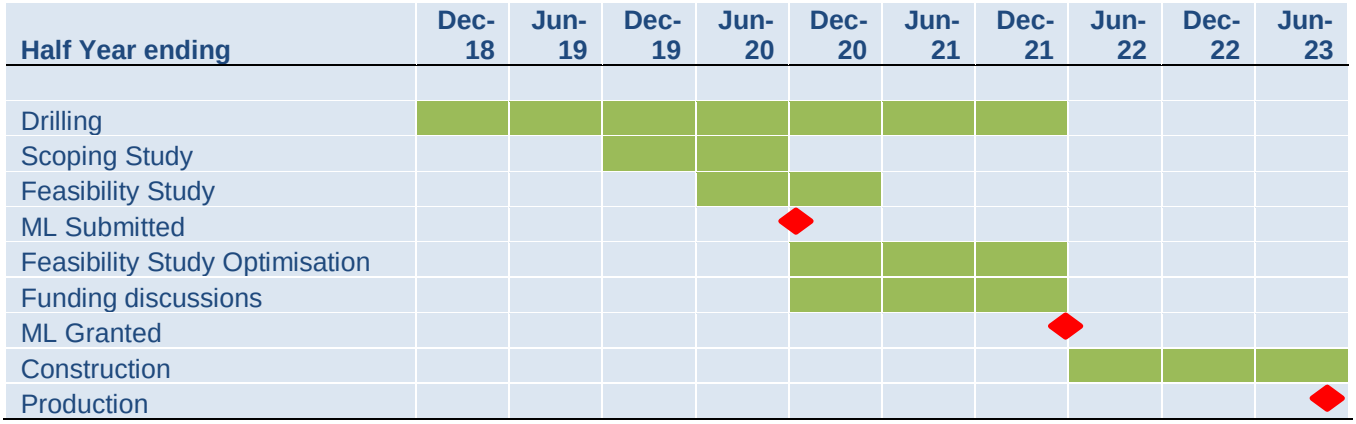
Timetable and permitting process

Under the current PNG Mining Act, the State has the option to acquire a participating interest of up to 30% by payment of sunk costs and then contributing to construction capital costs on a pro-rata basis to the project.

PNG has a tried and tested permitting process

The decision by the State to elect to take up equity is made post the company being issued a Mining Lease (ML). A Mining Lease Application (MLA) is usually submitted in conjunction with a detailed Feasibility Study and Development Proposal. In the case of Kula Gold's Woodlark Island, the MLA was submitted on 30 October 2012 and the ML was granted on 29 July 2014, 21 months post submitting the MLA. The time between application and award of the ML for Woodlark was considered lengthy, therefore, we consider our 18-month period as a reasonable assumption.

Figure 14 – Indicative timetable of events



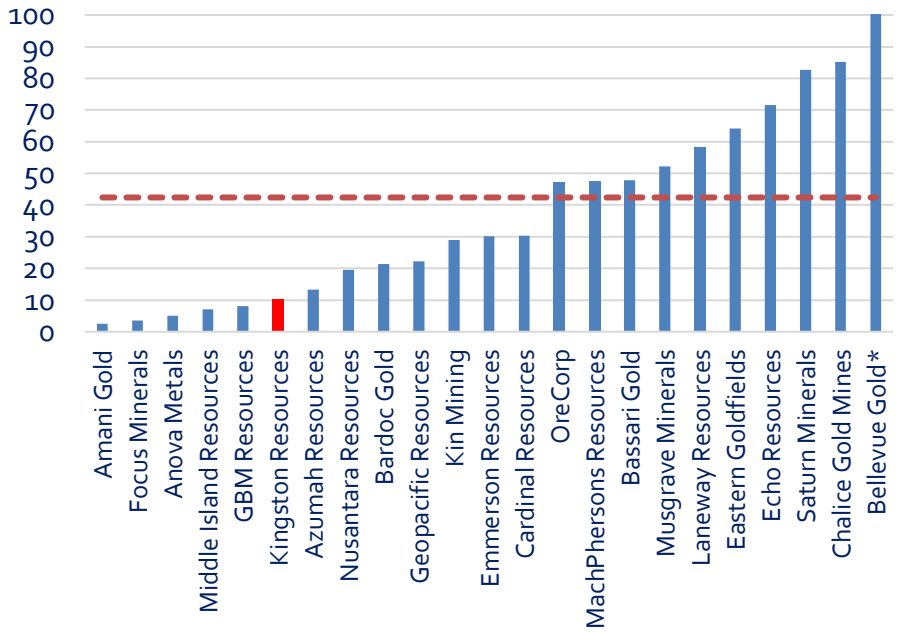
Source: Acova. estimate

Peer Comparisons

Figure 15 illustrates our estimate of where KSN sits on the EV/oz Resource table of ASX listed gold explorers and developers. Kingston is currently trading in the lower range of the broad group at ~$10/oz Resources, relative to an average of around $43/oz.

