



Kingsgate

Consolidated Limited

**Chairman's Address
2013 Annual General Meeting**

The Company was unable to release the Chairman's Address through the Australian Securities Exchange (ASX).

We apologise for any inconvenience.

Yours faithfully,
KINGSGATE CONSOLIDATED LIMITED

Ross Coyle

Chairman's Address

It is not long ago that gold companies, and especially your Company, was flavour of the month. We were one of the best performing stocks on the market some years ago.

We, meaning the Board, management and shareholders, must acknowledge that the current investment climate for companies like ours is unlikely to change a great deal in the near future without a strengthening of the price of gold. We are doing all we can to minimise risk and operate as efficiently and productively as possible. We are currently rearranging our finances and hope to be able to announce more on that soon.

I don't think I'm doing anything more than stating the obvious when I say the past year has been the most difficult in recent memory, made exceedingly more so by the large fall in the price of gold in April 2013.

Immediately this catastrophic event occurred your Board took decisive action to further cut costs at our two operating mines, to limit expenditure at our two development projects, to limit all overheads and to strategically plan for a lower revenue environment.

Chatree has continued to perform well throughout the year. It recorded record production after the successful completion of the new plant in the previous year, aided in the latter part of the year by a new high grade part of the Q deposit discovered during the year. Further small high grade deposits have been delineated on the mining leases recently and exploration is continuing to define even more.

At Challenger, after reviewing all potential courses of action, we immediately took the decision to cut all development expenditure at Challenger Deeps below the fault and to concentrate on the smaller but much higher grade Challenger West deposit. Whilst I have sympathy for those in the Company who backed the geological theories advocating the repeat of the M1 and M2 deposits below the fault, the amount of capital being deployed could not be justified. Subsequently a one-off impairment charge of \$311.9 million was made, which was the major contributor to the loss reported of \$323.7 million for the year.

The mining contractor was changed and this, coupled with a reduction in numbers and other changes, has resulted already in a 30% reduction in operating expenses at the mine. After the initial transitional period, it is believed that with 50,000 ounces of the year's production hedged at higher gold prices, Challenger should again contribute to cash flow and profits this year.

At Nueva Esperanza we are completing a final feasibility study which we hope to complete in the March quarter based on a revised 3 million tonne per annum heap leach operation. Annualised production levels are estimated at 6 to 8 million ounces per annum of silver and 18,000 to 22,000 ounces of gold. Whilst it is too early to be definitive, indications suggest that there is a strong likelihood that it will be bankable at current silver and gold prices.

At Bowdens sterilisation drilling and monitoring of dust, water, wind and noise continues as required for the completion of the environmental impact statement ahead of the finalisation of the definitive feasibility study. We will continue to report on this as it progresses.

What has been most disappointing over the past couple of years has been the treatment of your Company by the stock market. Whilst your Board takes full responsibility for the decisions and mistakes made in the past, much of what has happened has not been of our own making.

The decision to diversify from our original Thai asset was made many years ago (for reasons well known to all of you) with the intention of the proceeds of the subsequent IPO being used to finance new projects. You will remember we were thwarted in that endeavour by our then preference shareholder. This took considerable time to resolve, but

an opportunity was lost. We only now have the IPO ready to proceed when conditions allow.

Our first two forays into diversification, Andean and Gold Star, were unsuccessful but resulted in a \$50 million profit on divestment. The decision to take over Dominion Mining was taken after exhaustive due diligence. Most in the Company now wish it had not gone ahead. However, the old truism remains – “anyone who hasn’t made a mistake has never done anything”.

In contrast the Nueva Esperanza and Bowdens projects are both world class projects that will contribute significantly to the fortunes of the company in coming years.

The fact that we have been treated by the market about the same as many of our peers is of little solace. For long periods of time we have been the most shorted mining stock on the board for little reason other than they have found that they can.

Neither have the analysts helped. I think I can comment on analysts because I started my career in the investment business as an analyst (albeit in industrial shares). One particular one really rankles. We recently released an update on Nueva Esperanza as part of our continuous disclosure obligations. While we pointed out it was still not the definitive feasibility study a reading of the information released gives an indication of the extent of the work done. We estimate in the report an indicative capital cost of \$130 - \$150 million (including a 25% contingency) – in other words our expectations are that it is likely to be closer to \$100 million than \$150 million. The analyst, with clearly much better information than us, puts it at \$170 million. However, with the extensive information given he was able to put a value of \$270 million (or \$1.77 per share) on the project, but doesn’t include it in his valuation of the Company because of, he says, risks around timing, execution and funding. In other words, apparently it doesn’t matter what assets you have, they are all worth nothing. This kind of drivel benefits nobody but short sellers.

It is indeed disconcerting and disappointing that having set out to create an Australian based international precious metals mining company that was differentiated from those that had gone before with a tight capital base, a history of strong dividend payments and at all times focused on creating value and maximising shareholder return that we should be treated with such disdain.

The combined influences of derivatives trading, hedge fund activity, high frequency trading and unlimited (and uncontrolled) short selling has had an unnatural and detrimental effect on markets in recent years. The virtual whitewash of high frequency trading by an ASIC study earlier this year caused many an old hand in the market to shake their heads in amazement.

By its very nature high frequency trading is manipulative because it creates a false market.

Share market investment should not be about who has the fastest computer or who has the smartest, latest algorithm. Those who don’t see high frequency trading and its associate, manipulative short selling, as a threat to the integrity of the market and to our capitalist system are ignoring the lessons of history.

So what do we have? We have in Chatree a mature but excellent producer that will go on producing for many years to come and if the worst predictions of the doomsayers come to fruition will be one of the last gold mines in the world still standing.

With the extensive cost cutting and changes we have engineered at Challenger it should produce for the next 2 - 3 years, concentrating on Challenger West, at an acceptable level.

Plus we have two world class projects, in regard to one of which, Nueva Esperanza, appears to be financeable and we will know in only a few months whether it will get the final tick to go ahead despite the current gold and silver prices. The other, Bowdens, which

is the largest undeveloped silver deposit in the southern hemisphere, is a great asset that we will continue to progress through the various regulatory processes. Whilst we are in virtual unknown territory at the moment no one can actually tell how long that will take.

We have progressed the potential IPO of our Thai operating assets to the point where virtually all regulatory hurdles have been traversed and a prospectus registered, thus leaving it at a point that we can press the button to go ahead at almost a moment's notice. It will still only happen under a better gold price, a favourable investment climate and for a valuation that we consider to represent fair value to you, the shareholder.

Finally I would like to thank the Board, management and all employees for their concerted efforts in such difficult times and we can only hope that conditions improve in the near future. I can't tell where the gold price is likely to go but when asked I can only comment that I'm sure most of the predictions on the downside will be just as inaccurate as most were on the upside.

Ross Smyth-Kirk
Chairman
Kingsgate Consolidated Limited