spangel

Non-Independent Research

Goldplat Plc
(GDP LN)

SP Angel Acts as Nomad and Broker to Goldplat

Buy **TP 20 p**

Price: 10.2 p Mkt Cap £17m

8th March 2013

Goldplat – Gold Recovery Going from Strength to Strength

June Year End		2009	2010	2011	2012	2013E	2014E
Revenue	£'000s	11,149	10,663	19,620	26,225	31,465	36,011
Operating Costs	£'000s	9,325	8,604	16,566	21,698	27,045	30,341
Operating Profit	£'000s	1,824	2,059	3,054	4,527	4,420	5,700
EBITDA	£'000s	1,824	2,059	3,003	5,244	4,220	6,095
Post Tax Profit	£'000s	1,064	1,059	2,244	4,644	2,732	4,517
Cash	£'000s	1,551	918	2,488	4,573	4,729	7,565
EPS	pence	0.9	0.8	1.4	2.3	1.5	2.5
P/E		19.8x	21x	11.7x	5.8x	6.4x	5.4x
EV/EBITDA		10.7x	8.3x	6.8x	4.5x	4.7x	4.2x
Dividend	pence				0.6	0.6	0.6
Dividend Yield	%				5.5%	5.5%	5.5%

Key Issues

- Strategic focus in building up the Gold Recovery business where existing operations offer a long term sustainable growth profile.
- The operations are highly cash generative and can self fund growth of more Gold Recovery lines and potential expansion of hubs.
- Gold production has been restructured and will now be a small part of overall group value.
- Cash generation should support the maiden dividend initiated in FY 2012 with a share buy back programme being proposed.

Valuation

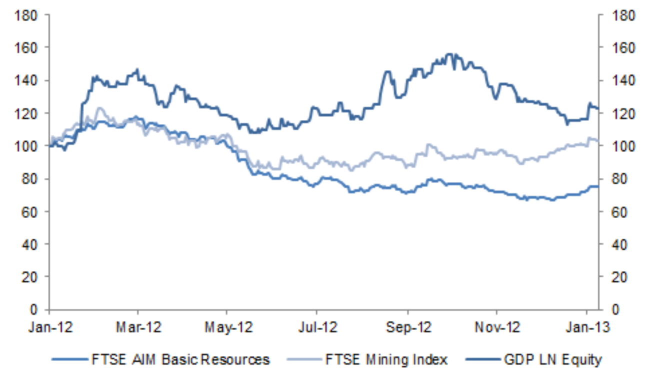
We value Goldplat primarily on its recovery business with little value being assigned to the gold production business given recent management moves to restructure the business.

We value Goldplat on a sum of the parts basis – applying an EV/EBITDA multiple of 5x for the gold recovery business which on a projected EBITDA of £5.6m puts a valuation on recovery of £28m – this accounts for 80% of the value of the business.

The Gold Production downgraded to a £2.5m value for Kilimapesa, other exploration at £1.4m and net cash estimated to be £4.6m at year end.

The shares trade on a prospective PE of 6.4x coming down to 5.4x for FY 2014 – we expect the dividend to be maintained giving a yield of 5.5%.

Share price performance (normalised)



Source: Bloomberg

Research Analysts:

Carole Ferguson +44 (0) 203 0473
Email: carole.ferguson@spangel.c.uk

John Meyer +44 (0) 203 0470
Email: john.meyer@spangel.co.uk

Sergey Raevskiy +44 (0) 203 0474
Email: sergey.raevskiy@spangel.co.uk

UK Equities Sales/Trading
Jody Downes + 44 (0) 203 0471
Richard Parlons + 44 (0) 203 0472

Overview

Goldplat Ltd has successfully grown its recovery operations in South Africa and Ghana and has now got a strategic focus to build on this success to expand existing operations to create more substantial hubs in Southern Africa, west Africa and east Africa.

The recovery business has grown strongly in the last two years and is highly cash generative. The model to build up the gold recovery business has been attractive – it has been through a process of incremental capital investment to increase capacity both in terms of volume and value and also through investment in working capital to be able to buy material from mining clients at their convenience. This has enabled the company to build up a dominant market share in South Africa of 75% and to maintain first mover advantage in Ghana.

Recent interim results have reinforced the growth of the recovery business with underlying gross profit growth of 27% to £3.38m in the half year to December 2012. We forecast a blended growth of 14% for the existing recovery operations in the next financial year (FY 2014) based on initiatives being undertaken in South Africa and optimising the operations in Ghana.

South Africa has an established recovery business with good long term client relationships and a stockpile/inventory of materials that has been built up over time which provides flexibility in the business. This operation is likely to continue to provide a good base line of profit's growth as the company continues to invest to maintain and grow profits with specific initiatives such as tailings re-treatment and sourcing of high grade ore from Central Rand Gold now getting the go ahead.