Kingston is trading on a very low EV/oz Resource vs peers.

Figure 15 – EV/oz Resources – ASX listed explorers



Source: Acova, Company announcements

Given the size of Misima Resource relative to its peers, we think the value proposition is even more compelling taking into consideration it is almost entirely based on the Misima Resource. Figure 15 is worth expanding on as the simple EV/oz metrics are crude by nature and don't consider a myriad of factors. Firstly, the vast majority of our KSN EV/oz estimate is derived from its 70% interest in Misima, which equates to 70% of 2.8moz, or 2.0moz, and only 38koz from its Livingstone asset in WA.

Conversely, all the ASX listed stocks that have lower EV/oz valuations, are based on more than one project. Amani's 2,370koz gold Resources is based on two projects in the north-east corner of the DRC. Focus Minerals Resources are based on two WA projects and at least ten different pits and separate resources. Middle Island Resources is focused on its WA based Sandstone project which contains 537koz at an average grade of 1.4g/t gold. However, 391koz of the 537koz is located at an RL below 380m at an average grade of 1.35g/t. GBM Resources is focused on its Mt Coolon and Twin Hills gold project, which contain a combined 963koz gold Resources, but are approximately 80km apart.

The benefits of hindsight in Misima's favour

Much was learnt the last time Misima was mined

Technical risk must be considered much lower than a conventional greenfield gold development given the depth and quantity of knowledge that already exists regarding the current Resource, and the mineability and processing characteristics of the ore. Originally, when the mine was commissioned there were a number of technical hiccups in the processing circuit that were overcome with relative ease. KSN however already has the benefit of this knowledge when designing all aspects of the mine. For these reasons we view downside technical risk as minimal relative to other pre-development peers in greenfield locations

How big is it?

To further emphasize the size of the Misima resource we have listed the top 25 gold deposits in Australia and PNG based on the latest company reports on contained in Resources – Figure 16. We estimate Misima fits in at number 22.

One thing that sticks out to us in Figure 16 is that all the major resources are owned by larger companies. The next 'smallest' market cap company in Figure 16 is Westgold Resources (WGX AU) at $465m (25/2/19), compared to KSN at $23m (at 1.9cps).

Figure 16 - Australia and PNG's 25 largest gold deposits (as of last Resource statements)

No.	Location (other than Australia)	Mine	Owner	Resources		
				Ore mt	Grade g/t	Contained Au Moz
1	PNG	Lihir	Newcrest	690	2.3	50
2		Cadia/Ridgeway	Newcrest	3,170	0.37	38
3	PNG	Wafi-Golpu	Newcrest	1,000	0.83	26
4		Golden Mile	Newmont / Barrick	231	1.23	9.1
5		Tropicana	Anglogold / IGO	141	1.7	7.7
6		Granny Smith	Gold Fields	39	5.7	7.1
7	PNG	Porgera	Barrick / Zijin	4	4.40	6.8
8		Telfer	Newcrest	0	0.9	6.5
9		Lake Cowal	Evolution	200	0.95	6.1
10		Sunrise Dam	Anglogold / Ashanti	96	1.93	5.9
11		Gruyere	Goldfields/Gold Road	144	1.27	5.9
12		Duketon	Regis	186	0.93	5.6
13		Carosue Dam	Saracen	80	1.9	5.0
14		Boddington	Newmont	281	0.54	4.9
15		Gwalia	St Barbara	23	6.5	4.8
16		Tanami	Newmont	33	4.08	4.3
17		Jundee	Northern Star	38	3.55	4.3
18	PNG	Hidden Valley	Harmony Gold	89	1.43	4.1
19		St Ives	Gold Fields	34	3.47	3.8
20		Thunderbox	Saracen	66	1.7	3.6
21		Mt Morgans	Dacian	55	2	3.5
22	PNG	Misima	Kingston Resources	82	1.1	2.8
23		Mungari	Evolution	51	1.59	2.6
24		Big Bell	Westgold	24	2.75	2.1
25		Agnew	Goldfields	12	5.25	1.9

Source: Various company reports, acova

We believe Misima has the pedigree to attract corporate interest

Is Kingston a corporate play?

With merger and acquisition activity in the global gold space increasing in recent months at the bigger end of town, we'd be surprised if a few larger gold companies with net cash balance sheets are not running the ruler over KSN. Figure 15 and 16 clearly illustrates the appeal with a larger company being able to add considerable ounces to their stable at a very low cost, with clear scope to develop a project in the medium term. In our view, a clear line of sight on future production ounces can assist with rerating's for mining companies.

