

# HIGH GRADE

DRILLING DEEPER FOR THE NEWS

9th December 2008

## KINGSGATE TRANSITION IS NEARLY COMPLETE

Kingsgate Consolidated has been in a transition stage for the last 2 years due to prolonged permitting issues at their Chatree North gold deposit, a situation not helped by ongoing political unrest in Thailand. The company recently announced the completion of permitting with the granting of all remaining licenses. This paves the way for a production ramp up as ore is now sourced from the newly developed C North pit. Target production for fiscal 2009 remains 100,000 – 140,000 oz. Target cash costs are US\$350/oz which assumes an oil price of US\$100 a barrel, significantly higher than present prices. This compares favorably to the 74,000 oz produced in 2007/08 at US\$457/oz. Kingsgate's CEO Gavin Thomas attributes this increase in production to the higher grades of ore to be sourced from the C North pit, increasing the average to just over 2g/t from just 1.1g/t in 2007/08. These higher grades are expected to tail off later in 2009 which is consistent with the average grade of the overall Chatree North reserve base at just 1.2g/t. Despite this, the company is confident further exploration success will help maintain a higher average head grade over the life of the mine. Kingsgate continues to enjoy the benefits of excellent infrastructure with grid power costing just US\$0.06 - \$0.07/kwh, comparing favorably to the \$0.25 - \$0.40/kwh paid by Australian companies. This has significantly contributed to keeping cash costs down (US\$457 – 2007/08) despite the processing of lower grades over the last 2 years. A cash cost of US\$350 will return Kingsgate to the lowest quartile of cash costs for producing gold mining companies.

Other recent news from Kingsgate has been the major new discovery named Chokdee, located approximately 20km north of the Chatree gold mine in the central Thai gold belt. "This discovery has the potential for a new Chatree-size gold system or even larger" were the comments of Thomas who went on to say "Ore-grade results over wide intercepts in this early drilling stage supports the company's long-held view of a significant new gold belt in central Thailand." The best results thus far include 66m @ 2.1g/t from 29m. 36.5m @ 2.9 g/t Au from 50m, 3.2m @ 21.5g/t Au from 75m and 29m @ 2.0g/t Au from just 18m.

Despite a series of positive announcements, Kingsgate's share price continues to be lack luster, closing at just \$2.62 yesterday. With the protests in Thailand finally coming to a head in recent weeks and the standing down of Prime Minister Somchai, this may be a contributing factor to the market's uneasiness. Thomas in a recent Board Room Australia interview was quick to talk down the significance of the events. "We have operated in Thailand for many years with many different governments and it has never impacted our operations." He remained confident that the present situation would be no different.

Another factor possibly contributing to investor confusion is the complex ownership structure of the Chatree project, which has been 52% owned by Thai entity Empire Asia Co Ltd since November 2006. Under the current structure, Thai interests have been issued preference shares in holding company Akara Mining Limited paying a coupon rate of 12%. This represents an annual cost to Kingsgate of less than \$500,000. Under this arrangement, Kingsgate retains 100% of the ordinary shares in Akara and has an effective 100% economic interest, while at the same time satisfying Thai ownership requirements which state more than half the total shares on issue must be Thai owned. This structure remains in place until the company decides to launch an IPO on the Thai Stock

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Exchange. Thomas, at the recent AGM, stressed the timing of this launch was completely at Kingsgate's discretion and given the present market conditions a delay would be prudent.

It appears Kingsgate is finally starting to get some momentum operationally, as it prepares to begin a new chapter in its life as a successful producer in Thailand. There is little doubt delays in attaining permitting for Chatree North has played a significant part in disappointing shareholders. The September 08 quarter saw the company produce just 4,200 oz at a cash cost of US\$1,499/oz. This coupled with the instability in Thailand has played a big part in the share price recently languishing around levels not last seen since April 2005. That being said, 2009 promises to be a much better year for Kingsgate as it gets things back on track after what has been a frustrating 2 years for both the company and its shareholders.

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