

## ASX's Largest Undeveloped Gold Project Reserves – 30% Upside Potential

Kingston Resources (KSN) provides an early-stage investment opportunity that captures the benefit of what is effectively a 'brownfield' gold project in PNG. The 1.35moz reserve at the Misima Gold Project (MGP) is the ASX's largest undeveloped reserve.<sup>1</sup> The recent resource upgrade has led to a potential further 30% reserve increase to 1.8moz. A definitive feasibility study (DFS) is due for March 2022 completion, setting up a long-life, low-cost operation.

### Resource Upgrade – Quality and Quantity

KSN's recent programme of resource infill and extensional drilling has led to an increase in resource ounces from 3.6moz to 3.8moz. More importantly, the resource quality has significantly increased with a rise in the indicated resource of 39% from 1.8moz to 2.5moz of gold. The project resource also includes 22.1moz of silver, providing a valuable by-product.

### Potential Reserve Increase – Life and Ounces

The increase in indicated resource sets KSN up to increase the project's reserves. Such an increase is key to extension of mine life and/or higher annual production ounces and enhanced economics. Using the previous conversion of resources to reserves at MGP of 71% would have the potential to increase reserves from 1.35moz to 1.8moz. Current reserves support a 10-year life at 130koz pa; the potential reserve of 1.8moz could support over 13 years at the current targeted rate of production.

### DFS and Approvals Submission in March 2022

The DFS, due in March 2022, is expected to set the project up with increased reserves and enhanced economics and be used to support project funding. Permitting, environmental and community processes are on track to complete the Environmental and Social Impact Assessment (ESIA) and Mining Licence applications which will be submitted post completion of the DFS.

### More Exploration Upside

MGP has substantial exploration potential, with outstanding options including 4km of untested strike at Misima North. Exploration focus is on high-grade shallow exploration targets at Umuna East, Kobel/Maika and Abi, which may further enhance early years' cash flow from the project.

### Comparing KSN to Geopacific Resources – Its Nearest Peer – Rating Potential

We compare KSN to Geopacific Resources (GPR). GPR (located in PNG, with a DFS, fully funded, production expected end-CY2022) trades on far higher multiples than KSN, showing KSN's potential to re-rate as it hits further milestones.

### Valuation – Remains at \$A0.52 - Strong Upside on a Number of Measures

Our risk-adjusted NPV for KSN is \$A0.52/ share, fully diluted. The key advantages of existing infrastructure and historical operating knowledge significantly offset the key risks of delays to the DFS, to approvals and to funding.

<sup>1</sup> On completion of Nusantara takeover due early October 2021. Undeveloped reserves for NUS are 1.45moz.



Kingston Resources Ltd is an emerging Australian mining company with a 100% interest in the Misima Gold Project (MGP) in Papua New Guinea. A PFS has been completed with an estimated A\$283m capital cost to support a 17-year 130koz pa project within a 3.8moz resource. KSN also has a 75% interest in the Livingstone Gold Project in WA.

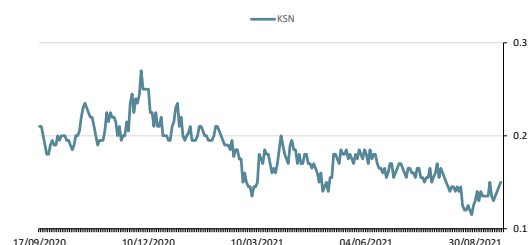
<https://kingstonresources.com.au/>

Stock	ASX: KSN
Price	A\$0.20
Market cap	A\$57m
Valuation (per share)	A\$0.52

#### Next steps

Definitive feasibility study	Reserve upgrade
Environmental & social assessments on Misima Island	Submission of an EIS

#### KSN share price (A\$) – 1 Year



Source: FactSet.

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## Exhibit 1 – Kingston Resources company summary – Year End June 30

17/09/2021

Price	A\$	0.20
52 week high / low	A\$	0.325 - 0.070
Valuation (diluted)	A\$	0.52
Market Capitalisation	A\$m	57
Enterprise Value	A\$m	46
Shares on issue (basic)	m	286.2
Options / Performance shares	m	11.1
Other equity	m	0.0
Potential Diluted Shares On Issue	m	297.2

INVESTMENT FUNDAMENTALS	\$AUD	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Reported NPAT	\$m	(2.2)	(0.8)	(2.0)	(2.5)	(2.6)	(2.7)	3.6	26.9
Underlying NPAT	\$m	(2.2)	(0.8)	(2.0)	(2.5)	(2.6)	(2.7)	3.6	26.9
EPS Reported (undiluted)	¢	(0.8)	(0.3)	(0.7)	(0.9)	(0.9)	(1.0)	1.3	9.4
EPS Underlying (undiluted)	¢	(0.8)	(0.3)	(0.7)	(0.9)	(0.9)	(1.0)	1.3	9.4
Underlying EPS growth	%		66.4%	-160.1%	-30.0%	-3%	-4%	233%	643%
P/E Reported (undiluted)	x	n/m	n/m	n/m	n/m	n/m	n/m	15.8	2.1
P/E Underlying (undiluted)	x	n/m	n/m	n/m	n/m	n/m	n/m	15.8	2.1

Operating cash flow / share	¢	(0.5)	(0.4)	(0.5)	(0.6)	(0.6)	(0.7)	1.5	20.6
Price to operating cash flow	x	n/m	n/m	n/m	n/m	n/m	n/m	13.0	1.0

Free cash flow	\$m	(4.3)	(7.5)	(10.0)	(7.7)	(104.6)	(210.6)	4.4	58.9
Free cash flow per share	¢	(1.5)	(2.6)	(3.5)	(2.7)	(36.6)	(73.6)	1.5	20.6
Price to free cash flow	x	n/m	n/m	n/m	n/m	n/m	n/m	13.0	1.0
Free cash flow yield	%	-8%	-13%	-17%	-14%	-183%	-368%	8%	103%

Book value / share	¢	6.6	9.6	14.2	13.6	49.6	52.4	53.9	63.6
Price to book (NAV)	x	3.04	2.09	1.41	1.47	0.40	0.38	0.37	0.31

NTA / share	¢	6.6	9.6	14.2	13.6	49.6	52.4	53.9	63.6
Price to NTA	x	3.04	2.09	1.41	1.47	0.40	0.38	0.37	0.31