Livingstone in WA keeps getting better

The Livingstone Gold Project is an advanced exploration project with an existing JORC2004 Inferred mineral resource of 49,900 ounces and several high-grade drilling intersections that indicate excellent potential for additional discoveries. KSN exercised its option to purchase a 75% interest in the Project for $300,000 in equity in November 2017. Located 140km northwest of Meekatharra in the Peak Hill mineral field of Western Australia, Livingstone covers 204km^2 of the western Bryah Basin, including;

- A JORC 2004 Inferred gold resource of 49,900oz
- Numerous high-grade intersections including:
  - 18m @ 7.85g/t Au from 68m
  - 5m @ 20.5g/t Au from 3m
  - 14m @ 3.49g/t Au from 2m

Exploration success at Livingstone in 2018

KSN's Livingstone gold project in WA keeps turning up drill results too good to ignore. Kingston announced on 11 October 2018 shallow intersections from Kingsley prospect including:

- 20m @ 2.94g/t Au from 4m in KLAC159
- 8m @ 3.03g/t Au from 12m in KLAC174

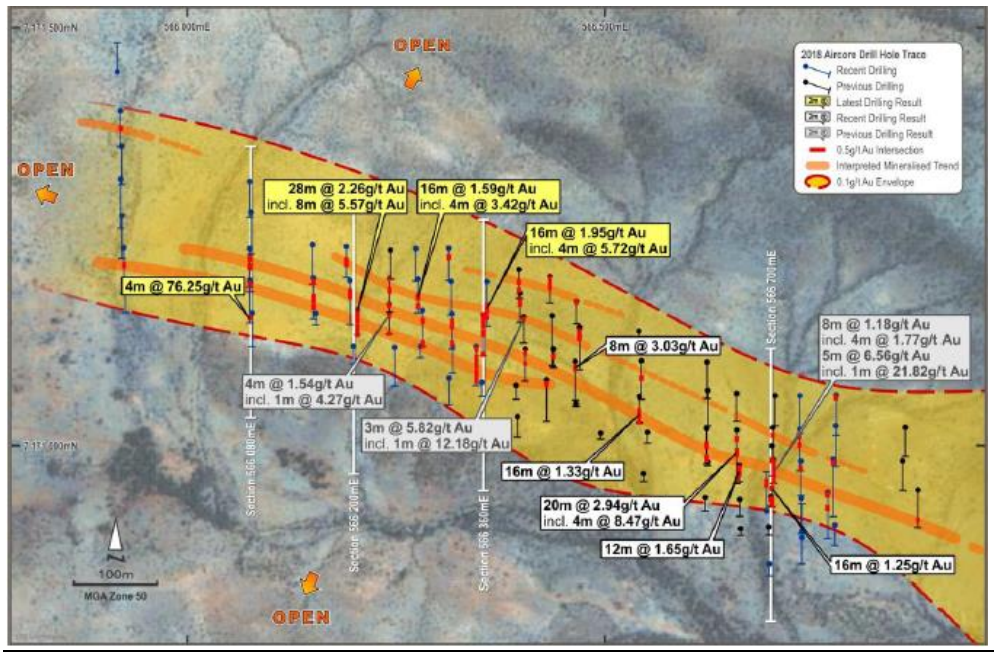
This was quickly followed up with further success announced to the market on 5 November 2018. These included:

- 4m @ 76.25g/t gold from 88m
- 28m @ 2.26g/t from surface
- 16 @ 1.95g/t from 56m

Given the success of 2018 exploration, KSN has kicked off an extensive RC drill program at Kingsley in 2019. We look forward to further positive news from this prospect.

Livingstone's Kingsley prospect reported 28m at 2.26g/t from surface

Figure 17 – Livingstone's Kingsley prospect



Source: Company

Spec Buy, target price $0.084ps

Given the preliminary nature of the project, we have derived our target price by applying $50/oz Resource in the ground attributable to KSN. KSN's 70% share of the 2.8Moz Misima Resource is 1.96moz and its 75% share of Livingstone's 50koz (JORC 2004) is 37.5koz. Hence, total attributable ounces to KSN are currently ~2moz. A valuation of $50/oz, results in an EV of ~$100m and a market cap of $103m using the $3m cash position at 31 December 2018. This equates to approximately $0.084ps based on 1,223m shares on issue.

Valuation discussion

Applying $50/oz Resource places KSN around 16% above the average of the ASX listed peers shown in Figure 15 of $43/oz. The valuation is largely subjective and there are reasons why different juniors trade above and below the average. In our minds we apply a discount due to perceived sovereign risk in PNG compared to Australia. Conversely, we think KSN deserves a large premium to many peers, given the size and pedigree of the Resource relative to its peers. On balance, we believe Misima should trade at a premium to the peer group average. This contrasts to the current large discount.

