

ASX Announcement
9 November 2018

VANGO MINING RESPONSE TO THE INDEPENDENT EXPERT'S REPORT OF DAMPIER GOLD

Highlights

- Vango Mining believes that the **Fourth Supplementary Target's Statement with Independent Expert Report (IER)** published by Dampier Gold on 5 November 2018 is misleading to Dampier Gold Shareholders.
- The IER disregards the market value of Vango Mining Shares in favour of a technical valuation of Vango Mining's assets when assessing the Offer. This methodology is not in line with accepted market practice.
- The IER finds that further dilutive share issues will be required to fund Dampier Gold's expenditure contributions to secure a joint venture interest in the K2 Mine but the IER does not adequately deal with this issue in determining the value per Dampier Gold share.

In addition:

- Vango Mining has serious questions as to the independence of the expert commissioned by Dampier Gold to prepare the IER. Dampier Gold has provided an IER to its shareholders that was prepared by its own auditors.
- There is inadequate disclosure of the conflicts of interest that accompany Dampier Gold's auditors being commissioned to prepare the IER.

Dampier Gold releases Fourth Supplementary Target's Statement and Independent Expert's Report

Vango Mining Limited (ASX:VAN) (**Vango Mining**) provides this update on its **Offer** to acquire shares in Dampier Gold Limited (ASX:DAU) (**Dampier Gold**) on the terms set out in the Replacement Bidder's Statement dated 15 October 2018 (supplemented by the Second Supplementary Bidder's Statement dated 15 October 2018 and varied by the Notice of Extension of Offer Period dated 17 October 2018). The Offer was freed of defeating conditions on 30 October 2018. The **Offer Price**, under the terms of the Offer, is two Vango Mining shares for every seven Dampier Gold shares.

On 30 October 2018, Dampier Gold sent its **Third Supplementary Target's Statement** to Vango Mining which disclosed that Dampier Gold had commissioned an independent expert's report in relation to the Offer. The Third Supplementary Target's Statement did not identify the independent expert.

On 5 November 2018, Dampier Gold sent its **Fourth Supplementary Target's Statement** to Vango Mining. The Fourth Supplementary Target's Statement included an IER prepared by Stantons International Securities Pty Ltd and an Independent Technical Assessment and Valuation (**Dunbar Report**) prepared by Dunbar Resource Management. The independent expert is a subsidiary of Dampier Gold's auditors, Stantons International Audit and Consulting Pty Ltd, these companies are referred to together as **Stantons International** in this announcement.

The Board of Vango Mining has reviewed the Fourth Supplementary Target's Statement, IER and the Dunbar Report. The Board of Vango Mining makes the following comments:

1. The IER disregards the market value of Vango Mining shares in favour of a technical valuation of Vango Mining’s assets

- The valuation methodology in the IER disregards the market value of Vango Mining shares in favour of the technical valuation provided in the Dunbar Report. This approach results in an artificial understatement of the realisable value of Vango Mining shares and is not in accordance with recognised market practice. ASIC’s Regulatory Guide 111 provides for the assessment of the value of non-cash consideration on the basis that the expert should consider the depth of the market, volatility and whether or not the market value is likely to represent the value if the takeover bid is successful, but makes no provision for a “technical” or “adjusted net asset” valuation, as adopted in the IER, to allow for a complete disregard of the market valuation of the shares being offered.
- The IER discounts the market value of Vango Mining shares on the basis that trading in Vango Mining shares is illiquid. Vango Mining considers that, whilst Vango Mining shares are relatively tightly held, there is a sufficiently liquid market in its shares for the share price of Vango Mining to be a reliable measure of its value. **Table 1** demonstrates that approximately \$7M of Vango Mining shares have traded on ASX in the six months prior to this announcement.

Table 1: Trading in Vango Mining shares over the past 6 months (Source: Capital IQ)

Month ended	VWAP for month	Monthly volume	As % of issued share capital	Value traded (\$)
7-Nov-18	0.185	3.0	0.5%	548,267
7-Oct-18	0.178	3.2	0.6%	578,397
7-Sep-18	0.200	3.0	0.6%	598,797
7-Aug-18	0.187	10.4	2.2%	1,949,127
7-Jul-18	0.211	6.4	1.4%	1,357,206
7-Jun-18	0.145	14.3	3.1%	2,075,565
Total				7,107,358

- As noted in Section 3.6 of the IER, the maximum number of consideration shares to be issued under the terms of the Offer, approximately 34.2 million shares, represents only 5.51% of Vango Mining’s total shares on issue. Vango Mining believes that Stantons International should also have taken this into account in assessing the market liquidity for Vango Mining shares and the impact of the Offer.