Year end shares	m	218	218	286	297	635	635	635	635
Market cap (Spot)	\$m	43.6	43.6	57.2	59.4	127.1	127.1	127.1	127.1

Net debt / (cash)	\$m	(5.1)	(6.5)	(11.0)	(3.2)	(3.4)	197.2	192.8	133.9
Enterprise value	\$m	38	37	46	56	124	324	320	261

EV/EBITDA	x	n/m	n/m	n/m	n/m	n/m	n/m	88.2	2.2
Net debt / Enterprise Value	x	n/m	n/m	n/m	n/m	n/m	0.6	0.6	0.5

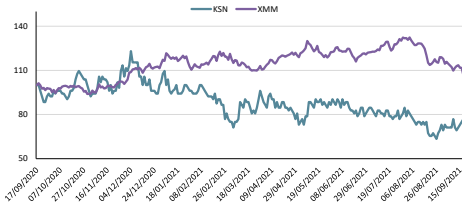
PRODUCTION AND PRICING	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Gold production (koz)							6,500	110,151
Gold US\$							1600	1600

Misima Ore Reserves					
Item	Mt	Au g/t	Ag g/t	Au koz	Ag koz
Umuna Probable	44.8	0.87	4.3	1,251	6,191
Ewatinona Probable	3.5	0.84	2.6	95	291
Misima Total	48.3	0.87	4.2	1,347	6,482

Misima Upgraded Resource					
Classification	Tonnes Mt	Gold g/t	Silver g/t	Au Moz	Ag Moz
Indicated	97.7	0.79	4.3	2.5	13.4
Inferred	71.3	0.59	3.8	1.4	8.7
Total	169	0.71	4.1	3.8	22.1

Livingstone Resources			
	Mt	Au g/t	Au koz
Livingstone Total	0.989	1.57	49.9

### 12-month Relative Performance versus S&P/ASX Metals and Mining



PROFIT AND LOSS A\$m	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Sales	-	-	-	-	-	-	14.9	251.8
Operating Expenses	(1.5)	(1.1)	(1.6)	(1.7)	(1.8)	(1.9)	(7.5)	(127.7)
Gross Profit	(1.5)	(1.1)	(1.6)	(1.7)	(1.8)	(1.9)	7.3	124.1
Other income	0.1	0.8	0.2	-	-	-	-	-
Other operating costs	(0.9)	(0.5)	(0.5)	(0.8)	(0.8)	(0.8)	(3.7)	(3.8)
EBITDA	(2.2)	(0.7)	(1.9)	(2.5)	(2.6)	(2.7)	3.6	120.3
Depreciation & amortisation	-	(0.0)	(0.0)	(0.0)	-	-	-	(31.1)
EBIT	(2.2)	(0.8)	(2.0)	(2.5)	(2.6)	(2.7)	3.6	89.2
Net interest exp	-	-	-	-	-	-	-	43.6
Pretax Profit	(2.2)	(0.8)	(2.0)	(2.5)	(2.6)	(2.7)	3.6	132.8
Tax expense	-	-	-	-	-	-	0.0	(18.6)
NPAT	(2.2)	(0.8)	(2.0)	(2.5)	(2.6)	(2.7)	3.6	26.9

BALANCE SHEET A\$m	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Cash	5.2	6.5	11.0	3.3	221.4	20.8	25.2	62.3
Trade & other receivables	0.1	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Inventory	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Current assets	5.3	7.4	12.1	4.3	222.5	21.9	26.3	63.4
PPE	0.1	0.0	0.1	0.1	102.8	311.5	311.5	280.3
Capitalised exploration expenditure	14.0	22.3	30.1	36.1	36.1	36.1	36.1	36.1
Right of use assets	-	0.1	-	-	-	-	-	-
Other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets held for sale	-	(0.0)	-	-	-	-	-	-
Non current assets	14.1	22.5	30.3	36.3	139.0	347.7	347.7	316.5
Total Assets	19.4	29.9	42.3	40.6	361.5	369.5	373.9	379.9
Trade and Payables	0.4	2.2	1.4	1.4	1.4	1.4	1.4	1.4
Lease Liabilities	-	0.1	-	-	-	-	-	-
Interest bearing liabilities	0.1	-	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Current liabilities	0.5	2.4	1.6	1.6	1.6	1.6	1.6	1.6
Interest bearing liabilities	0.1	-	0.0	0.0	218.0	218.0	218.0	196.2
Non current liabilities	0.1	-	0.0	0.0	218.0	218.0	218.0	196.2
Total Liabilities	0.6	2.4	1.6	1.6	219.6	219.6	219.6	197.8
Issued capital	74.8	83.8	98.6	98.6	203.3	213.3	213.3	213.3
Accumulated losses	(56.5)	(57.1)	(58.7)	(61.3)	(63.9)	(66.6)	(63.0)	(36.0)
Share based payment reserve	0.7	0.9	0.7	1.5	2.3	3.0	3.8	4.6
Foreign currency translation reserve	(0.1)	(0.1)	0.2	0.2	0.2	0.2	0.2	0.2
Total Equity	18.8	27.4	40.7	39.0	141.9	149.9	154.4	182.1

CASH FLOW A\$m	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Operating cash flow	(1.4)	(1.0)	(1.4)	(1.7)	(1.8)	(1.9)	4.4	58.9
Payment for exploration & evaluation	(5.0)	(6.5)	(6.9)	(6.0)	-	-	-	-
Payment for acquisition of exploration assets	-	(0.4)	(1.7)	-	(102.8)	(208.6)	-	-
Proceeds for sale of exploration assets	2.1	-	-	-	-	-	-	-
Proceeds from sale of royalty	-	0.4	-	-	-	-	-	-
Proceeds for other non-current assets	-	(0.1)	-	-	-	-	-	-
Investing cash flow	(2.9)	(6.5)	(8.6)	(6.0)	(102.8)	(208.6)	-	-
Proceeds from issue of shares and options	-	-	15.0	-	104.8	10.0	-	-
Transaction costs	(0.1)	(0.6)	(0.5)	-	-	-	-	-
Repayment of borrowings	(0.1)	(0.1)	(0.1)	-	-	-	-	(21.8)
Proceeds from Borrowings	5.3	9.5	-	-	218.0	-	-	-
Financing cash flow	5.1	8.8	14.5	-	322.7	10.0	-	(21.8)
Net change in cash	0.8	1.3	4.5	(7.7)	218.1	(200.6)	4.4	37.1
Cash at beginning of year	4.4	5.2	6.5	11.0	3.3	221.4	20.8	25.2
Effect of movement in exchange rate on cash held	0.0	0.0	(0.0)	-	-	-	-	-
Year end cash	5.2	6.5	11.0	3.3	221.4	20.8	25.2	62.3

