

Gold Mountain Limited  
(ASX:GMN)

February 2017



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**Note:** This report is based on information provided by the company as at January 2017

Investment Profile	
Share Price as at 27 January 2017	\$0.13
Issued Capital:	
Ordinary Shares (M)	381.6m
Options (M)	63.5m
Fully Diluted (M)	445.1m
Market Capitalisation (M)	\$49.6m
12 month L/H	\$0.035/\$0.18

Board and Management	
Directors:	
Mr Graham Kavanagh: Non-Executive Director and Chairman	
Mr Tony Teng: Managing Director	
Mr Douglas Smith: Exploration and Operations Director	
Mr Eric Kam: Company Secretary	

Major Shareholders	
Suwardi	8.35%
GHA Development P/L	5.77%
Mr Ghinan Mohamed Sani	4.97%
Top 20	57.4%
Board and Management	2.36%



The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

## HUNTING ELEPHANTS IN ELEPHANT COUNTRY

Gold Mountain is concentrating activities on its highly prospective Wabag Project (which has seen very little historic exploration) centred some 75km ENE of Porgera in the Highlands of Papua New Guinea, a country richly endowed with world class gold and copper deposits. Work to date has highlighted the prospectivity of Wabag for intrusive related gold and/or copper mineralisation, including porphyry, carbonate base metal and epithermal, with the work identifying a possibly diatreme structure with associated gold anomalism – diatremes are common hosts for mineralisation in these geologic environments. An additional key feature is the presence of appreciable near surface eluvial gold at Crown Ridge – although currently at an early stage of exploration this is considered as a possible simple mining target to provide relatively early cash flow and fund exploration.

## KEY POINTS

**Highly prospective project:** The Wabag Project (“Wabag” or “the Project”) is located within the Highlands region of PNG, one of the most highly endowed gold provinces globally which hosts major operations including the ~16 Moz Ok Tedi Mine, the ~28 Moz Porgera Mine, the ~20 Moz Frieda River Project and the ~20 Moz Wafi/Golpu Project - results of work to date have highlighted the prospectivity of Wabag.

**Maramuni Arc rocks:** Intrusive rocks of the Maramuni Arc are located in the tenements – the Maramuni Arc is associated with the majority of gold/copper mineralisation in the country.

**Under explored:** Despite being the source of alluvial gold, there has been very little historic exploration over the Project area, with only reconnaissance mapping and geochemical sampling being carried out prior to Gold Mountain’s involvement – no drilling has been carried out on the tenements.

**Potential diatreme:** Work to date, including geological mapping, geochemical sampling and geophysical surveying has identified what could potentially be a diatreme (the conduit below a maar volcano) at the key Crown Ridge prospect, with diatremes commonly associated with significant gold mineralisation in similar convergent/volcanic arc geological settings.

**Potential eluvial operation:** The first phase of panning, trenching and bulk sampling has identified significant eluvial free gold (and platinum) near the interpreted diatreme margin, a prime site for primary gold mineralisation - the Company has now embarked on a 2nd phase bulk sampling operation to get quantitative data on the gold grades of the eluvial material to calculate a resource – dependent upon the results of this there is potential for a low cost shallow eluvial mining operation to bring in cash within 18 months -2 years.

**Excellent results from 2nd phase bulk sampling:** The initial 2nd phase bulk sample pit has returned 37.6g of gold and ~4g of platinum from ~60m<sup>3</sup> of sample - this is an excellent result for free dig eluvial material and highlights the potential at Crown Ridge.

**Associated with magnetic targets:** 3D modelling of detailed heliborne magnetics surveying has identified possible intrusive apophyses coincident with the gold, which are key drill targets.

**Other major magnetic features:** The magnetics surveying has also identified other large scale features over areas that have previously not been explored, possibly reflecting calderas or additional diatremes - interpretation work is currently underway.

**Porphyry target:** A potential porphyry target has been identified from mapping, sampling and geophysics at the Sak Creek prospect.

**News flow:** There should be steady ongoing news flow with exploration activities progressing.

Senior Analyst – Mark Gordon



## SWOT ANALYSIS

### Strengths

- ◆ **Highly prospective tenement package:** Wabag comprises a highly prospective tenement package in a region recognised for major deposits.
- ◆ **Encouraging exploration results to date:** Results of work carried out to date have been positive, highlighting the prospectivity for a range of arc-related mineralisation styles.
- ◆ **Chance for early cash flow:** Should the eluvial mineralisation prove viable, there is the chance, dependent on permitting, for cash flow in 18 months to 2 years.
- ◆ **Relatively accessible areas:** Compared to other parts of PNG some areas of Wabag, including Crown Ridge, are readily accessible, and do not require helicopter support - Crown Ridge has vehicular access.

### Weaknesses

- ◆ **Inaccessible areas:** On the other hand, some areas, including Sak Creek, are relatively inaccessible, requiring expensive helicopter support.
- ◆ **Funding:** Although the Company would appear to be relatively well funded for the next 24 months, with \$1.45 million in the bank as of September 30 and the potential for a further \$2.48 million through the exercise of options, this is dependent upon the options – should these not be exercised in a timely manner the Company will need to go to the market to raise funds.

### Opportunities

- ◆ **Exploration success:** This is the key opportunity at Wabag, with results of work to date highlighting the chance that there is something to be found.
- ◆ **Early cash flow:** This opportunity arises on positive results and viable economics from the Crown Ridge eluvials, and will follow a successful permitting and construction process.

### Threats

- ◆ **Lack of exploration success:** This is the major threat affecting junior explorers.
- ◆ **Markets:** Junior explorers are reliant on a strong market for providing funding – although we are in a relatively good market at the moment things can turn on a dime, and funding can dry up.
- ◆ **Permitting:** Any cash flow from the planned eluvial operations will be affected by any delays in permitting of such an operation.



## OVERVIEW

### STRATEGY

- ◆ The Company's main strategy is to explore, and make a major discovery at its Wabag Project, located near to and over similar geology to Porgera in the Highlands of PNG. Wabag is considered prospective for a number of arc-related gold/copper mineralisation styles, including porphyry, carbonate base-metal and epithermal.
- ◆ As part of this, Gold Mountain is investigating the possibility to partially or fully fund future exploration activities through mining of potential eluvial gold mineralisation at its key Crown Ridge Prospect – the Company is currently carrying out bulk sampling over areas that contain appreciable pannable gold.
- ◆ The results of the sampling will be used to determine the quantum of any such resource, and if an operation is considered feasible will apply for a mining lease ("ML"), which, according to the Company would take 18-24 months to grant.