The recovery business has seen a step change in growth as a result of the Ghanaian Gold Recovery (GRG) business. Ghana moved ahead of South Africa in the last financial year. Over the next couple of years growth is likely to be more incremental with Ghana building on its business base through establishing longer term contracts with customers as well as building up inventory to give the Ghanaian unit the same flexibility as South Africa.

The drivers for growth in the business are a combination of increased volume from customers as well as a process of optimising the recovery lines/facilities.

The company has invested in capacity to process high value materials such as fine carbon which has a high recoverable gold content of 300-500 g/t. This compares with grades of 5-10 g/t for the high volume material such as wood chips that the company processes. The company has invested in Fluidised Bed Incinerators (FBI) to build up their capacity to process carbon with a second FBI line in Ghana boosting the recovery business.

The company are planning to improve and build on the operations in Ghana and use this to develop a bigger hub in West Africa and are investigating a new plant in Burkina Faso. The decision to establish a new plant will be based on securing long term contractual relationships with gold mining companies in the country and region as well as getting the permitting in place to set up a new plant.

In addition to the Gold Recovery business the company had been building an exploration and gold development business on a relatively small scale projects with project Kilimapesa in Kenya, Anumso in Ghana and Nyieme in Burkina Faso. A strategic review undertaken by Russell Lamming, the new CEO has resulted in changes in taking this portfolio forward.

Kilimapesa the first gold project to be taken into development with an original target of achieving gold production of 10,000 oz within the next two years is being restructured. A review of the mine plan against the development profile for the resource as well as the heightened political uncertainty in Kenya has resulted in production being reduced to 5,000 oz per annum to be achieved by the fourth quarter of FY 2014. Kilimapesa made a loss of £415,000 in H1 2013 with losses expected to be contained in the FY 2013 of £750,000. The company has taken an impairment charge against Kilimapesa of £2.38m to reflect the downgraded mine plan.

As part of this review it is likely that the company will set a minimum threshold of 30,000 oz pa for investment to develop a gold production project. Based on this hurdle, Anumso and Nyieme are unlikely to be taken into development as solely gold producing mines. Any development plans for these mines with be looked at in conjuction with existing and proposed gold recovery plants with the ore from these projects used as a potential source of material.

The Recovery Business will now be the strategic focus

The recovery business has grown significantly in the last two years with both the South African and Ghanaian businesses growing their profits at an annualised growth rate in excess of 20%.

Importantly this is a highly cash generative business leaving the company in a net cash position at the end of FY 2012 and in a position to re-invest to sustain growth in existing operations and invest in new units.

Current Recovery Operations offer a visible base line of growth

Goldplat Recovery Limited (GPL) – South Africa (55% of Operating Profits)

South African mining regulations oblige disposal of mining waste in an environmentally responsible manner.

Mining waste includes by-products of the mining process such as woodchips, fine activated carbon, gear grease, smelter slag and mill liner concentrates. For individual mines, it is generally not economic to establish specialised procedures to process such materials and incur costs in waste disposal. Goldplat Recovery offers mines a practical solution to their environmental obligations as well as an additional income stream.

Long term relationships with major mining companies provide base of contracts

The company sources material from many of the major mining companies with a policy to buy raw material when they become available. This has the benefit of enabling management to schedule production in an efficient manner as well as making it more difficult for potential competitors to enter the market. The company offer a full service by taking a variety of materials while other operators tend to specialise in processing particular materials.

As long as mining techniques continue in their current form, Goldplat Recovery will be able to source by-product materials for its processing operations.

After testing to establish assay, moisture content, recoverability and size, GPL purchases the materials from the mine operator (occasionally it will undertake a joint venture whereby the mine operator shares in the resulting profits). Goldplat targets to achieve an operating margin of around 20% on materials in the recovery operations.

Stockpiles provide a cushion to operations amounting to 7 years of installed capacity

The service offering to their customers of taking on raw material has resulted in the company building up a useful stockpile in their South African operations. This puts the South African operation in a good negotiating position on contracts with customers and gives the business flexibility to keep generating profits even when there are short term challenges to material supply as witnessed recently with disruptions to transport and mining activities in South Africa.

Around 786 kg of gold (around 28,000 oz) is contained in materials on site giving around several years of potential inventory. This includes wood chips of 60,000t equivalent to 500kg of gold at 8g/t.

The company is investing in an additional rotary kiln for a modest amount of $550,000 (R5m) to treat high grade wood chips on the stockpile.

Site Visit – Pile of Woodchips above and Bags of Carbon Material below at South African Plant

On going investment in expanding capacity through incremental capex from internally generated cash flow provides for on going growth

The company have been expanding capacity in South Africa on an on going basis with an investment in a new milling, floatation capacity and a fluidised bed and rotary hearth furnace to process high grade carbon. The additional circuits add to the flexibility of the operation to sustain the level of the operation.