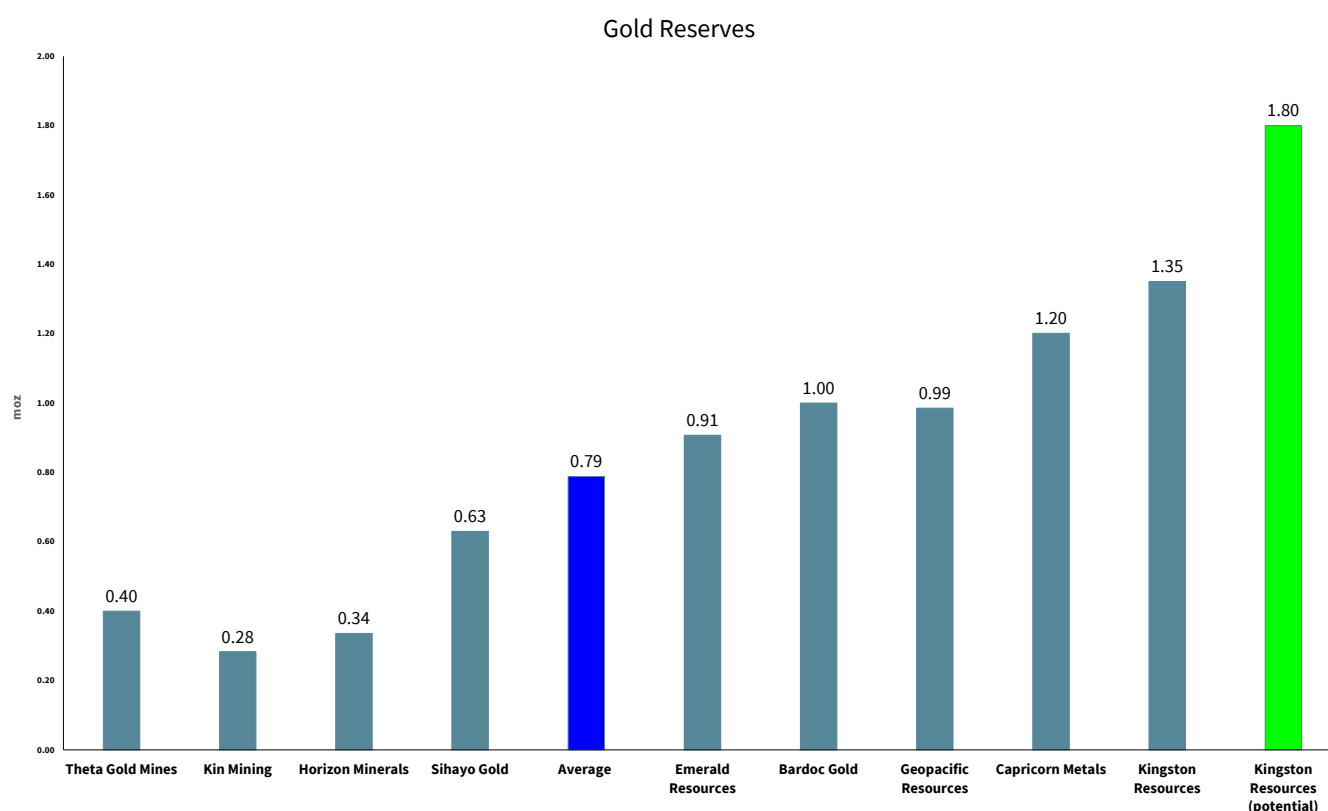
Source: KSN, MST Access.

## Misima – ASX’s Largest Undeveloped Gold Project Reserves; Strong Upside Potential

The Misima gold reserve sits at the top of the list of the ASX’s undeveloped gold projects<sup>2</sup>. The reserve of 1.35moz is around 550koz above the average of its closest peers. With the upgrade of the resource to indicated, and a previous resource-to-reserve conversion rate of 71%, there is potential for the reserve to lift to at least 1.8moz, over double the average of its closest peers.

Exhibit 2 shows KSN’s reserves against a selection of its peers.

Exhibit 2 – ASX-listed undeveloped reserves comparison



Source: Gold Nerds, MST Access estimates, company releases.

<sup>2</sup> After excluding NUS which is subject to a scheme of arrangement takeover due to be complete in October 2021. NUS reserve is 1.45moz.

## Resource Upgrade – Size Increase with Significant Quality Upgrade

### Substantial Increase in Indicated Resource Sets Up KSN for Increased Reserves

The successful in-fill and extensional drilling has delivered a substantial quality increase with a 39% increase in indicated resource from 1.8moz to 2.5moz Au. The total resource has increased to 3.8moz from 3.6moz (see Exhibit 3).

The key outcome of the increase in the indicated resource is that it can now be potentially converted to reserve. The current reserve will be updated with the DFS due March 2022. Previous conversion of resource to reserve at MGP has been 71%.

The project resource also includes 22.1moz of silver, providing a valuable by-product. Silver, which currently trades at US\$23.60/oz, will be treated as an offset to costs and will significantly contribute to the low-cost nature of the project.