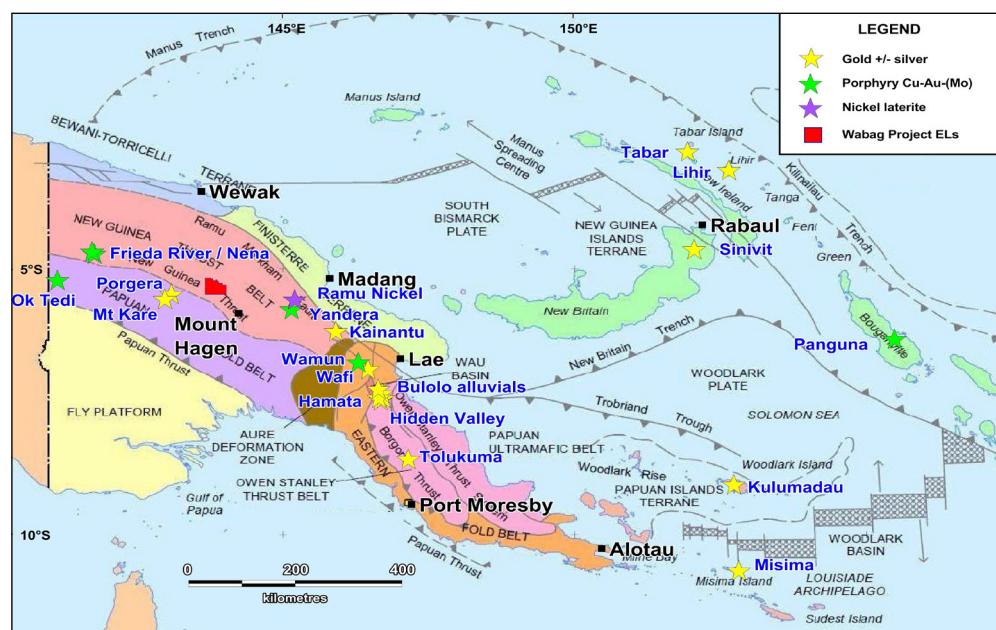
### FINANCIAL POSITION

- ◆ As of September 30, 2016 the Company had \$1.45 million in cash and no debt.
- ◆ The Company raised \$2.30 million before costs through a placement of 54 million shares at \$0.042/share in June/July 2016 – this included one free attaching \$0.055 option for each two shares, with the options having an expiry date of December 18, 2018
- ◆ The Company has a total of 63.47 million options on issue; of which 45.07 million are in the money, which, if exercised will bring in \$2.48 million in cash.
- ◆ Over the twelve months to September 30, 2016 Gold Mountain raised a total of \$2.48 million before costs.
- ◆ Over the same period the Company spent \$0.95 million on exploration and \$0.57 million on administration.

### PROJECT OVERVIEW

- ◆ Gold Mountain is concentrating activities on Wabag, with work to date including geological mapping, soil/rock chip geochemical sampling, heliborne magnetics and bulk sampling of potential eluvial gold mineralisation.
- ◆ The Company also holds a number of other projects in New South Wales, Australia, however the Company is looking at options regarding these – these will not be discussed further.

Figure 1: Location plan Wabag Project and tectonic setting



Source: Gold Mountain

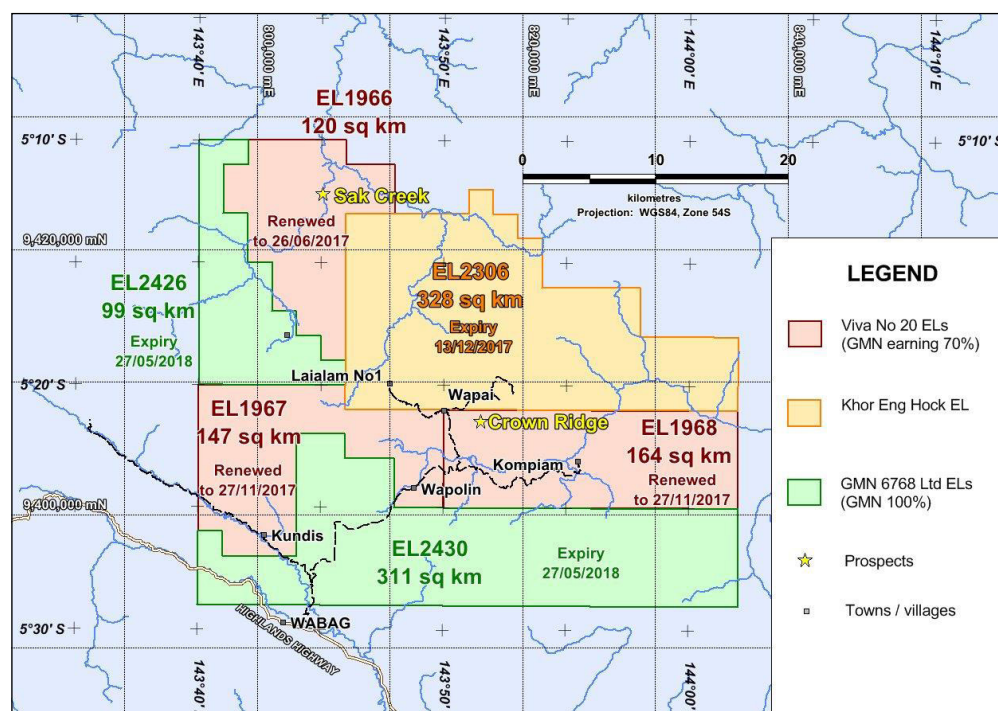


## WABAG PROJECT

### Background and Tenure

- ◆ Wabag comprises three groups of exploration licences ("ELs") covering 1167km<sup>2</sup>, which are all in good standing, immediately to the north of the town of Wabag located on the Highlands Highway, as shown in Figure 2.
- ◆ The three groups of tenements have different ownership and earn-in structures:
  - The Company has now acquired 70% of the Viva No. 20 ELs through the issue of 110 million shares in two tranches – this included 50 million shares at a deemed price of \$0.03 each on March 22, 2016 for an initial 20% interest, and a second tranche of 60 million shares at \$0.08 each for an additional 50%, as announced to the market on August 16, 2016.
  - The vendors are free carried until any decision to mine.
  - On August 23, 2016, the Company announced that it had entered into a 270 day exclusive dealing agreement with Khor Eng Hock and Sons (PNG) Limited, the holder of EL2306, in which the time the Company will carry out due diligence and subject to successful due diligence negotiate a binding acquisition agreement to be exercised prior to the end of the exclusive dealing period.
  - Under PNG Mining Law completion of the acquisition can only take place after December 14, 2017, the second anniversary of the grant of the EL.
  - The Company's wholly owned ELs 2426 and 2430 cover areas of the Viva 20 ELs 1966, 1967 and 1968 that were relinquished on renewal.
- ◆ Wabag is 75km by the sealed Highlands Highway from Mt Hagen, and 30km from the airport at Wapenamanda which is serviced by regular flights to Port Moresby.
- ◆ Access is variable throughout the tenement package – the key Crown Ridge Prospect has vehicular access, whereas Sak Creek requires helicopter support.

Figure 2: Wabag tenement map



Source: Gold Mountain

### Historic Work

- ◆ The first work in the area was alluvial gold mining in a number of rivers, with work in the Timun River, downstream from Crown Ridge, reportedly recovering some 100 kg (3,215 oz) of gold and 3.5 kg (112 oz) of platinum from 1948.
- ◆ Subsequent alluvial mining has involved a Chinese operation (since shut down by the authorities) – this reportedly produced ~51kg of gold over a six month period in 2013.



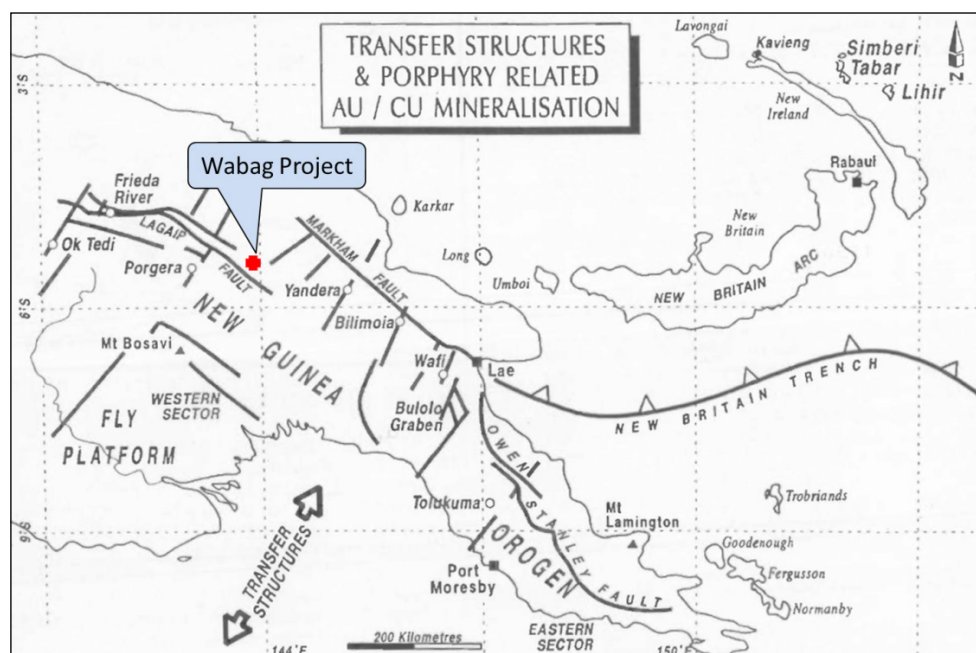
- ◆ The area was mapped as part of a country-wide 1:250,000 scale programme by the Australia Bureau of Mineral Resources ("BMR," now AGSO) during the 1960's and 1970's.
- ◆ There has been little modern exploration over the area – what work has been done was largely reconnaissance mapping and stream/rock chip geochemical sampling.
- ◆ Past explorers include:
  - Carpentaria Exploration Company – PA383, 1975,
  - Placer/BHP JV – PA461, 1982-1983,
  - Brisa Minerals (a company associated with Carpenter Pacific) – PA644, 1986-1987,
  - GEOMAP (EU sponsored programme), 2006-2009.
- ◆ In recent years BHP Billiton reportedly applied for that part of the Project currently covered by EL2306, but the application was reportedly knocked back on procedural grounds – this then allowed for the grant of EL2306.
- ◆ The GEOMAP work was part of a Highlands-wide programme, and included stream sediment sampling and regional airborne magnetics/radiometrics surveying.
- ◆ A number of geochemical anomalies within the current Wabag Project area were outlined from the previous work, but there has been no systematic follow up.