The company have built up over six to seven different circuits in South Africa which would require a replacement capex of $15m.

Specific initiatives in South Africa include new tailings re-treatment and sourcing of fresh ore from Central Rand Gold

The company has invested in a tailings retreatment plant with an investment in a CIL (carbon in leach) plant with a capital spend of $550,000 (R 5m) which will enable them to generate around $600,000 a year of profits for the next five to seven years.

The crushing and screening of existing coarse material will be a low cost way of adding value as the material has already been paid for and the company will be crushing and screening to liberate further gold. The use of a CIL absorption circuit is relatively simple with recovery rates of around 20%.

The company have sufficient tailings material to contribute to at least five years of growth without further purchases.

The mining and processing of fresh ore for the Central Rand properties is a departure from their traditional recovery operations. Goldplat has signed up rights to mine two historic mining sites in the Johannesburg area. The tie up with CRG is aiming to recommence gold mining at the Crown East and CMR Bird Reef mines in the West Rand area

The company have given the go ahead to sourcing ore from the Central Rand Gold's (CRG) Crown East no 4. The ore will be mined using contract miners so there is no direct investment in mining capex and it will be processed through the company's existing facilities.

Only a small proportion of fresh ore will be sourced initially at 200 tonnes a month at 15 g/t but this will displace existing material such as surface materials, coarse and oversize woodchips going through the total capacity of

6,000t for the underground line. This will increase the profitability of the line without changing the overall volumes being processed.

Assuming the fresh ore of 15g/t displaces lower grade material of 5g/t we estimate that on 200 tons a month the company has capacity to add around $250,000 to operating profits on an annualised basis at current gold prices of $1,600/oz.

Gold Recovery Ghana (GRG) – Ghana (45% of Operating Profits)

GRG in Ghana which is the second largest gold producing country in Africa is the other major profit contributor to the business. The company established operations in Ghana in the Free Zone Port of Tema which gives them a tax holiday till December 2016.

GRG comprises of three profit centres:

- A toll treatment contract with Adamus Resources (55% of profits)
- CIL Section at Tema their wholly owned operation (35% of profits)
- Incinerator Section at Tema (10% of profits)

Toll Treatment which contributes to 55% of profits at GRG has experienced short term margin pressure

To expand capacity in Ghana the company has toll treatment arrangements with Adamus (a subsidiary of Endeavour Mining) at the Nzema mine. The plant treats tailings purchased by GRG from artisanal and small scale miners and has capacity of 4,000t a month. Higher procurement costs on tailings and an increase in transport and tolling costs has resulted in some margin pressure.

GRG's Incinerator Section which contributes 10% of profits is being targeted for expansion

This unit has two fluidized bed incinerators, a spiral section and a static furnace which treats high grade fine carbon. Each circuit treats small tonnages of high grade carbon and each fluidized bed incinerator has capacity to treat 30 tonnes a month of material which varies from around 100-400 g/t. The carbon incineration process burns the carbon into high value ash which is then refined by Rand Refinery. They get 93-95% recovery rates on gold and silver less processing charges. This compares to recovery rates for carbon in kilns of 50-60%.

The cost of expanding to grow the carbon stream is around $350,000 to $400,000 for a 30 tonne a month unit. Growing this stream provides high profit potential as the each tonne of carbon has a high carbon content (the range is 100-400 g/t and an average of 300-500 g/t).

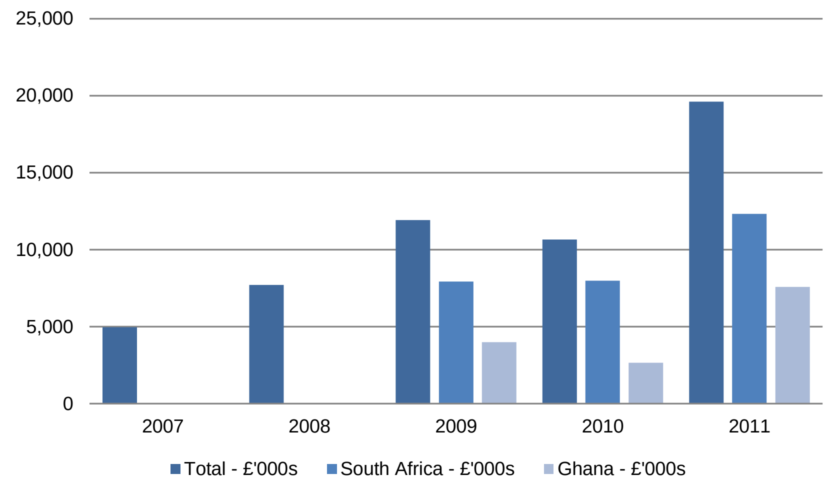
We estimate that each carbon unit can generate between 1,500 to 2,000 recovery ounces on average, with the potential to generate additional annual operating profits of around $200,000 to $300,000 per annum.