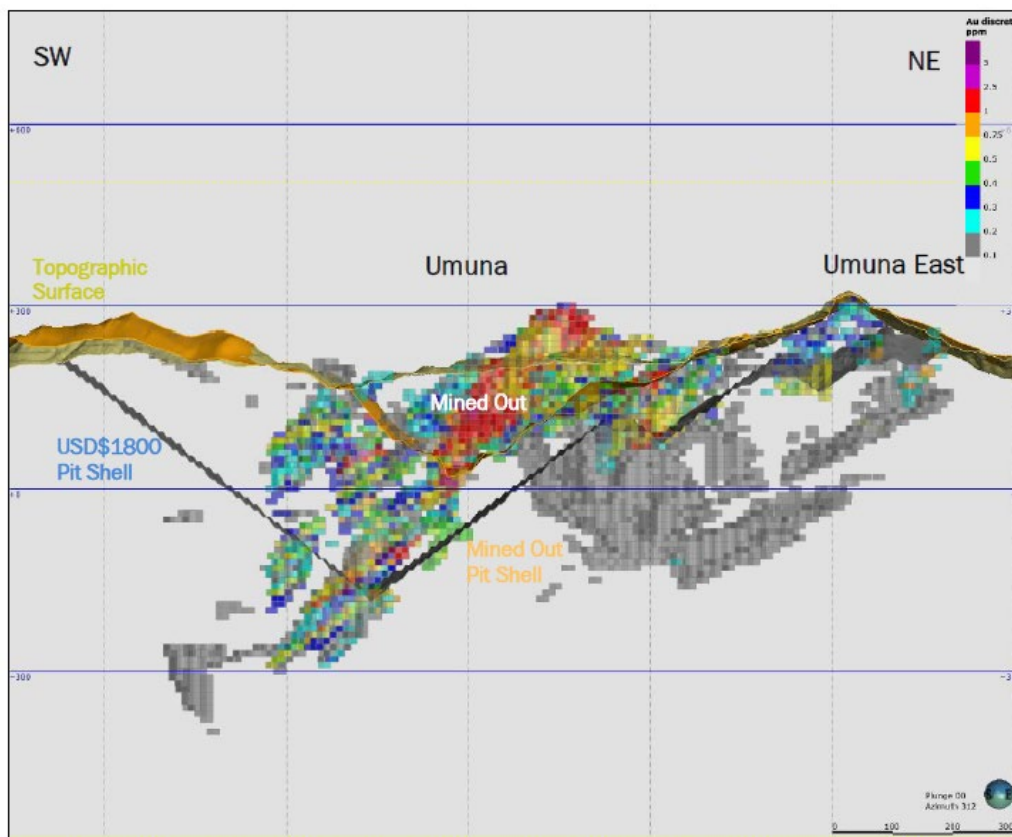
Given the stronger gold price environment, the resource is now reported within a US\$1,800 pit shell (see Exhibit 4), compared with the November 2020 resource which was reported within a US\$1,700 pit shell.

Exhibit 3 – Project resources – upgraded resource vs previous resource

Misima Upgraded Resource					
Classification	Tonnes Mt	Gold g/t Ag	Silver g/t Ag	Au Moz	Ag Moz
<b>Indicated</b>	<b>97.7</b>	<b>0.79</b>	<b>4.3</b>	<b>2.5</b>	<b>13.4</b>
Inferred	71.3	0.59	3.8	1.4	8.7
<b>Total</b>	<b>169</b>	<b>0.71</b>	<b>4.1</b>	<b>3.8</b>	<b>22.1</b>
Misima Previous Resource					
Classification	Tonnes Mt	Gold g/t Ag	Silver g/t Ag	Au Moz	Ag Moz
<b>Indicated</b>	<b>68.3</b>	<b>0.80</b>	<b>4.5</b>	<b>1.8</b>	<b>9.8</b>
Inferred	76.1	0.76	5.9	1.9	14.4
<b>Total</b>	<b>144</b>	<b>0.78</b>	<b>5.2</b>	<b>3.6</b>	<b>24.2</b>
Change in Misima Resource					
Classification	Tonnes Mt	Gold g/t Ag	Silver g/t Ag	Au Moz	Ag Moz
<b>Indicated</b>	<b>29.4</b>	<b>-0.01</b>	<b>-0.2</b>	<b>0.7</b>	<b>3.6</b>
<b>%</b>	<b>43.0%</b>	<b>-1.3%</b>	<b>-4.4%</b>	<b>38.9%</b>	<b>36.7%</b>
Inferred	-4.8	-0.17	-2.1	-0.5	-5.7
<b>%</b>	<b>-6.3%</b>	<b>-22.4%</b>	<b>-35.6%</b>	<b>-26.3%</b>	<b>-39.6%</b>
<b>Total</b>	<b>25</b>	<b>-0.07</b>	<b>-1.1</b>	<b>0.2</b>	<b>-2.1</b>
<b>%</b>	<b>17.4%</b>	<b>-9.0%</b>	<b>-21.2%</b>	<b>5.6%</b>	<b>-8.7%</b>

Source: KSN.

Exhibit 4 – Project resources – new resource pit shell

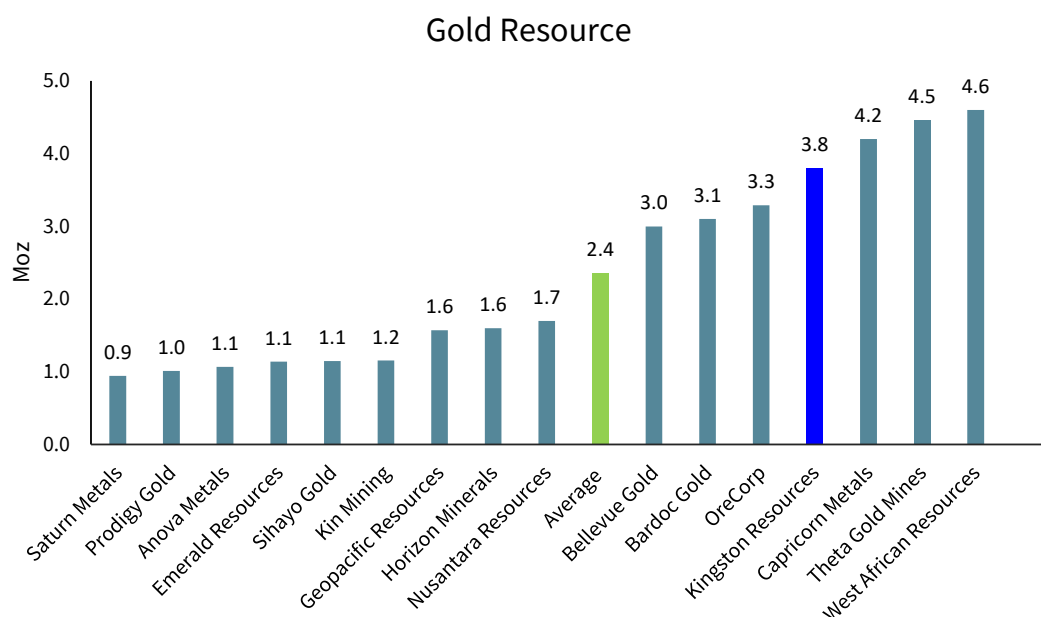


Source: KSN.