### Regional Geology and Mineralisation

- ◆ PNG is located along the convergent boundary of the Australian continental plate to the south and a complex system of terranes related to the Pacific plate to the north – the tectonic framework is shown in Figure 1 above..
- ◆ It is interpreted that convergent tectonics accelerated at around 45Ma (with the Australian plate being subducted northwards under the Pacific plate), following an increase in the rate of the separation of Australia and Antarctica, which led to the development of an embryonic island arc at around 43Ma.
- ◆ The Papuan Thrust, which separates the Fly Platform to the south (part of the Australian Plate) and the other terranes to the north represents the original convergent boundary, with subduction along this boundary ceasing at around 26Ma due to the collision of the Ontong-Java Plateau with the northern edge of the Australia plate – this then resulted in the commencement of the development of the PNG mobile zone.
- ◆ The convergent tectonics have formed the two key mineralised terranes in PNG – the Papuan Fold Belt in the south of the Highlands, and the New Guinea Thrust Belt in the north – the latter is what is referred to as a foreland thrust belt.
- ◆ Sedimentary geology of the fold and thrust belts is marked by deformed limestones and clastic sediments of late Triassic to Pliocene age, with basement rocks including Permian metasedimentary rocks intruded by Early to Middle Triassic granites – these basement rocks are thought to be analogous to those of the New England Fold Belt ("NEFB") in northern NSW and Queensland - these units have been intruded by latest Oligocene to Pleistocene (ca 30Ma to 1Ma) gabbros to granites, with these ranging in morphology from batholiths to stocks and dykes – these have associated subaqueous and subaerial volcanic rocks.
- ◆ Some writers have split the magmatism into two events – an early Sepik Event (ca 30-22 Ma) and the later Maramuni event (17 - 3Ma) - the Maramuni arc runs for approximately 750km along the spine of PNG from the Irian Jaya border to ~100km east of Port Moresby, and has a width of between 40-60km - there is also younger magmatism extending to Recent times.
- ◆ The Maramuni magmatism is largely responsible for the arc-related mineralisation in PNG, with deposits generally having ages of between 17Ma and 2.6Ma, however there is younger mineralisation (~1Ma and younger), including that at Ok Tedi and Lihir.
- ◆ Appendix 1 at the end of this report lists major arc-related mineral systems in PNG.
- ◆ A key factor to the location of mineralisation are intersections of arc-normal transfer structures (these are major structures that generally trend northeast, and are perpendicular to the trend of the magmatic arc), and the northeast trending arc-parallel structures – Figure 3 shows the relationship of Wabag and major deposits to interpreted and actual major structures.



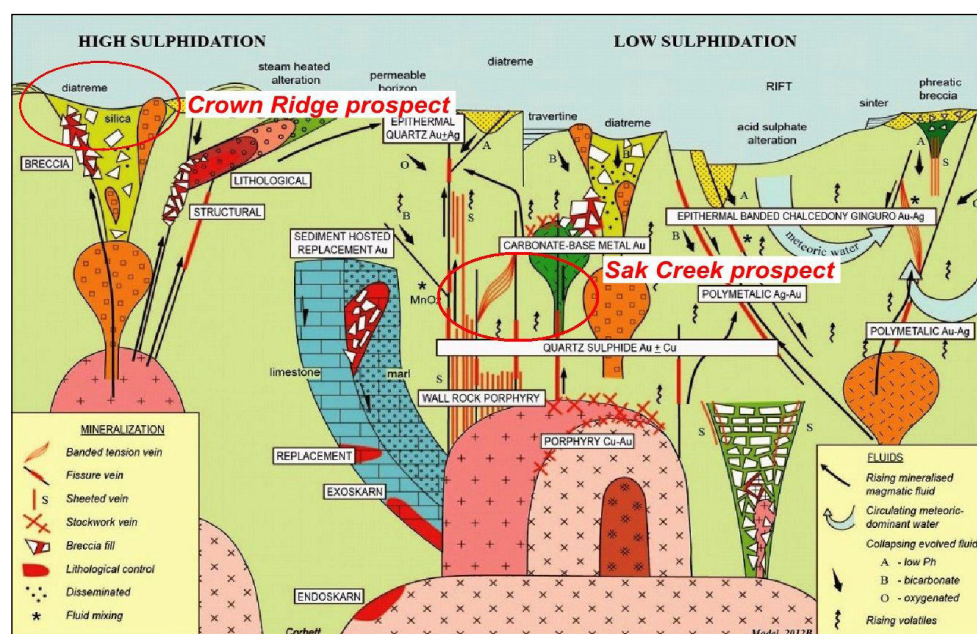
Figure 3: Major structures and mineral deposits.



Source: Adapted from Corbett 1994

- Known mineralisation spans the full gamut of that associated with convergent plate boundaries, including porphyry, skarn, carbonate base metal and low/high sulphidation (amongst others) as shown in Figure 4 below – this also shows the interpretation of potential mineralisation styles at Gold Mountain's Sak Creek and Crown Ridge prospects (discussed later).

Figure 4: Mineralisation styles associated with convergent plate margins



Source: Adapted from Corbett 2012

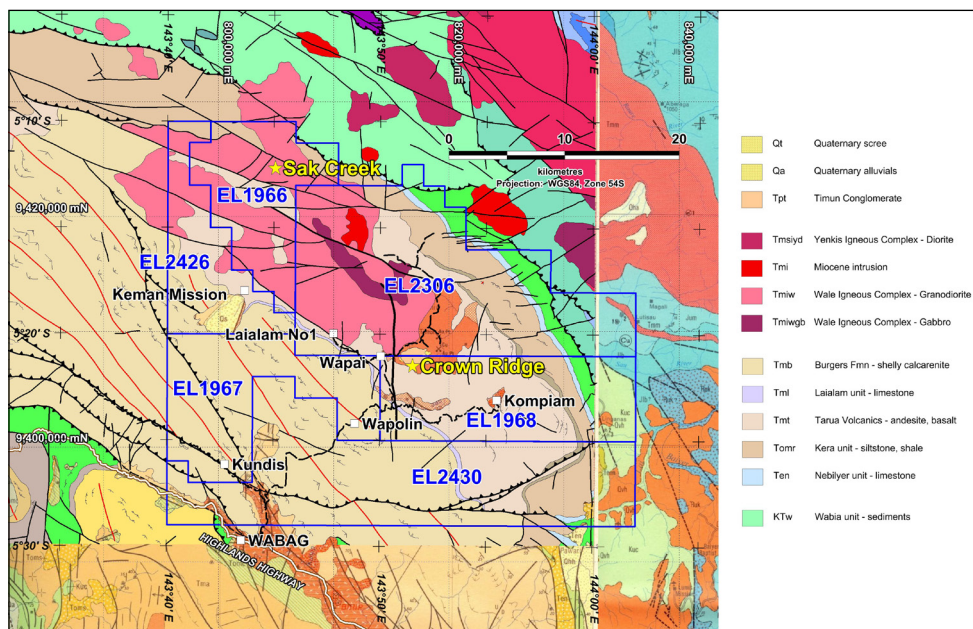
### Local geology and mineralisation

- The geology of the Wabag area includes marine sediments and volcanics of the Cretaceous-Eocene Salumai Formation, Oligocene to Miocene sediments of the Kera Formation and Miocene sediments and andesitic volcanics of the Aure Group (Figure 5).
- These units have been intruded by Miocene gabbros to granodiorites of the Timun Intrusives, part of the mineralising Maramuni event – these are interpreted to also include “Alaskan-type” intrusives, that may be the source of platinum mineralisation in the eluvials and alluvials.