While Ghana has been performing well, the company are analysing any potential bottlenecks and making incremental investments to ensure that the recovery operations can be used as a blue print for future expansions.

Establishing new units can provide a step change in growth

A key growth driver for the recovery business is when a new unit can be established. In the same way that Ghana has more than doubled the profits of the company, introducing new units over time will provide a step change in growth.

Growth in Gold Recovery Revenues



Source: SP Angel

In addition, to establishing the capacity needed to start a recovery operation, the company plan to establish longer term contractual relationships with customers so that hubs can be developed around large scale existing customers. In the same way as they have done in South Africa these long term relationships will enable them to build up stock piles which will add flexibility to the business and ensure a stable level of production.

Funding for a new unit is estimated at $3.5-$4m and new units can be brought on stream once approvals are granted within a relatively short time frame of 12 – 18 months. The next unit being evaluated is a new one in Burkina Faso where the company are going through the permitting process. In addition once the processing capability has been established at Kilimapesa subject to legal clarity this could form the basis of a new hub in East Africa.

The mix of products between low and high value materials ensures margin targets are maintained

Production within the operations is scheduled to make the most efficient use of the materials taking into account the ore grade and anticipated recovery levels.

The main raw material traditionally has been woodchips but the company has over time developed the capacity to process higher content gold material such as carbon.

Material	Source	Grades
Wood Chips	Wood packs, logs	5-10 g/t to 50-60 g/t
Stockpiles		
Surface Material	Head frames/conveyor belts	3.5 - 5 g/t
Smelter Slag		5 g/t
Rock waste	Mine surface	3.5 - 5 g/t
Low grade tailings		3.5 - 5 g/t
High Value Materials		
Carbon		300-500 g/t

Source: Company, SP Angel

Using the capacity in the plants to forecast future growth potential is not straight forward. The company operate the plants to maximise profitability not volume/tonnages. They will use the plant to treat materials in the most optimum way to maximise gold profits. Lower grade material will be displaced by higher grade material when opportunities arise.

This flexibility to mix materials minimises the exposure to gold prices

Unlike the majority of gold producers that have a fixed cost with margins exposed to the gold price, Goldplat does not have the same exposure. The price paid for raw material relates directly to the gold price – material cost will be high when prices are high and low when gold prices are low. The contract price will be based on the margin. Similarly on the operating side, Goldplat has margin flexibility through the blending of material - they will maximise the processing of expensive material when gold prices are high and process cheaper material when gold prices are low. There will be exposure to the price in the stockpile.

The company has established considerable knowledge in processing a wide range of by-product material

The company uses standard equipment in gold processing and does not rely on new or untried technologies. Processes which are employed include roasting a rotary kiln, crushing, milling, thickening, floatation, leaching, CIL, elution and smelting (See Appendix 1 for the various circuits in their South African operation).

The secret to its success is the ability to have a number of processing solutions which can operate independently. The company brings together materials from a variety of mines and processes these materials on a scale not available to any individual mine.

Goldplat's portfolio of gold assets is being restructured

The company has recently conducted a review of its portfolio of gold asset which together have close to 1m oz but individually are sub-scale.

Kilimapesa which started production in FY 2012 through processing of development ore is currently being restructured. The company has scaled back its development and production at this mine to reflect the greater uncertainty around legal structures in Kenya but also to reflect the type of resource.

There have been concerns that Kenya will impose new mining regulations which will impose a 35% ownership requirement on projects. While typically changes in mining law do not apply retroactively, the imposition of any changes and the implications for Goldplat's operations in Kenya need to be clarified. Kenya is currently in the middle of an election and the company is investigating their position in relation to this matter.

The target is now to produce 5,000 oz for 15 years instead of the original target of 10,000 oz. Production will be from the higher grade ore of 5g/t – there is 50-60,000 oz of high grade ore with the majority of the resource being of a lower grade of around 1g/t.

The company is currently operating a small plant of 25 tonnes per day (tpd) and they will invest $1-1.5m to increase capacity to 125 tpd. Productivity is being improved with the workforce reduced by one third to reflect the smaller scale operation.

In addition, they will do some drilling on the Red Ray prospect. These deposits are 4 km south west and 2 km north east of the gold processing plant The Red Ray resources has 139,815 oz with mineralisation similar to Kilimapesa Hill and where in fill drilling at the west of the Red Ray intersected mineralisation below historical colonial workings.

The other two gold projects are sub-scale and are unlikely to be taken into development by the company. They can either look to develop these projects in conjunction with their existing recovery operations or sell these projects to a third party looking for greenfield exploration projects.

Anumso in Ghana has a maiden JORC resource of 166,865 oz (2.54 Mt at 2.04 g/t gold) – 41% indicated and 56% inferred.