## KSN Resource Base Also Stacks Up Against Its ASX-Listed Peers

KSN's resource base sits in the top quartile compared to ASX-listed peers, demonstrating its huge potential.

Exhibit 5 – Project resources – KSN vs. ASX-listed peers (moz)



Source: Gold Nerds, MST Access estimates, company releases.

## Potential Reserve Increase – Adding Mine Life and Ounces

The key to the increase in Indicated resource is that it sets KSN up to increase the reserves of the project. An increase in reserves is key to extension of mine life and/ or higher annual production ounces. **It is also an important factor in attracting debt finance for the project.** The previous 71% conversion factor of resource to reserve demonstrates potential to increase reserves from 1.35moz to at least 1.8moz.

### Production Comparison of Current Reserve with Potential Reserve

#### Current reserve

The current reserve of 1.35moz would support annual production of 130,000oz for 10 years. At current gold prices, this would generate revenue of US\$2.3bn (A\$3.1bn).

Exhibit 6 – Current project reserves

Item	Mt	Au g/t	Ag g/t	Au koz	Ag koz
Umuna Probable	44.8	0.87	4.3	1,251	6,191
Ewatinona Probable	3.5	0.84	2.6	95	291
<b>Misima Total</b>	<b>48.3</b>	<b>0.87</b>	<b>4.2</b>	<b>1,347</b>	<b>6,482</b>

Source: KSN.

#### Potential reserve – over A\$1bn in additional revenue over project life

The PFS conversion rate of indicated resource to reserve was 71%. Applying that ratio to the current indicated resource suggests an estimated reserve of 1.8moz. The increase in the reserve could support a mine life of 14 years (an additional 4 years over the current reserve) or could conceptually support an increase to production of 180,000oz for 10 years (or other combinations of additional years/annual ounces).

At current gold prices this would generate US\$3.2bn (A\$4.4bn), or over A\$1bn additional revenue over the life of the project.

## DFS, Reserve Upgrade and Approvals Submissions Set for March 2022

### Progressing to DFS from Current PFS

#### Pre-Feasibility Study (PFS) – how the project looks

KSN has conducted a PFS on the MGP. The PFS is an early-stage analysis of a potential mining project, and includes detailed designs and descriptions for the mining operation, as well as cost estimates, project risks and safety issues. In addition to geological and mining design information, a PFS takes into account factors that may impact or interfere with the final project, such as community issues, geographic obstacles and permit challenges.

The PFS defined the MGP as a brownfield development, with the associated historical mining and processing knowledge. Brownfield developments have several advantages over greenfield projects:

- shorter construction time
- lower capital cost
- lower operating cost
- lower technical risk.

#### PFS outcomes – a 17-year mine life - Based on Prior Resource Estimate

The mine life outcome from the PFS is built around the current **resources (not reserves)** of the project, taking into account the significant resource and reserve.

Key outcomes from the PFS regarding mine life include:

- 15 years of ore processing during mining with an average gold production of 136,000oz pa
- 2 years of processing reclaimed low-grade stockpiles
- total production of 2.13moz of gold and 5.76moz of silver
- all years exceed 100 koz of gold production.

KSN estimates the LOM AISC at A\$1,159/oz.

#### Definitive Feasibility Study (DFS) – The Next Step

The DFS follows the PFS and is the most detailed and comprehensive study, determining definitively whether to proceed with the project.

All parameters, including geological, engineering, legal, operating, economic, social, and environmental, are considered in order for the company to have near-certain confidence in the success of the project. The DFS determines whether the project will be profitable and how much capital will be required, allowing for banks and engineers to assess the risks and confirm that the project is viable.

The DFS is due in March 2022 to set up the project with increased reserves and enhanced economics.

Permitting, Environmental and Community processes are on track to complete the Environmental and Social Impact Assessment (ESIA) and submit Mining License applications for the Misima Project alongside the completion of the DFS.



## Misima: Exploration Upside Abounds

The MGP has a large amount of exploration potential. The current resource is open at depth and can be significantly expanded via exploration success. KSN has a number of options, with the exploration focus on near-surface mineralisation (see Exhibit 7).

### Key Exploration Targets

- Kobel & Maika: Historically mined by Placer with limited modern exploration since mine closure
- Umuna East: Near-surface oxide target successfully drilled in 2019 exploration program
- Abi: Follow-up discovery hole (23.6m @ 2.91g/t Au from 7.4m)
- Ewatinona: 200koz resource, mineralisation open at depth and along strike
- Misima North: >4km untested strike, structural targets with potential for Umuna repeats

The exploration options within the MGP present KSN with multiple opportunities and have the potential to add further resources and reserves to the project.

The target at Misima North has particularly large potential due to its 4km of untested strike and its similarity in geology to Umuna.

Exhibit 7 – Misima Gold Project – prospect and deposit location plan



Source: KSN.



## The Nearest Peer – Comparing KSN with Geopacific Resources

### Substantial Re-Rating Potential for KSN

We have directly compared KSN to its nearest peer, Geopacific Resources (GPR). GPR's Woodlark project is located in PNG (see Exhibit 9 for location map). The Woodlark project is further advanced than the MGP, having achieved DFS status and, recently, full funding.

The purpose of the comparison is to ascertain the difference in multiples paid by the market for a project located in the same country but with a substantially smaller Reserves and Resources and a lower anticipated annual production rate, in order to estimate **the significant re-rating potential of KSN** as they achieve milestone targets. Exhibit 8 compares the projects in detail.

A simple EV/resource and EV/reserve comparison shows the gap in multiples the market is paying for the two stocks:

- **EV/reserve:** KSN – 31x; GPR – 75x. Ratio of multiple paid for GPR compared to KSN – 2.4x
- **EV/resource:** KSN – 11x; GPR – 47x. Ratio of multiple paid for GPR compared to KSN – 4.3x

The disparity in multiple paid for the two stocks suggests strong re-rating potential for KSN as it achieves milestones such as DFS and funding.