- ◆ A key unit is the Timun Conglomerate – this is interpreted as largely being a milled matrix fluidised breccia associated with a diatreme, an explosive eruption vent formed through phreatomagmatic eruptions, caused by the superheating of ground waters by ascending, depressurising magmas that exsolve volatiles.
- ◆ These commonly have a complex history and geology, which includes the diatreme, which is the breccia filled conduit, a surficial maar volcano and multiple phases of intrusive domes (commonly porphyritic) within and below the diatreme.
- ◆ Notable examples of mineralisation associated with diatremes in PNG include Wafi and Kerimenge, with both low sulphidation (commonly carbonate-base metal gold) and higher crustal level high sulphidation epithermal mineralisation being present.
- ◆ Due to the generally permeable nature of the diatreme breccia not concentrating mineralisation to economic levels within the breccia itself (although the breccias can be strongly altered), mineralisation is commonly found at the breccia margins, within structures in the more competent wall rocks or else at the edges of intrusive stocks amongst others.
- ◆ The Timun Conglomerate, which is surrounded by unaltered basalts, is associated with a marked ovoid topographic high (that can be recognised on satellite imagery), and also a very subtle ovoid feature on the regional magnetics – the subtleness may represent a relatively shallow diatreme, else one that has undergone erosion down to close to the root zone.
- ◆ The topographic high is the source of the northward flowing Timun River and its tributaries which hosts the alluvial mineralisation.
- ◆ A conceptual cross section of the interpreted diatreme is shown in Figure 7.
- ◆ A noticeable feature on the regional magnetics is a ~6km diameter elliptical magnetic low in the region of the Sak Creek prospect – this may reflect magnetite-destructive alteration, possibly relating to an underlying porphyry system.
- ◆ Heliborne magnetics surveying by Gold Mountain (discussed later) has highlighted a number of other regional features.

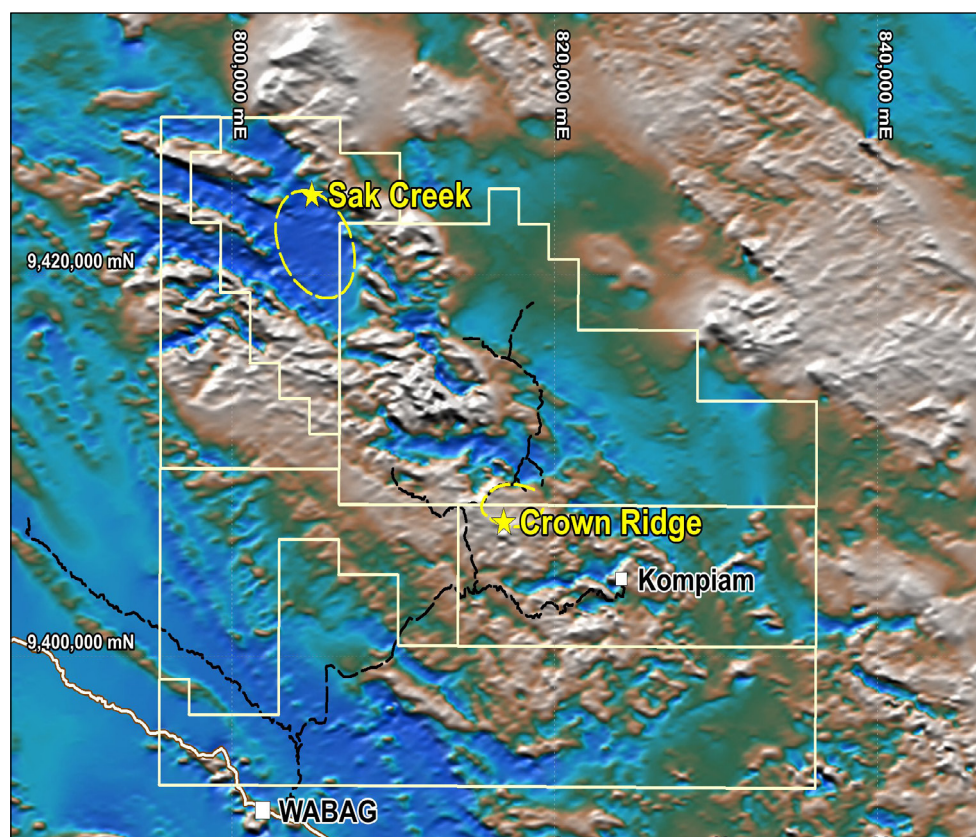
**Figure 5: Geology of the Wabag area showing key prospects**



Source: Gold Mountain

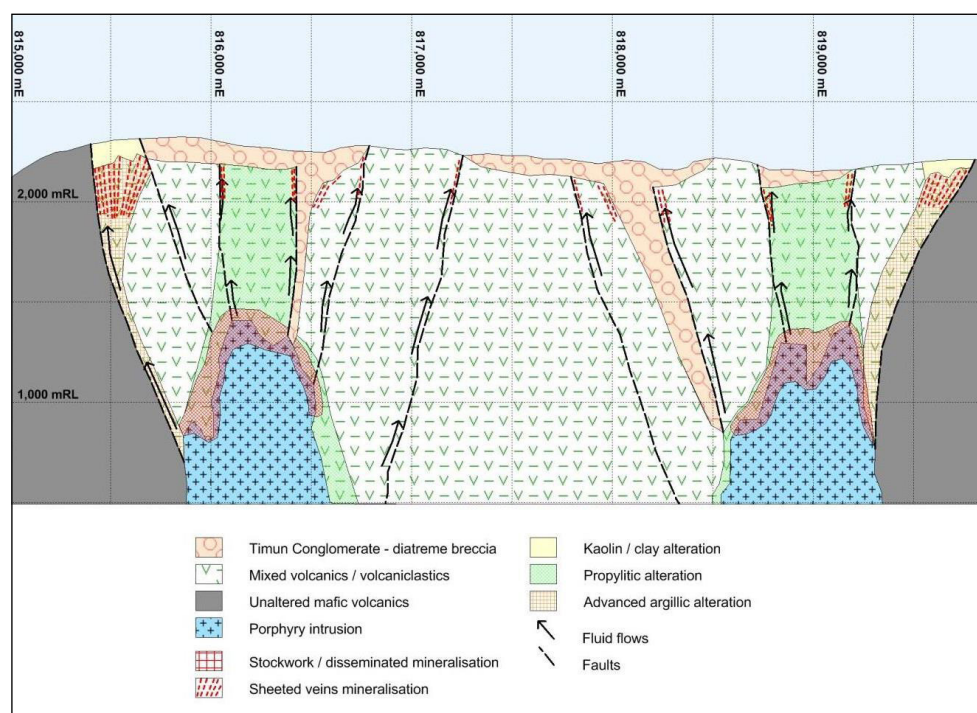


Figure 6: Regional magnetics showing prospect locations and current EL boundaries



Source: Gold Mountain

Figure 7: Conceptual section, Timun Conglomerate and associated diatreme complex.