The resource has been based on historical drill data as well as a 32 hole 6,125m diamond drilling programme completed over a 4 km strike.

The company plan to do a scoping study to see if the ore can be processed through the CIL circuit at the recovery operations in Tema.

At Nyieme in Burkina Faso they have a small JORC resource of 92,589 oz with no further exploration undertaken this year.

The company are looking at ways of exploiting this resource through their proposed recovery operation in Burkina Faso.

The feasibility on the third recovery plant is currently

New CEO Russell Lamming is now in place

Mr Russell Lamming took over as CEO of Goldplat from 1 September 2012. He has conducted a strategic review of the business and is refocusing the business on its gold recovery operations. He has inherited a strong technical knowledge base in the recovery operations and his plan is to build larger hubs around this business by developing long term contractual relationships with gold mining operations in three hubs in South Africa, West Africa and East Africa.

He retains an interest in gold production but believes that exploration and development of new projects should be structured through earn in arrangements. The cash generative nature of the business makes the company well placed to buy into larger scale gold production projects should the right opportunity be identified.

Mr Lamming has worked for a number of AIM listed resource companies such as African Platinum sold to Impala Platinum and was instrumental in bringing the Stellite Chrome Mine into production. He is currently a Non Executive Director of Ferrex. He is a qualified geologist and worked as a precious metals analyst at Deutsche Bank. Mr Lamming has been granted 13.5m options exercisable at £0.1285.

Dr Robert Pitts Smith is the Technical and Marketing Manager of the Gold Recovery business. He has strong experience in the gold recovery business with a very useful experience in metallurgical processes.

Ian Visage is the FD of the business is a key member of the team. He trained as a chartered accountant at KPMG and has been with the company since 1997.

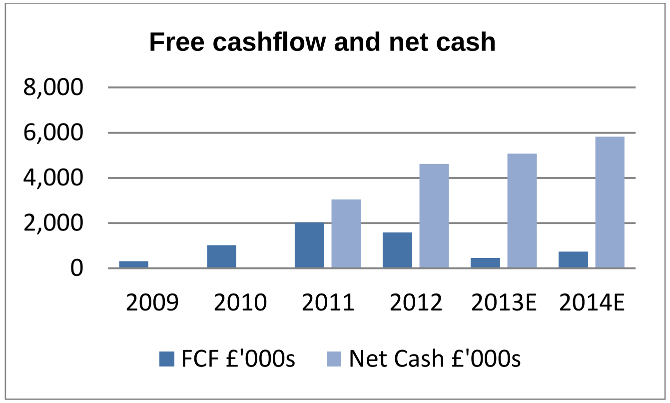
See Appendix 2 for details on the board and management team.

A Maiden Dividend of 0.6 pence a share should be sustainable given company's cash generation

The company paid a dividend of 0.6 pence or £1m based on a net cash position of £4.57m. We project growing free cash flow generation and positive free cash flow post a dividend payment. We assume the company maintains rather than increases the dividend over the next two years.

The company plan to initiate a share buy back programme

In conjunction with a progressive dividend policy the company plan to initiate a share buy back programme. This in our view signals the company's confidence in their ability to continue to generate cash in the underlying business. The buy back programme with a dividend yield should under pin the share price at current levels.



Source: SP Angel

Valuation and Financials

- We value Goldplat on a sum of the parts basis – applying an EV/EBITDA multiple of 5x for the gold recovery business which on a projected EBITDA of £5.6x puts a valuation on recovery of £28m – this accounts for 80% of the value of the business.
- The Gold Production business has been downgraded with a £2.5 m value for Kilimapesa based on 5,000 oz of production at a cash cost of $1,050/oz over 15 years based on long term gold prices of $1,250/oz.
- The other exploration assets are valued at £1m.
- The company continues to have net cash which we estimate at £4.6m

	EBITDA £m	EV/EBITDA	Valuation £m	Value Per share Pence	% of Total Value
Gold Recovery	5.6	5x	28.0	15	78%
Kilimapesa - NPV			2.5	1.4	7%
Other Exploration			1.0	0.5	3%
Cash			4.6	3	13%
Total			36.1	20	

Source: SP Angel

Key assumptions:

Gold Recovery Operations:

- The company operates at full capacity in South Africa and capacity utilisation improves in Ghana.
- The company can displace low value (low gold content) with high value streams to increase gold recoveries.
- Pricing of contracts assays for gold content and includes the cost of transport and processing with a margin for the recovery service which has been running at around 20%.
- We forecast profits rather than revenues achievable from a current base level of operations with growth reflecting initiatives being outlined to grow the business with a blended growth rate of 14% for the next two years.
- Near term initiatives included in growing profit forecasts are:

- The re-processing of tailings in South Africa which we estimate could add $600,000 a year to profits over the next 5-7 years.
- Arrangements with CRG should provide an alternative source of material with the profit potential not being factored in.