Exhibit 8 – Comparing Geopacific's Woodlark project and Kingston's MGP

Company	Geopacific	Kingston
Project	Woodlark	Misima
<b>Company Details</b>		
Share Price A\$	0.31	0.24
ASX Code	GPR	KSN
Market Cap A\$M	158	67
<b>Location</b>	<b>PNG</b>	<b>PNG</b>
<b>Project Details</b>		
Status	DFS	PFS
Ownership %	100	100
Resource Oz	1,572,000	3,800,000
Share of Resource Oz	1,572,000	3,800,000
Reserve Oz	985,150	1,347,000
Share of Reserves Oz	985,150	1,347,000
Production Commencement	End CY 2022	CY 2024
Production oz pa	75,385	130,000
% Share of Production oz pa	75,385	130,000
Mine Life Years	13	17
Life of Mine Total Production	980,005	2,210,000
% Share of LOM Production oz	980,005	2,210,000
Grade g/t	1.12	0.87
Plant Capacity Mtpa	2.40	5.5
Recoveries %	90.0	89.4
Project Cost US\$M	194	216
% Share US\$M	194	216
AISC A\$/OZ	1239	1159
Strip Ratio x	3.9	5.1
Upside to Reserve	√	√
Fully Funded	√	X
Fully Permitted	√	X
<b>Market Multiples</b>		
EV/Reserves x	75	31
EV/Resources x	47	11
<b>Company Internal Valuation</b>		
Co. Calculated NPV US\$m	347	535
% Share NPV US\$M	347	535
Discount Rate Used %	8	8
Gold Price Used US\$/oz	1650	1600
Co. Calculated payback Years	1.8	4.7
Co. Calculated IRR %	34%	26%

Source: MST, Gold Nerds, Company releases.

# Exhibit 9 – Project location: Papua New Guinea and Misima Island – a world-class geological setting



Source: KSN.

## Valuation: Strong Valuation Under Multiple Scenarios; Undervalued Compared to Peers

### Base-Case Valuation – Risked NPV of A\$0.52 (Fully Diluted)

The MGP has a significant resource base, with substantial possible upside via exploration success. The potential to grow the resource base and/or increase the average grade of the project could add significant further value.

We have applied a 100% probability/risk weighting for the first 10 years of production (in line with reserve life). For the last 7 years we have assigned a probability/risk weighting rating of 50%, as the production is based on the gold resource.

Exhibit 10 – Base-case valuation

NPV OF PROJECTS	A\$M	A\$/SHARE FULLY DILUTED	Valuation Methodology
Misima	346.3	0.53	Risked Project NPV EV/ Resource Multiple
Livingstone	4.2	0.02	
<b>ENTERPRISE NPV</b>	<b>350.5</b>	<b>0.55</b>	
Add: Cash	11.0	0.01	As at 30/06/2021
<b>EQUITY VALUE PRE SG&amp;A</b>	<b>361.5</b>	<b>0.56</b>	
SG&A	- 22.8	-0.04	NPV of Corporate Costs
<b>EQUITY VALUE</b>	<b>338.7</b>	<b>0.52</b>	

Source: MST estimates, KSN.

### Valuation risks substantially offset by MGP's existing infrastructure, operational knowledge

KSN's current share price does not reflect the underlying value of the project based on current resources, weighting the asset base heavily for the risks associated with the relatively early stage of the project (PFS stage). The key risks are:

- funding
- development
- political/approval
- operational.

The project's brownfield nature with existing infrastructure and operational history helps mitigate these risks by:

- reducing the construction time
- reducing the technical risks of operations
- reducing capital costs.

Political risk is perceived to be high in PNG; however, the fact that the country is the 15<sup>th</sup>-largest producer of gold in the world is testament to its ability to approve gold projects and allow tenure for those operated in accordance with PNG law.

## Key assumptions – NPV valuation

Our base-case NPV valuation is based on a 17-year mine life at an average production of 130koz Au pa. We have used a 10% discount rate and a flat US\$1600 gold price. We have assumed the project will commence ramp up in CY2025, one year later than anticipated by KSN. We are confident in the company's ability to deliver, but given the risk that still exists around Covid-19 we are taking a conservative view. We have assumed the completion of a DFS and final funding and a construction period of 18 months. We have assumed that the project will continue to be owned 100% by KSN, although a possible funding option is to sell down equity in the project.

We have assumed the final project will be funded 70% debt and 30% equity, with equity being raised at the current share price.

Our valuation does not take into consideration the potential increase in grade and extension to mine life and subsequent uplift in valuation that would entail. Exploration results to date indicate further potential within the current resource as well as extensions surrounding the mine area.

### Exhibit 11 – Material assumptions behind our base-case valuation

Project Assumptions	
Project Ownership %	100%
Average Annual Production koz	130
Mine Life - Years	17
Average Gold Grade (g/t)	0.78
Gold Recovery %	88%
Cost and Financing Assumptions	
Discount Rate %	10%
AISC Costs Life of Mine \$A/oz	1,159
Capital Cost \$Am	283
Annual Cost Inflation %	3%
Pricing and Exchange Rate Assumptions	
US\$/A\$	0.70
Gold Price \$US/oz	1,600
Gold Royalty Rate (PNG & Prouduction Levy)	2% / 0.5%

Source: MST estimates, KSN.

### Exhibit 12 – Capital cost estimates

CAPEX ESTIMATES	FY2023	FY 2024	TOTAL
Mining Fleet	\$5,661,550	\$11,494,662	\$17,156,212
Pre-Strip	\$10,737,202	\$21,799,774	\$32,536,976
Dewatering	\$391,713	\$795,297	\$1,187,010
Processing Plant	\$32,742,682	\$66,477,566	\$99,220,248
Infrastructure	\$8,793,217	\$17,852,896	\$26,646,113
<b>Total Direct</b>	<b>\$58,326,364</b>	<b>\$118,420,195</b>	<b>\$176,746,559</b>
Indirect	\$11,021,736	\$22,377,465	\$33,399,201
EPCM	\$8,842,851	\$17,953,668	\$26,796,519
Owner's Cost	\$2,947,223	\$5,983,757	\$8,930,980
Total Indirect	\$22,811,811	\$46,314,889	\$69,126,700
<b>Total Pre Contingencies</b>	<b>\$81,138,175</b>	<b>\$164,735,084</b>	<b>\$245,873,259</b>
Contingenices	\$12,280,097	\$24,932,319	\$37,212,416
<b>Total KSN Capital Cost</b>	<b>\$93,418,273</b>	<b>\$189,667,402</b>	<b>\$283,085,675</b>
MST Capital Increase Est	\$ 9,341,827	\$ 18,966,740	\$ 28,308,568
<b>MST Capital Total Cost</b>	<b>\$102,760,100</b>	<b>\$208,634,142</b>	<b>\$311,394,243</b>

Source: MST estimates, KSN.