Source: Gold Mountain

### Work by Gold Mountain

- ◆ Work by Gold Mountain commenced in September 2014 as part of the due diligence for the project acquisition.
- ◆ Plans were to originally carry out a helicopter supported largely tenement-wide reconnaissance sampling and geological mapping programme, however due to the early onset of the wet season and the inability to cross flooded rivers; it was decided to concentrate activities at Sak Creek, considered prospective for porphyry-style



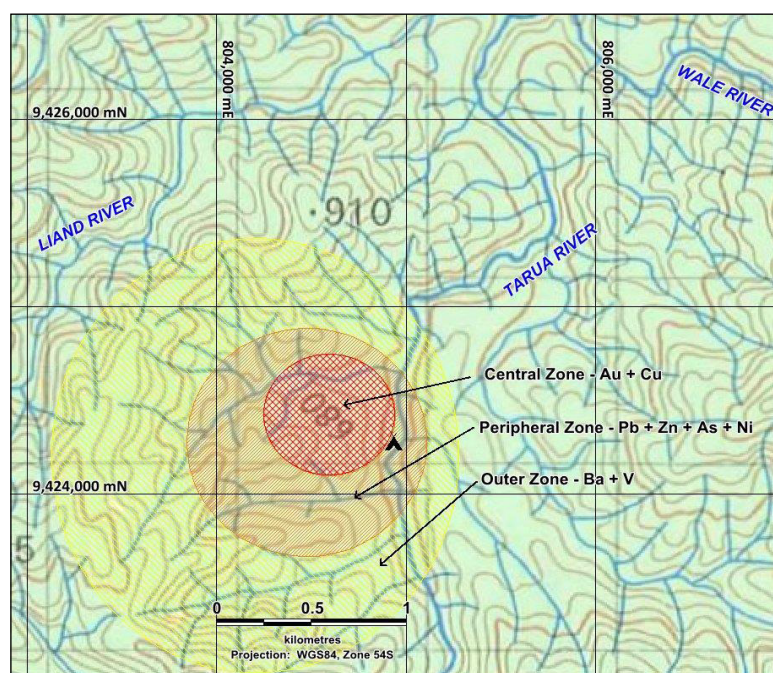
mineralisation and where artisanal miners were retrieving gold nuggets up to 60g in weight.

- ◆ Following the phase one work at Sak Creek, activities moved to Crown Ridge, with the programmes and results over both prospects discussed below in chronological order.

### Sak Creek Prospect

- ◆ The Phase 1 work at Sak Creek, carried out during the due diligence period included:
  - reconnaissance geological mapping,
  - stream sediment sampling, and,
  - ridge, spur and base of slope (“BoS”) soil sampling, and rock chip sampling,
- ◆ Given the relatively remote location of the prospect this was helicopter supported, and, given high water levels, activities were concentrated on the western side of the Tarua River.
- ◆ In our view the results of this programme were positive, and highlight the potential of the prospect – key results include:
  - stream sediment sampling returned three results  $>0.1\text{ppm Au}$  – these are considered highly significant as indicators of gold mineralisation, with the highest value coming from a stream where locals have panned gold,
  - soil sampling likewise has returned positive results, with these highlighting a zonation in anomalism from a Cu/Au core through a surrounding Pb/Zn/As/Ni anomalous zone to an outermost Ba/V anomalous zone (Figure 8),
  - with the exception of the Ni and V (which are atypical), this zonation is typical of those associated with porphyry Cu/Au mineralisation – the Ni and V anomalies are of low tenor and the origin is unknown, however Ni could possibly be related to Alaskan-style intrusives and V by scavenging by iron,
  - these anomalies are moderate, and not strong in tenor however, and thus possibly indicate a buried system that will require further work, including geophysics to define drill targets, and,
  - geological mapping has recognised phyllic altered diorites containing pyrite veins and silica-phyllic alteration in structures – again features commonly associated with porphyry Cu/Au systems – 17 rock chip samples collected as part of this returned anomalous samples with up to  $0.20\text{g/t Au}$ ,  $792\text{ppm Cu}$  and  $2526\text{ppm Zn}$ , with the highest values associated with breccias and shears.

**Figure 8: Sak Creek prospect showing geochemical zonation**



Source: Gold Mountain

- ◆ It needs to be noted that work was concentrated on the west side of the Tarua River – anomalism could well extend across the river to the eastern side.

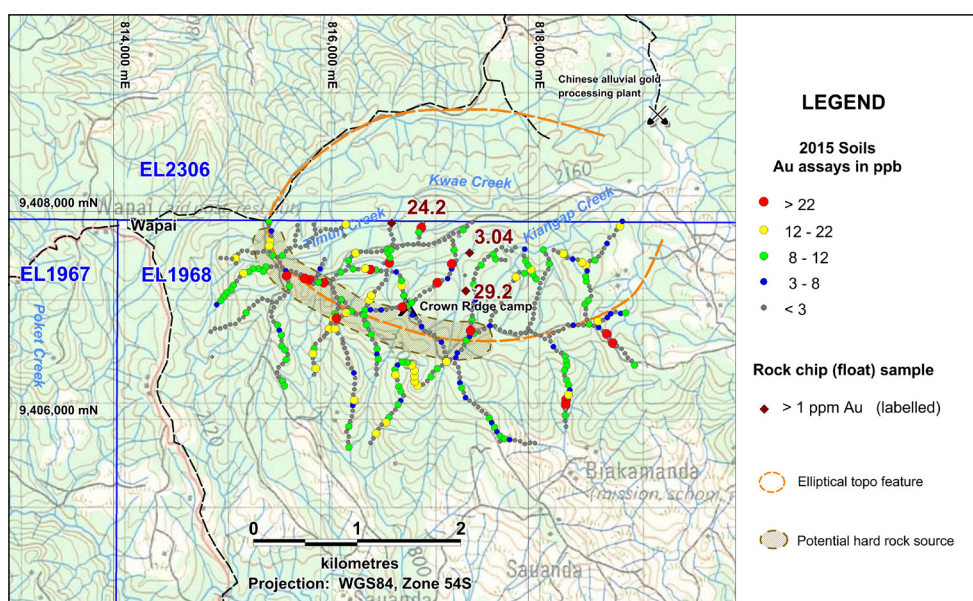


- ◆ The area has been flown as part of a recent detailed heliborne magnetics/radiometric survey – data is currently being modelled with results yet to be released - there has also been some recent follow up sampling and mapping, again with results yet to be released to the market.

### Crown Ridge Prospect

- ◆ Current activities are concentrated at Crown Ridge, with these returning very positive results.
- ◆ Initial work included stream sediment, rock chip and soil sampling, with this delineating a gold anomalous zone in the southwestern quadrant of the interpreted diatreme structure as shown in Figure 9 below.
- ◆ Rock chip samples included two that returned assays >20g/t Au – these were float samples of quartz veined brecciated volcanics with pyrite.