- The Recovery business uses cash to fund capex and also working capital – we assume the company continues to fund its “full line” service capability by funding lines of stock. This stock/inventory can release cash flow when required.
- The company has an effective tax rate of 18% as it is on a tax holiday in Ghana till Dec 2016.

We expect the company to achieve a profit of £4.4m for FY 2013 from Gold Recovery and no contribution from gold production. For FY 2014 we estimate that the company can add £0.5m to profits from Gold Recovery with no contribution from gold production.

Gold Production:

- Kilimapesa was a drag to first half gross profits of £2.97m with a loss of £450,000.
- We expect further losses from Kilimapesa for H2 2013 with total losses for the year of £750,000.
- Gold production starts making a contribution to profits in FY2014 of $0.5m and FY 2015 of $1m.

The company’s expansion programmes both in gold recovery and gold development and production are expected to be funded by internally generated cash.

Timing and News Flow

Most of the news flow is expected to be centred around the Gold Recovery business with permitting and feasibility completed on the third recovery plant at Burkina Faso and also specific initiatives being undertaken at South Africa.

We expect the company to link ambitions in gold production to their gold recovery business with Kilimapesa expected to be the only stand alone gold production business which is likely to remain small.

With gold projected to trade sideways, Goldplat which has a relatively low gearing to the gold price should perform well.

Appendix 1

The Process

Below is a description of the plant in South Africa showing processes and current capacity.

1. Washplant

The wash plant has a capacity of 1,500t/ month to treat woodchips.

Raw woodchips are first screened to remove oversize material before being conveyed to the washplant; oversize material is transferred for processing in the underground line.

The overflow from the washplant consists of washed woodchips and fine sands. After screening, the former are stockpiled for treatment in the high grade circuit (see below); the latter are conveyed to the low grade circuit.
The underflow from the washplant is fed to a classifier which separates coarse sand from fine sands (which are re-fed to the woodchip screen).

2. Low grade circuit

This circuit has a capacity of some 1,200 tonnes per month.

Fine sands from the woodchip screen in the washplant are pumped to the thickener where they are mixed with flocculant additive and lime; excess water from the thickener is pumped back to the washplant and the thickener underflow is fed to the tanks in the carbon-in leach ("CIL") circuit. Oxygen is added to the first tank while sodium cyanide solution is added to the second tank. Tanks two to nine contain activated carbon.

Gold-loaded carbon produced in the CIL circuit is conveyed to the elution plant for gold recovery by electrowinning and smelting; the CIL residue is pumped to the low grade stock dam for re-processing after oxidisation.

CIL Circuit South African Plant –Site Visit Feb 2012

The low grade circuit has a separate plant for other material such as surface materials with a high metallic component recovered from foundries which recycle steel mill liners from mines. After being fed through the jaw crusher, the material is milled and pumped to the gravity concentrator which produces concentrate which is then either refined by an external contractor such as Rand Refinery or processed in-house through the james table and thence to the smelter.

Tailings from the gravity concentrator are pumped to a cyclone; the cyclone overflow is fed to the low grade thickener and the cyclone underflow is fed to the mill.

Recoveries in the low grade circuit are typically of the order of 75 per cent comparing the grade after the thickener with the grade of the residue. The installation of a gravity concentrator has enabled recoveries from certain high grade materials to be as high as 89 per cent.

3. High grade circuit

This circuit has a capacity of some 1,200 tonnes per month.

The feedstock for the high grade circuit comprises washed woodchips and flotation concentrate as well as fine carbon and grease. These are fed to the rotary kiln which generates fine ash and coarse ash. The fine ash is carried to the cyclones by the combustion gases where most of the dust is collected as cyclone underflow. The balance of the fine ash exiting the cyclone overflow is captured by a venturi scrubber and the washed gases are vented to atmosphere via a stack.

Coarse Ash from rotary kiln –Site Visit Feb 2012

The coarse ash exits the kiln at the firing end and is fed to the mill where lime is added. The mill discharge is pumped to a cyclone which separates fine milled ash from coarse ash, the latter being reprocessed in the mill.

The fine ash is conveyed to the high grade thickener which also treats the fine dust when it has been re-pulped after the cyclone stage mentioned above.

The thickener underflow is pumped to the high grade CIL circuit and sodium cyanide added. The gold-loaded carbon is removed and conveyed to the elution plant for gold recovery and the residue is pumped to the PGM flotation circuit or the high grade stock dam for re-processing after oxidisation.

Water overflow from the thickener is pumped to the venturi scrubber to recover the fine dust in the overflow from the cyclones. Recoveries in the high grade circuit are typically of the order of 70 per cent comparing the grade after the thickener with the grade of the residue.

A fluidised bed furnace is used for certain higher grade materials such as fine carbon, for more efficient burning capacity in the high grade circuit.