We have used KSN's capital estimates and increased them by 10%. As the project is at the PFS stage, capital costs are preliminary; upon DFS the capital cost estimate will be more accurate.

## An Alternative Approach: EV/Resources

A common way to assess the value of gold companies in their pre-production phase is to compare the enterprise valuation (EV) to the resource base in order to see what value the market places on the company's resource and its potential.

### Geopacific Resources' EV/resources suggests EV for KSN of A\$178m vs Current EV of A\$43m

Our earlier analysis showed an EV/resource of 47x being paid for Geopacific Resources (GPR). This is still substantially below the peer group averages but significantly above that of KSN at 11x.

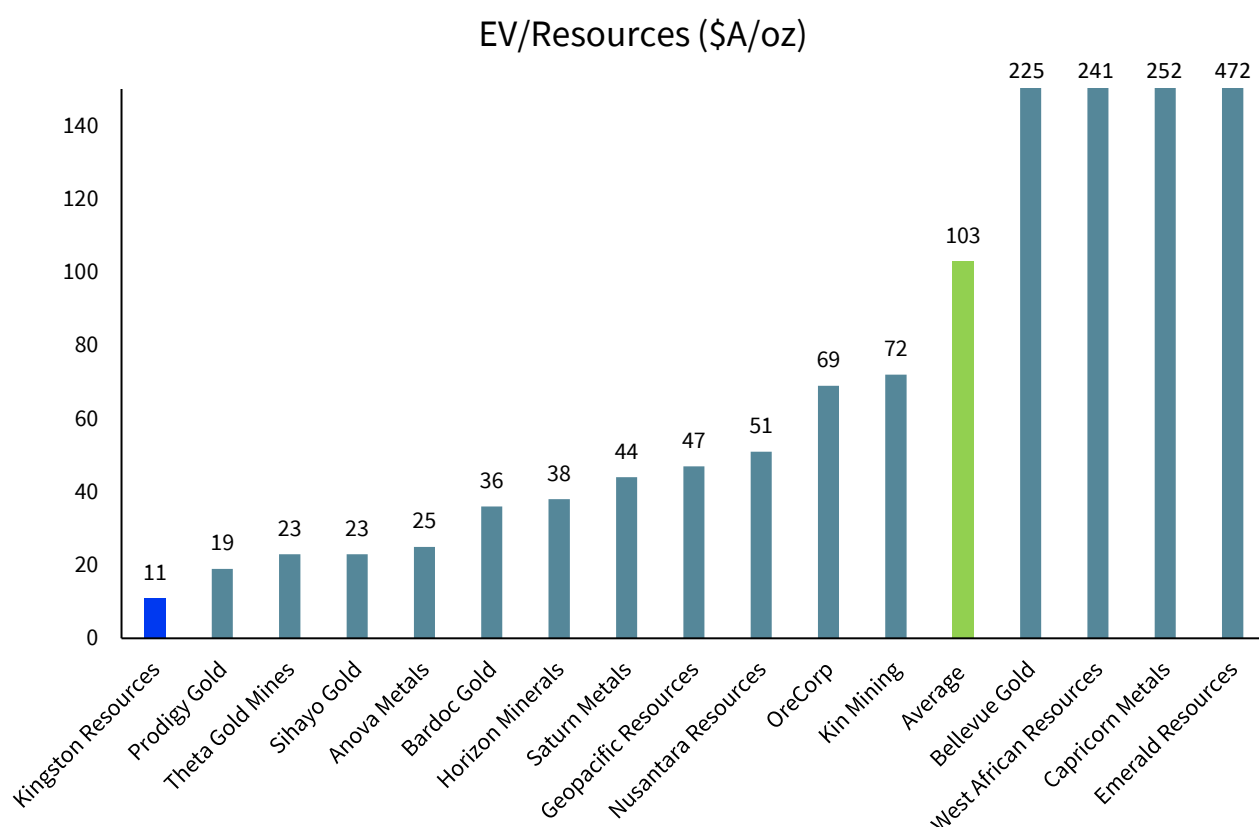
KSN's current EV is A\$43m. If GPR's EV/resource multiple is applied to KSN, the EV for KSN would be some A\$178m.

### Broad Base of Australian-Listed Peers Suggests A\$391m vs Current EV of A\$43m

We compared KSN with a selection of Australian-listed gold peers in order to compare its relative EV/resources multiple. KSN records the lowest EV/resources multiple of the peer group, suggesting the market is applying a significant discount for the funding, construction, sovereign and operating risk.

KSN's current EV is A\$43m. If a peer average EV/resource multiple is applied to KSN, the EV for KSN would be some A\$391m.

Exhibit 13 – EV/resources for Australian-listed gold explorers and developers – Kingston the cheapest



Source: Company releases, MST estimates.

## Positive Catalysts for the Share Price and Valuation

### Key drivers of share price upside

#### Further exploration results from MGP

Exploration remains a priority for KSN, and further strong exploration results would be positive for the stock.

#### Increase in reserves

Increases in the reserves, which are key to the mine life and annual production, would be positive for the share price.

#### Completion of the DFS

The DFS represents a significant step forward for the project and represents a basis for its funding, key process confirmation (such as deep-sea tailing placement) and timing.

#### Finalisation of approvals

The project has obtained some approvals, but key environmental approvals and the mining licence remain outstanding.

#### Project financing

The key to the MGP proceeding is securing funding for the project. We anticipate funding will include a mix of debt and equity. The securing of funding would mark a fundamental change to KSN's risk profile and would be a positive catalyst for the stock.

### Other potential share price catalysts

#### Gold price increases

The valuation and share price sentiment is highly sensitive to the gold price. Gold price increases would have a positive effect on the valuation.

#### USD depreciation

The valuation is highly sensitive to the USD/AUD exchange rate. USD depreciation would have a positive effect on the valuation.

#### Capital cost and/or operational cost savings

Capital savings and operational cost savings would benefit the valuation and would reflect positively on the company's management.