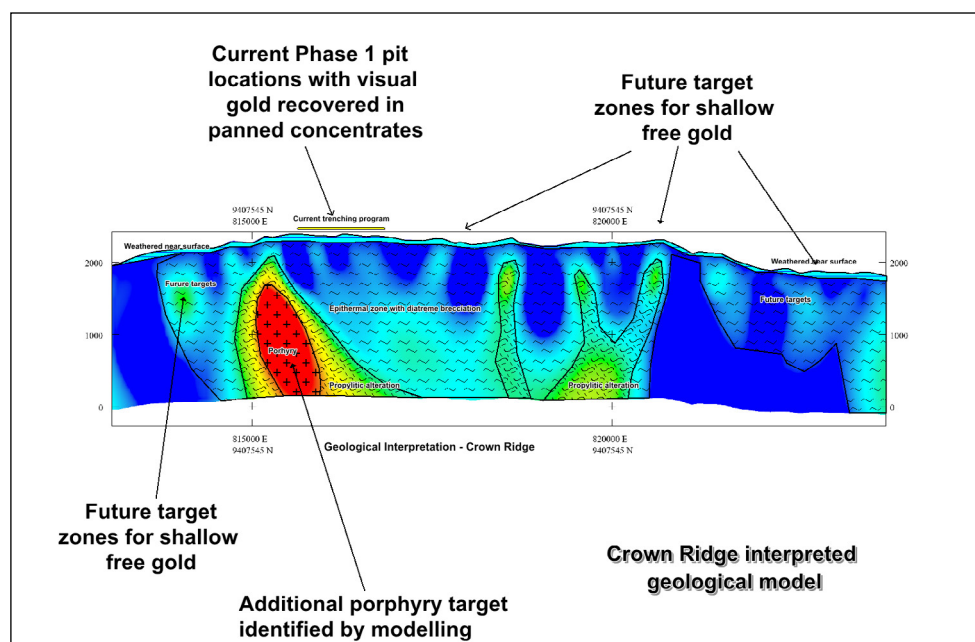
**Figure 9: Gold geochemical results, Crown Ridge Prospect**



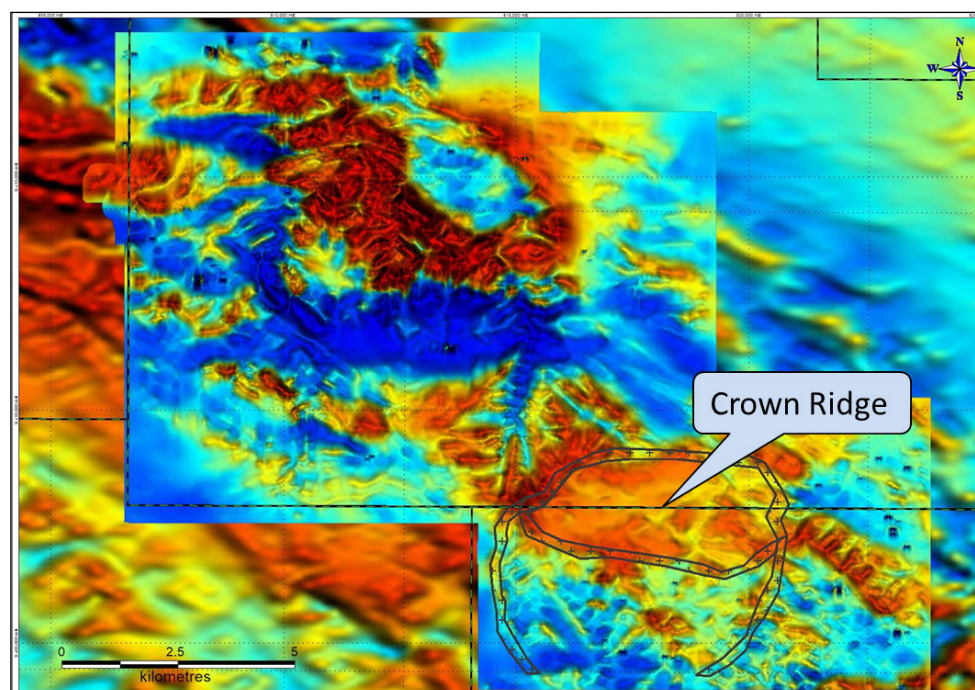
Source: Gold Mountain

- ◆ Base metals anomalism (including copper and zinc) was largely restricted to the area outside of the interpreted diatreme margin, possibly reflecting depletion due to hydrothermal alteration within the diatreme.
- ◆ The next phase of work included modelling of ground magnetic data collected by the Mineral Resources Authority of PNG ("MRA") on behalf of Gold Mountain – this data coincided with the area of gold geochemical anomalism outlined by Gold Mountain's sampling.
- ◆ However the magnetics did not indicate a very strong difference as expected between the signature of the basalts (usually highly magnetic) outside the interpreted diatreme, and those highly altered units within – this may reflect a shallow diatreme (else one where there has been significant erosion thus exposing the root zone of a diatreme); in addition no clear ovoid margin was detected.
- ◆ The Company has followed up this work by a detailed heliborne magnetics survey that included the Crown Ridge prospect to survey the complete interpreted diatreme; in addition the survey covered the Sak Creek area and a large part of EL2306 to the north of Crown Ridge.
- ◆ 3D inversion modelling of the heliborne magnetics data has indicated areas of high susceptibility (Figure 11) - possibly reflecting intrusive apophyses (or else unaltered basalts) – coincident with visual gold in the bulk sampling pits (discussed below).
- ◆ As shown in Figure 11 this has also highlighted a broader circular feature associated with the Crown Ridge Ovoid feature, as well as a possible complex circular feature (possibly reflecting a caldera) immediately along strike of the arc-parallel trend to the northwest.



**Table 10: Magnetic inversion cross section interpretation, Crown Ridge, showing geochemistry**

Source: Gold Mountain

**Table 11: Heliborne survey total magnetic intensity on regional magnetics - shows interpreted Crown Ridge ovoid feature and larger circular structure**

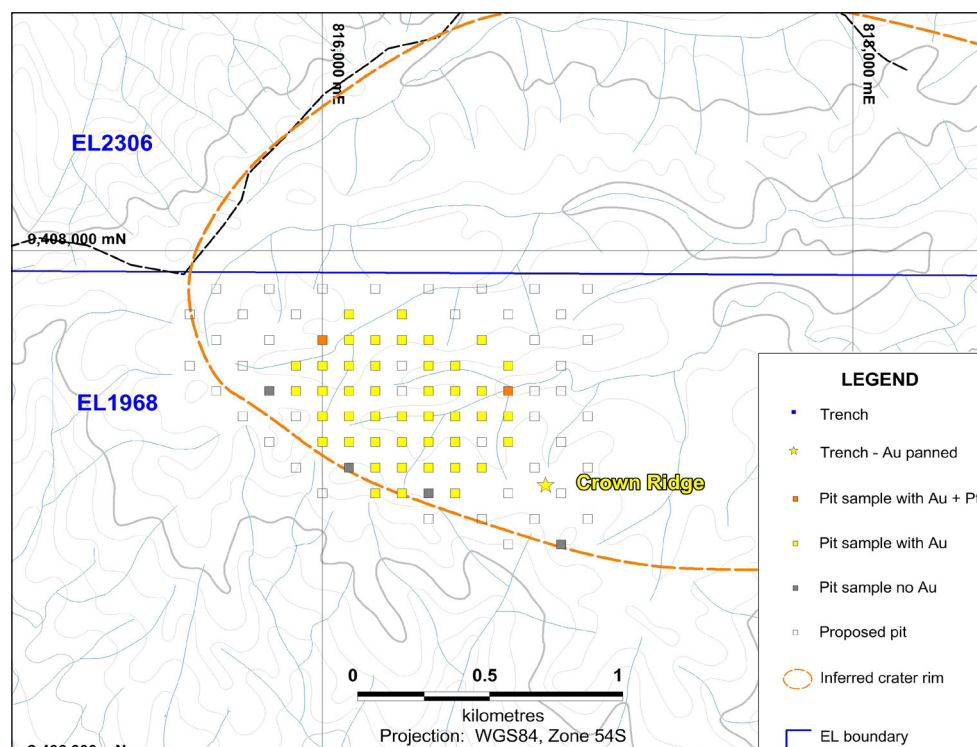
Source: Gold Mountain

- ◆ Additional geochemical sampling at Crown Ridge, testing targets generated from the magnetics and geochemical sampling, has included trenching and the digging of test pits inside the southwestern quadrant of the diatreme.
- ◆ Trenches, largely from the south-west quadrant have returned significant gold and platinum from panning, however this work has been qualitative only.
- ◆ The Company has stated that the nature of the gold indicates it is close to a bedrock source, or else has not moved – there is the possibility that at least some has been chemically remobilised from a nearby bedrock source and deposited in the weathering zone as part of weathering processes – there is also the potential for similar processes to apply to the platinum.
- ◆ Geology in the trenches indicates a highly altered, possibly milled matrix diatreme breccia (else a volcanoclastic), with some clay/tuff units (else “tuffisites”) – alteration is clay/pyrite, with pyrite largely weathered to iron oxides.