There's ~380% upside if KSN rerates towards its peer group average

If KSN traded at the average of its peers at $43/oz, this would equate to a share price of $0.073ps, still a considerable 380% premium to the current share price.

Stock catalysts

We expect drill results in 2019 at both Misima and Livingstone will be the primary catalysts over the next 6-12 months, giving investors' confidence the Resources will continue to increase in quantity and quality. Slightly higher grade near surface results at Misima's prospects outside the old open pit is the specific focus at Misima in 2019. We expect positive results from these prospects will in turn lead to preliminary economic studies commencing in the next 12 months.

Risks

Technical risk must be considered much lower than a conventional greenfield gold development given the depth and quantity of knowledge that already exists regarding the current Resource, and the mineability and processing characteristics of the ore. Originally, when the mine was commissioned there were several technical hiccups in the processing circuit that were overcome with relative ease. Kingston however already has the benefit of this knowledge when designing all aspects of the mine. For these reasons we view downside technical risk as minimal relative to other pre-development peers in greenfield locations.

General risks

Resource risk. Given KSN's projects are exploration there is no guarantee that a viable economic project will be delineated and hence the company remains exposed to resource risk.

Funding and capital management risk. Kingston remains unfunded to finance the development of a mining project and therefore remains subject to funding risk.

Construction and development risk. Construction and development of mining assets are generally subject to approvals timelines, receipt of permits, weather variability, access to skilled labour and technical personnel, as well as key material inputs and mechanical components which may cause delays to construction, commissioning and commercial production.

Operational and capital cost risk. Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.

Commodity price and exchange rate risk. Miners are price takers and the earnings and cashflows of mining companies remain exposed to changes in underlying commodity prices and exchange rates.

Sovereign and regulatory risk. We consider PNG higher risk than Australia with regard to regulations and timing of projects. Renewal of EL1747 and the issuance of a Mining Licence within a reasonable timeframe, or at all, are clear downside risks.

Board and Management

Mr Anthony Wehby - Non-Executive Chairman

Mr Wehby was a founding director and subsequently Chairman of Aurelia Metals Ltd, an ASX listing 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. Since 2001, Mr Wehby has also maintained a corporate finance consulting practice. Prior to 2001 Mr Wehby was a partner in PricewaterhouseCoopers for 19 years where he managed the corporate finance operation of the Australian business.

Mr 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, a MBA from Newcastle University and a First Class Mine Managers Certificate.

Mr Andrew Paterson - Executive Director

Andrew is a highly experienced geologist with a diverse career incorporating operations, exploration and corporate roles in the gold, nickel sulphide and iron ore industries. Andrew ran the Geology function for Atlas Iron Limited from 2008 until late 2012. He has managed mining and exploration teams for local and international mining companies in the Yilgarn and Murchison goldfields of Western Australia. Since 2014 he has been running a successful geological consultancy. Andrew has a Bachelor of Engineering degree in Geology and a Graduate Diploma in Mining, both from the Western Australian School of Mines, and 22 years industry experience.

Mr 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 graduate member of the Australian Institute of Geoscientists and the Australian Institute of Company Directors. For over ten years Mr Rechner was an Australian diplomat responsible for the resources sector with postings to Beijing and Jakarta.

Mr. Mick Wilkes - Non-Executive Director

Mick is a mining engineer with 35 years of broad international experience, predominantly in precious and base metals across Asia and Australia. Currently, President and CEO of OceanaGold Corporation. In previous roles he was the 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, a MBA from Deakin University, and is a member of both the Australian Institute of Mining and Metallurgy, and the AICD.

Information Disclosure

Each research analyst of this material certifies that the views expressed in this research material accurately reflect the analyst's personal views about the subject securities and listed corporations. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this material to any of the analyst(s).

Specific Disclosure

At the date of this report, the analyst owns shares in Kingston Resources.

General Disclosure and Disclaimer

This research has been prepared by Acova Capital Pty Ltd. (ABN 74 626 676 060) ("ACPL") for the use of the clients of ACPL and other related bodies corporate (the "Acova Capital Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient, you must not use or disclose the information in this report in any way. ACPL is a holder of an Australian Financial Services License No. 509631.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act 2001 (Cth). This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ACPL has made reasonable efforts to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Acova Capital Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Acova Capital Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Acova Capital Group and/or its associates, including ACPL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may affect transactions which are not consistent with the recommendations (if any) in this research. The Acova Capital Group and/or its associates, including ACPL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ACPL's overall revenues.

Copyright