Underground line

The underground line has a capacity of 6,000 t/month.

The feedstock for the underground line comprises surface materials, coarse sand and oversize woodchips from the washplant. Material is fed to the jaw crusher and thence to the ball mill where lime is added. After the mill, the material is pumped to a cyclone which generates fine sand and coarse sand. The latter is re-fed to the mill; the former is conveyed to the thickener where flocculant is added.

Pulp from the thickener is either fed directly to the CIL circuit or (for example in the case of coarse sands) treated in the recently-installed flotation circuit where the flotation tailings are fed to the CIL circuit and the concentrate is conveyed to the kiln in the high grade circuit.

Gold-loaded carbon produced in the CIL circuit is conveyed to the elution plant for gold recovery. Residue is pumped to the stock dam for re-processing after oxidisation.

Recoveries in the underground line are typically of the order of 50 per cent comparing the grade after the thickener with the grade of the residue.

Floatation Circuit

There is a floatation circuit for the treatment of tailings. The current capacity of this is 1,200 tonnes a month.

Treatment of Carbon

This circuit treats small tonnages of high grade carbon and each fluidized bed incinerator has capacity to treat 30 tonnes a month of material which varies from around 100g/t to 1,000 g/t.

The carbon incineration process burns the carbon into high value ash which is then refined by Rand Refinery. They get 93-95% recovery rates on gold and silver less processing charges. This compares to recovery rates for carbon in kilns of 50-60%.

Source: Site Visit – Feb 2012 – Carbon Material

Appendix 2

A Background of the Management Team

Brian Moritz – Non-Executive Chairman

Brian is a chartered accountant and former senior partner of the London office of Grant Thornton, one of the leading international accounting firms. He is on the board of directors of a number of junior mining and exploration companies, the majority of which operate in Africa. He also specializes in advising companies, mainly in the area of flotation. In his former role at Grant Thornton, he was registered by the London Stock Exchange as a nominated adviser and a qualified executive for companies seeking admission to the AIM Market and as a Listed Company sponsor. Brian is a member of the audit and remuneration committees of the company and is responsible for corporate governance issues and compliance with AIM.

Russell Lamming – CEO

Russell is a qualified geologist with an honours degree in geology from the University of the Witwatersrand and a Bachelor of Commerce in Economics from the University of Natal in South Africa. Russell has a wealth of experience in the resource arena, having held a directorship of a South African mining consultancy and having worked as a precious metals analyst for a leading international broker. During his 15 year career he has worked with a number of AIM listed resource companies including African Platinum Plc, which was sold to Impala Platinum and Chromex Mining Plc, where as CEO he was instrumental in bringing the Stellite Chrome Mine into production in South Africa and selling the company to Synergy Africa Ltd. Russell is also a founder and currently acts as a Non-Executive Director of Ferrex Plc, an AIM quoted iron ore and manganese development company focussed on near term production in Africa.

Ian Visagie – Finance Director

Ian is a chartered accountant who has worked in senior positions in the mining industry since 1990. A South African citizen he trained as a Chartered Accountant with KPMG in its Pretoria office. Having gained post-qualifying experience with KPMG he moved into a mining environment in

1990 when he joined Consolidated Modderfontein Mines Limited as financial manager where he first worked with Demetri Manolis.

In 1992, he joined Gravelotte Mines Limited as financial manager. He joined Goldplat Recovery in March 1997 as financial director. With Demetri Manolis, he took over management control of Goldplat Recovery in November 2000.

Ian is responsible for the financial and administration affairs of the company and its subsidiaries.

Dr Robert Pitts Smith – Technical/Marketing Manager

With a PhD in Chemical Engineering and a Masters in business administration Robert has been active in the precious metals recovery industry since 1979 when he originally joined Golden Dumps Research Limited. In 1992 he joined Gravelotte in charge of metallurgical processes and began working with Demetri Manolis on Goldplat Recovery matters in 2000 before formally joining Goldplat Recovery in September 2003. He is currently responsible for marketing and technical matters.

APPENDIX 3

Countries of Operation

The company is operating mainly in African countries which are more developed in terms of doing business as ranked by the World Bank/IFC with South Africa ranked 2nd, Ghana 5th and Kenya 9th out of 46 countries in Sub-Saharan Africa. Burkina Faso is ranked no 24.

South Africa is the most developed economy and country in Sub-Saharan Africa with an established mining sector and well developed infrastructure. The country is still going through a process of change following the end of an apartheid government in 1994. To share in the wealth of the resource industry, Black Economic Empowerment (BEE) was introduced to ensure that there was black ownership of 25% of the value of companies. BEE schemes have had mixed success with BEE ownership limited to a few individuals rather than to have the broader wealth distribution that the scheme was intended for. The widespread poverty and high unemployment rate coupled with issues around land distribution has raised concerns about large-scale expropriation.