- ◆ The bulk sampling programme has been designed to test around 2 km<sup>2</sup> in the southwestern sector, with ~100 2m x 2m x 2m (8bcm) pits planned on a nominal 100m x 100m grid, with some areas sampled at 200m x 200m.
- ◆ Although pan concentrates will be weighed and assayed, our view is that this programme will be semi-quantitative, and results, which will probably under call actual gold content, will not be suitable for use in a JORC 2012-compliant resource – there are potential issues with liberating gold from some very hard packed clay, and losses in the panning process.
- ◆ As of December 13, 2016, some 52 pits had been sampled, with 48 of these returning appreciable gold according to the Company – in one pit it was estimated that some 14.5g of gold was collected in 250 pans, which should it be representative of the pit, equates to a grade of 1.8g/bcm.

**Table 12: Bulk sampling programme**



Source: Gold Mountain

- ◆ To overcome this situation the Company has commenced a programme sampling larger 5m x 5m x 5m (125bcm) pits and treating the material through a dedicated gold screening plant to collect quantitative data suitable for use in a JORC 2012 compliant Mineral Resource Estimate.
- ◆ Initial results from this sampling were released to the market on January 12, 2017, with pit 200 yielding 37.6g and gold and ~4g of platinum from the initial 60m<sup>3</sup> of material from the pit.
- ◆ Operations are currently suspended due to wet weather, and are expected to resume in March 2017.

## PLANNED OPERATIONS - WABAG

- ◆ Ongoing operations will concentrate on the Crown Ridge test pits (including the proposed 5m x 5m x 5m pits), with further activities guided by the results of the current programme.
- ◆ In addition future activities at both Crown Ridge and Sak Creek will be guided to some extent by the results of the interpretation of the airborne magnetics survey.



## BACKGROUND – PNG

### POLITICS AND POPULATION

- ◆ PNG, which gained independence from Australia in 1975, is a parliamentary representative multi-party democracy, with a single house comprising 111 members; 91 from “open” electorates and 20 from provincial based electorates – these provincial members become the provincial governors (unless elected to Cabinet, in which case one of the “open” representations becomes the governor).
- ◆ Governments are elected for a term of five years, with the Parliament electing the Prime Minister.
- ◆ As a member of the Commonwealth the Head of State is the Queen, represented by the Governor General.
- ◆ The Country has a population of ~7.6 million, generally spread throughout the country – Port Moresby, the Capital and largest city has an official population of under 300,000.
- ◆ Given the rugged nature of most of the country, the population is very heterogenous, being divided up into several thousand separate communities distinguished by differing languages and traditions amongst others.
- ◆ There are hundreds of separate languages, however Tok Pijin is widely used and understood by most, and English is the language of business and government, and is taught in schools.

### ECONOMY

- ◆ The local currency is the Kina, with a current exchange rate of 2.37 to the Australian Dollar.
- ◆ In 2014 the country had a GDP of US\$17 billion, or ~US\$2,200/head of population.
- ◆ The country has seen very strong GDP growth over recent years, with real annual growth consistently over 6% to 2015 – the 2002 GDP was reportedly US\$3 billion – it has had one of the highest growth rates of any global economy over this period.
- ◆ The economy is largely driven by natural resources - minerals, oil and gas exports provide close to 70% of PNG’s export income, including gold (31%), copper (9%), LNG (17% and oil (11%).
- ◆ The mineral resources and energy sector contributed some 12% to the country’s GDP in 2014; this was forecast to grow to over 20% on the back of the PNG LNG project.
- ◆ Growth is expected to slow to sustainable levels of ~3%, particularly in the construction area, with the completion of the build of the LNG facilities and with the project now in the production phase.

### MINERAL RESOURCES

- ◆ PNG is well endowed in mineral resources, having one of the largest concentrations of major gold deposits globally.
- ◆ Current gold and copper operations, as included in Appendix 1 below, include Ok Tedi (170ktpa Cu, 500kozpa Au), Lihir (~900kozpa Au), Porgera (~480kozpa Au), Hidden Valley (~73kpozpa Au and 1.3Mozpa Ag) and Simberi (~110kozpa Au).
- ◆ As shown in Appendix 1 at the end of this report there are a number of other major gold and/or copper projects currently in the evaluation stage, or for which the owners are looking towards development.
- ◆ Other operations include the Ramu nickel mine, 8.56% owned by Highlands Pacific (ASX: HIG, “Highlands”).
- ◆ Mining and Exploration activity is dominated by mid-tier companies and majors, including Newcrest Mining (ASX: NMN), Harmony (JSE: HAR), Barrick Gold Corporation (US: ABX), CRA Exploration and St. Barbara (ASX: SBM).
- ◆ Listed Australian juniors in PNG include Gold Mountain, Highlands, Frontier Resources (ASX: FNT, “Frontier”) and Crater Gold Mining (ASX: CGN, “Crater”), as well as a number of unlisted public and private companies.



## MINING LAW

- ◆ The Country has a well-developed mining law, largely administered through the Mineral Resources Authority ("MRA") under the federally controlled Mining Act (1992) and associated regulations, and with similar operation to the state based systems in Australia.
- ◆ The main tenement types include ELs, MLs, and for large projects, SMLs.
- ◆ In addition PNG residents can be granted alluvial mining leases ("AMLs").
- ◆ EL boundaries are based on a one minute square (3.41km<sup>2</sup>) sub-block graticular system, similar to that in Australia.
- ◆ ELs are initially granted for a term of 2 years, renewable for additional terms of two years provided that licence conditions, including minimum expenditure commitments have been met; in addition generally 50% of a licence must be relinquished upon renewal.
- ◆ Annual expenditure commitments are K400 per sub-block in term one, K1,000 in term two and K2,000 from term three onwards.
- ◆ These are in addition to annual licence fees, which per sub-block are K90 in term one, K180 in term two and K470 from term three onwards.
- ◆ MLs are granted for an initial term of 20 years, renewable for additional terms of 10 years.
- ◆ SMLs are granted for an initial term of 30 years, renewable for additional terms of 20 years.
- ◆ There are no foreign ownership restrictions on mining tenure.
- ◆ The Government has the right, but not an obligation to take up to a 30% participating interest in any mineral discovery made during the exploration phase – the consideration payable is the proportion of un-recouped sunk costs of the licence holder equal to percentage stake in the project taken by the state.
- ◆ Environmental law is managed under the Environment Act (2000), operated through the Conservation and Environmental Protection Authority ("CEPA").
- ◆ Environmental impact assessments ("EIA") are required for ML and SML applications.

## MINERALS AND TAXATION

- ◆ A royalty of 2% is paid on the gross revenue from resource sales.
- ◆ Company/income tax is paid on a project basis (i.e. ring fenced) – this is 30% for residents and 40% for non-residents.
- ◆ However there is a 10% dividend withholding tax on dividends paid on mining income for resident companies.
- ◆ Additional profits tax is not applicable to mining projects, but may apply to gas projects, and there is no interest withholding tax payable on interest paid to non-resident lenders.
- ◆ There is generally a stamp- duty of 2% (K10,000 in the case of ELs) on the transfer of mining titles, however there is no capital gains tax in PNG.
- ◆ The Government is amenable to negotiation of taxation factors on a project by project basis.

## CAPITAL STRUCTURE

- ◆ Gold Mountain currently has 381.6 million shares and 63.5 million unlisted options on issue.
- ◆ The unlisted options have strike prices of between \$0.055 and \$0.30, and expiry dates ranging from 31/12/2016 to 28/11/2019.
- ◆ These have the potential to bring \$2.48 million cash should all be exercised.
- ◆ The top shareholder at 8.35% is Suwardi, a private investor.
- ◆ As of January 13, 2017, the top 20 held 57.4% of the stock, with the Company having a total of 574 shareholders.
- ◆ Company insiders hold some 2.36%.