#### Early project delivery

The early commencement of the project would mean generation of cash flows sooner, which would add to the valuation and reflect positively on management.



## Risks to the Share Price and Valuation

### Key risks to share price

#### Disappointing exploration results

As a key driver to upside in the valuation, any disappointment in exploration results would be a negative for the stock.

#### Delays to the DFS completion

The DFS represents a significant step forward for the project and represents a basis for its funding, key process confirmation (such as Deep-Sea Tailings Placement) and timing. Delays to the DFS would be detrimental to the commencement of the project and the valuation.

#### Delays to approvals

Delays to approvals would be detrimental to the commencement of the project and the valuation.

#### Funding delays

As securing funding is the key catalyst to the stock, any delays in the funding process would delay the start of construction and have a negative effect on the valuation.

### Other potential risks to share price and valuation

#### Covid-19

The Covid-19 pandemic continues to create issues globally. PNG has recently been hit with a spike in cases. Misima Island, however, is isolated from the mainland and to date has not been significantly affected. Travel to and from PNG though has been significantly curtailed.

#### Gold price decreases

As gold prices are the key driver of the share price, gold price decreases would be negative for the valuation.

#### USD appreciation

The valuation is highly sensitive to the USD/AUD exchange rate. USD appreciation would have a negative effect on the valuation.

#### Delays to project delivery

Any delays to the project delivery would have a negative effect on valuation and may reflect negatively on management.

#### Changes in regulatory framework

Regulatory change would alter the risk profile of the company and be detrimental to the stock price.

#### Increase in project capital cost and/or operational costs

Any increase in capital costs or operational costs would detract from the valuation and reflect negatively on management.

#### Delays in mining and processing ramp-up

Delays in mining and processing ramp-up would mean later generation of cash flows and a decrease in valuation.

## Financials – Funding the Key

### Funding

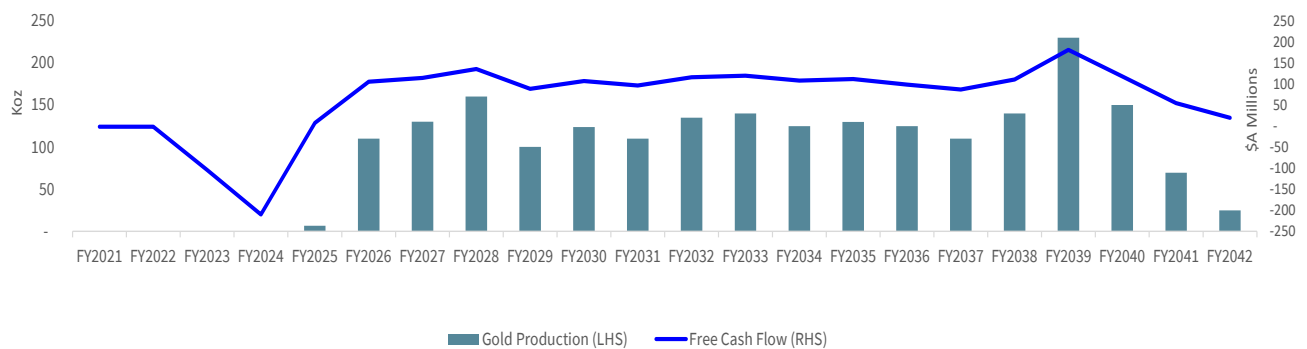
Funding is the key element to the MGP's development. KSN is yet to source funding for the project, which is typical at the PFS stage. Subject to successful outcomes of the DFS, we assume that project funding will be achieved through a combination of debt and equity finance. Funding in exchange for a royalty stream could be another potential source of financing. Additional funding alternatives that may be considered involve typical mining industry transactions, such as potential earn-in agreements or a project level sell-down of an equity interest to development partners.

The MGP's attractive low technical risk as a brownfield re-development of an operation with a long and successful mining history, as well as its strong economic fundamentals, provide a strong basis for KSN to advance discussions with debt and equity financiers as well as potential forward sale and royalty counterparties. KSN's board, which has extensive knowledge of and history in the finance industry (particularly financing and developing projects overseas), believes traditional debt financing can be secured for part of the MGP's total pre-production capital cost.

### Project Cash Flow and EBITDA

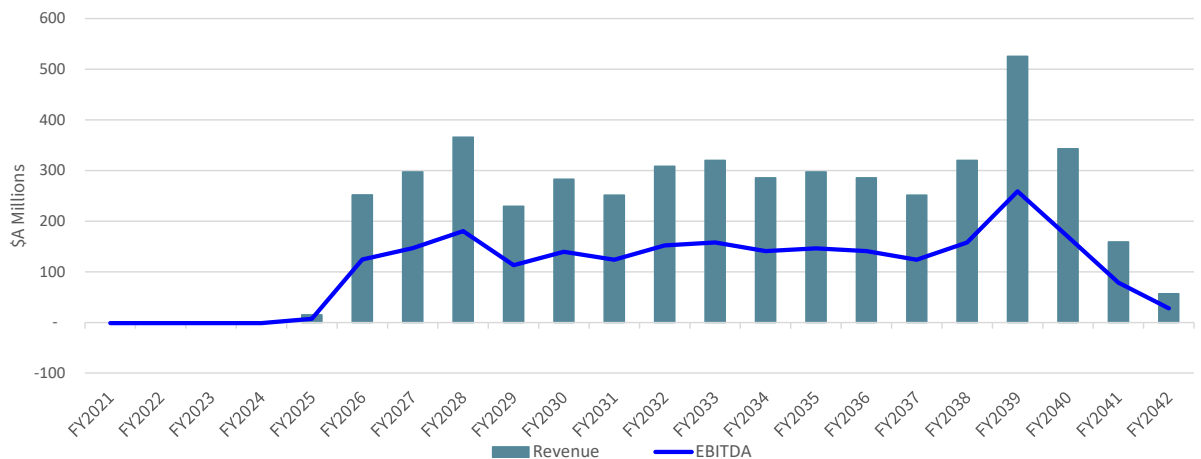
We assume the MGP will commence production in CY2025 and ramp up to full production in 2026. We assume the project's capital expenditure will be spent in CY2023 and CY2024, and that the first full year of production is CY2026.

Exhibit 14 – Production and free cash flow



Source: MST estimates.

Exhibit 15 – Revenue and EBITDA (A\$m)



Source: MST estimates.

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