Ghana's economy has had one of the fastest GDP growth rates growing by 13.5% in 2011 according to the IMF with oil revenues from the offshore Jubilee Field expected to continue to fuel growth. Ghana has political elections at the end of 2012 where the encumbent president John Atta Mills will face a political battle as a result of rifts in his own political party the National Democratic Congress (NDC) as well as strong opposition from the New Patriotic Party (NPP). Literacy is high in Ghana by African standards at a rate of 66%. The country has a population of 24.3m with and urban population of 52%. The infrastructure in the country is expected to benefit from a $3bn loan from the Chinese Development Bank which is expected to be used for new and rehabilitated road and rail projects.

Kenya has a democratic system run on a presidential basis where the President is both head of state, government and a multi-party system. The Kenyan elections are happening at the moment with Uhuru Kenyatta, the Deputy Prime Minister leading based on early counting. The new government will supercede the previous coalition party formed between the Party of National Unity headed by President Kibaki and the Orange Democratic Movement (ODM) following a disputed election result in 2007. The Kenyan economy is more a service based economy having seen a rapid expansion in the telecommunication and financial sectors in the last decade. The economy has been relatively strong with GDP growth of 4-5%. Agriculture still employs 75% of the labour force. Mining and industrial activity is limited.

Burkina Faso is less developed and the UN rates the country as the world's third poorest country. The mainstay of the economy is cotton production and is therefore exposed to changes in world prices. The country has significant gold reserves and this is likely to become an important source of economic wealth for the country. Blaise Compaore won a new five-year term in 2010 after 23 years at the helm – political freedom is limited.

Risks

Commodity Risk

Gold prices: The gold price has a limited impact on the recovery but the company does have exposure through its stock pile. Gold production is more impacted by the price particularly as it is a high cost producer. Gold prices have gone up on risk aversion over the last two years and are likely to be volatile with the markets looking for economic recovery. We forecast gold prices rising for the next two years to $1800/oz can $1700/oz respectively and then coming down to $1500/oz before reverting to a long term price of £1250.

Operational and Technical Risk

Processes**:** The recovery business uses a number of processes – these use standard mine plant equipment using the company's own knowledge. We believe this risk is limited given the company's track record.

Geology: The mine plan is based on targeting high grade veins with grades higher than the JORC resource grade. This is based on ongoing development work done by the company and in-house estimates of reserve potential.

Political Risk: The company operates in countries where they may be exposed to political risk and regime change.

Management Risk

The success of the company has been built up by key individuals in the company and the business could be impacted should these individuals no longer work in the business.

Investment Research **DISCLAIMER**

This note is a marketing communication and comprises non-independent research. This means it has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination.

This note has been issued by SP Angel Corporate Finance LLP in order to promote its investment services. Neither the information nor the opinions expressed herein constitutes, or is to be construed as, an offer or invitation or other solicitation or recommendation to buy or sell investments. The information contained herein is based on sources which we believe to be reliable, but we do not represent that it is wholly accurate or complete. SP Angel Corporate Finance LLP is not responsible for any errors or omissions or for the results obtained from the use of such information.

No reliance may be placed for any purpose whatsoever on the information, representations, estimates or opinions contained in this note, and no liability is accepted for any such information, representation, estimate or opinion. All opinions and estimates included in this report are subject to change without notice. This note is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose.

In some cases, this research may have been sent to you by a party other than SP Angel Corporate Finance LLP, and if so, the contents may have been altered from the original, or comments may have been added, which may not be the opinions of SP Angel Corporate Finance LLP. In these cases SP Angel Corporate Finance LLP is not responsible for this amended research.

The investments discussed in this report may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk. Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested. Where investment is made in currencies other than the currency of the investments, movements in exchange rates will have an effect on the value, either favourable or unfavourable.

This note is intended only for distribution to Professional Clients and Eligible Counterparties as defined under the rules of the Financial Services Authority and is not directed at Retail Clients.

You are advised that SP Angel Corporate Finance LLP and/or its partners and employees may have already acted upon the recommendations contained herein or made use of all information on which they are based. SP Angel Corporate Fiance LLP is or may be providing, or has or may have provided within the previous 12 months, significant advice or investment services in relation to some of the investments concerned or related investments.

SP Angel Corporate Finance LLP is a company registered in England and Wales with company number OC317049 and its registered office is SP Angel Corporate Finance LLP, 35 – 39 Maddox Street, London W1S 5PP United Kingdom. SP Angel Corporate Finance LLP is Authorised and Regulated by the Financial Services Authority whose address is 25 The North Colonnade, Canary Wharf, London E14 5HS and is a Member of the London Stock Exchange plc.

SP Angel Corporate Finance LLP definition of research ratings:

Expected performance over 12 months
Buy - expected return of greater than +10%
Hold - expected return from -10% to +10%
Sell - expected return of less than -10%