## RISKS

- ◆ **Exploration:** This is the key risk at Wabag, given the early stage nature of the programmes and the targets being sought – although there is the potential for the discovery of major deposits exploration for these styles can be difficult, and given the location and logistics (particularly Sak Creek), time consuming and expensive.
- ◆ **Funding:** With \$1.45 million in the bank as of September 30 and \$2.48 million potential cash on option conversion, the Company would appear to be relatively well funded in the medium term, however should the proposed eluvial operation prove viable, and gets approved, capex will be required. Also, any future funding may depend upon the state of the markets – although the junior resources are buoyant at the moment, these can turn on a dime, and therefore severely curtail the capacity for juniors to fund activities.
- ◆ **Resource:** This is a significant risk with the proposed Crown Ridge eluvial mining operation – this will depend upon collection of bulk samples that comply with the JORC requirements, and of them being of sufficient grade to justify an operation.
- ◆ **Permitting:** Keeping licence expenditure up to date on the ELs is vital – PNG is strict on compliance with the conditions of grant of ELs.
- ◆ **Sovereign:** PNG rated at 44/109 in the 2015 Fraser Institute survey, up from 58/122 in 2014 – although news reports highlight negative issues with the country, the Mining Law is well developed and the country has a strong history of mining. The critical issue here is developing and maintaining strong relationships with the local landowners.

## BOARD AND MANAGEMENT

- ◆ **Mr Tony Teng – Managing Director:** Mr Teng is a Certified Practising Accountant, a Fellow of the Australian Institute of Company Directors and an Associated Fellow of the Australian Institute of Management. Mr Teng has since 1990 worked full-time as a consultant involved with mergers, acquisitions and corporate restructuring. He has had several years' experience on project development and investor relations and has a strong association with the investment community in Singapore and Malaysia. He has also consulted with respect to a number of Initial Public Offerings and public company capital raisings and stock exchange practice.

Mr Teng was a co-founder and Company Secretary of Coalworks Limited (ASX: CWK) that was acquired by Whitehaven in 2012 in a \$200m takeover bid, Joint Company Secretary of Chameleon Mining (ASX: CHM), Director of ASF Group (ASX: AFA) and Executive Director of iCash Payment Systems (ASX: ICP).

- ◆ **Mr Douglas Smith – Exploration and Operations Director:** Mr Smith is a very experienced geologist with a 20+ year career working on major precious metals projects and exploration assets in Canada, Alaska, Australia, and more recently PNG where he has worked since 2011 on projects such as Ok Tedi and Highland Pacific's Star Mountains exploration tenements. Here he was the only expatriate managing a team of over 100 national staff. He also worked on the giant Pebble Alaska 100Moz gold, 80Blbs copper project, managing over 200 contractors with one other colleague. Doug has experience across all key areas of exploration, project logistics, contract/contractor management, procurement, staff management, and community awareness and assistance. He is a qualified geologist and gained his degree from the University of New Brunswick, Canada and is a member of the AusIMM.
- ◆ **Mr Graham Kavanagh – Non-Executive Director & Chairman:** Mr Kavanagh has an extensive background over more than 25 years in securities and fund management, property investment and development as well as earlier experience in the Department of Mines. He held senior positions as a Securities Analyst, General Manager and Director in fund management and property investment.  
Mr Kavanagh currently serves as Joint Company Secretary of Enhanced Oil & Gas Recovery (ASX: EOR).
- ◆ **Mr Eric Kam – Company Secretary:** Mr Kam has extensive experience in finance and operations management across diverse businesses and industries in engineering, construction, mining & resources, technology, finance, marketing and distribution. He is involved in corporate change and listing of companies and is on the board of several other companies. Mr Kam currently serves as Joint Company Secretary of Enhanced Oil & Gas Recovery Ltd (ASX: EOR).



## APPENDIX 1: MAJOR PNG GOLD AND COPPER OPERATIONS

Major PNG Gold and Copper Operations							
Deposit	Owner	Style	Geology	Resources <sup>1</sup>	Age	Status	Production
Ok Tedi	Ok Tedi Mining (PNG Government)	Porphyry Cu/Au/Mo, Skarn Cu/Au	Calc-Alkaline stocks intruding Mesozoic and Cainozoic continental margin marine sediments	Mined and existing resources ~4.8Mt Cu, 16Moz Au	~1.1 Ma	Operating	170ktpa Cu, 500kozpa Au
Lihir	Newcrest	Low sulphidation Au, sub-economic porphyry Cu/Au	Luise Caldera – still geothermally active, associated with alkaline volcanism	Current resources of 820Mt @ 2.2 g/t Au for 57Moz Au, past production of ~10Moz	0.336Ma – 0.10Ma	Operating	FY2016 - 900koz Au, 24koz Ag
Porgera	Barrick 47.5%, Zijin 47.5%, Enga Province and landowners 5%	Carbonate base metal Au/epithermal Au	Porgera Intrusive Complex	Mined and existing resources ~28Moz Au	6 Ma	Operating	US FY2015 - 480koz Au,
Mt Kare	Previous owners in administration, licence not renewed	Epithermal Au/Ag, breccias, veins	Mt Kare Intrusive Complex - same as Porgera	42.5Mt @ 1.54g/t Au, 13.5g/t Ag - 2.1 Moz Au, 18 Moz Ag	6 Ma	Resource	N/A
Frieda River	PanAust (Guangdong) 80%, Highlands Pacific 20%	Porphyry Cu/Au/Mo, Skarn Cu/Au, epithermal Au	Frieda River Intrusive Complex	2.7Bt @ 0.42% Cu, 0.23g/t Au - 13Mt Cu, 20Moz Au	17-11.5Ma	Feasibility Study	N/A
Hidden Valley	Harmony 100%	Low sulphidation carbonate base metal gold, epithermal Au/Ag/quartz	Morobe Granodiorite, Morobe Graben	103Mt @ 1.69g/t Au, 30.8g/t Ag - 5.6Moz Au, 102Moz Ag	4.15Ma	Operating	FY2016 - 72,566oz Au, 1.3Moz Ag
Wafi/Golpu	Morobe JV – Harmony 50% /Newcrest 50%	Porphyry Cu/Au, high and low sulphidation Au	Wau Basin, Morobe Granodiorite, Golpu diorite porphyry, diatreme	1,000Mt @ 0.90% Cu, 0.63g/t Au - 9Mt Cu, 20Moz Au	14-13Ma	Resource	N/A
Tolukuma	Asidokuma Mining Resources	Low sulphidation epithermal Au	Structurally controlled veins within metasediments and volcanics	Resources of 0.431Moz Au?	~5Ma	C & M	N/A
Kainantu	K92 Mining	Epithermal Au/Cu telluride, porphyry Cu/Au potential	Akuna Intrusive Complex, Elandora porphyry	5.5Mt @ 8.1g/t Au, 30g/t Ag, 1.8% Cu, 1.43Moz Au, 5.3Moz Ag, 99kt Cu	10-7.5Ma?	Restart potential	N/A
Yandera	Era Resources Inc.	Porphyry Cu/Mo	Bismarck Intrusive Complex	647Mt @ 0.33% Cu, 0.010% Mo, 0.067g/t Au - 2.451Mt Cu, 68kt Mo, 1.6Moz Au	15-13Ma	Looking towards development	N/A
Simberi	St. Barbara	Low sulphidation, intrusion related Au	Collapsed Caldera	Mined and existing resources ~5.7Moz Au – current resources of 67.8Mt @ 1.7g/t Au	<1Ma?	Operating	FY2016 – 110,286oz Au

Source: Various, including company reports, the PNG MRA website, PNG Chamber of Mines website and the Porter GeoConsultancy website as of November 10, 2016

1: For current operations, resources are an estimate of current resources plus mining depletion.



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