2. The IER accepts that the Offer Price provides a substantial premium based on recently traded share prices of Vango Mining and Dampier Gold

- The IER notes that at “recent traded share prices, and at the price of the most recent placements by both Dampier and Vango, the Takeover Offer of 2 Vango shares for every 7 Dampier shares represents a substantial premium to Dampier’s recent traded share price, well in excess of a “normal” control premium.”

- If, as it should have been, the market value of Vango Mining shares is adopted as an appropriate valuation methodology then, based on the implied value of the Offer Price prior to the announcement of the Offer on 17 September 2018, the Offer Price:
 - exceeds the range of values (\$0.0293 to \$0.0452 per Dampier Gold share) based on an assumption that Dampier Gold holds only a 4.1% joint venture interest in relation to the K2 Mine; and
 - falls with the range of values (a low value of \$0.0402 and a high value of \$0.0799 per Dampier Gold share) for Dampier Gold shares based on an assumption that Dampier Gold holds a 50% joint venture interest in relation to the K2 Mine.
- The IER accepts that if these share prices are sustained, then accepting the Offer provides shareholders in Dampier Gold with an opportunity to realise their investment at a significant premium.
- The IER notes that before the announcement of the Offer, “Vango shares were last traded at 19 cents, and had a one month and three-month VWAP of approximately 20 cents.”. The IER notes that over the past year the volatility of Vango Mining’s shares was 82%, within the range of 70% to 100% expected for a junior exploration company.
- Vango Mining’s capital raising on 4 July 2018, a share placement to sophisticated and professional investors, was conducted at a price of 18 cents per Vango Mining share and raised approximately \$5.1 million. This result illustrates there has been recent market demand and price discovery at this price.
- Table 2 below sets out the Vango Mining share price based on VWAP over the past six months. Table 2 indicates that the Vango Mining share price has been consistent in a weak broader junior resources market and has sustained a price of over 18 cents over the last five months.

Table 2: VWAP of Vango Mining shares over the past 6 months (Source: Capital IQ)

VWAP period	Vango Mining VWAP (A\$)
1 month	0.185
2 month	0.181
3 month	0.187
4 month	0.188
5 month	0.193
6 month	0.176

3. The “technical valuation” adopted in the IER in relation to Vango Mining shares does not reflect Vango Mining’s recent successful drilling

- As discussed in the Dunbar Report, Vango Mining has undertaken significant exploration work within the Plutonic Dome (Marymia) Project since mid-2017, with the majority of drilling having been conducted at Trident and Cinnamon. The results of this exploration work have not yet been used to update Mineral Resource estimates. The Dunbar Report does not include these exploration results in their assessment of the valuation of Vango Mining shares and values Vango Mining’s assets (excluding K2) based on its current Mineral Resource estimate, employing an exploration project multiple range.

- The significant increase in the Vango Mining share price set out in the IER has taken place in response to market announcements made in relation to this exploration work. Vango Mining believes that given the limitations of the Dunbar Report, Stantons International should not have disregarded the merits of a market-based valuation in favour of the valuation provided in the Dunbar Report.

4. The Fourth Supplementary Target's Statement misrepresents the findings of the IER

- The Fourth Supplementary Target's Statement substantively misrepresents the conclusions of the IER.
- There is no disclosure in the Fourth Supplementary Target's Statement that the preferred value of the Dampier Gold shares, set out in the IER and disclosed in the Fourth Supplementary Target's Statement, depends on Dampier Gold obtaining a 50% joint venture interest under the Terms Sheet between Vango Mining and Dampier Gold.
- There is considerable uncertainty whether Dampier Gold will obtain sufficient funding for a 50% joint venture interest or if it does, what the dilutionary effect will be, as discussed in section 5 below.
- Any joint venture interest of Dampier Gold of less than 50% will produce preferred values which are lower than the current estimates of preferred value disclosed in the Fourth Supplementary Target's Statement. This is not addressed in the IER.

5. The IER finds that Dampier Gold will be required to undertake further dilutive share issues to secure a joint venture interest

- Stantons International disclose in the IER that the balance of the 50% joint venture interest in relation to the K2 Mine is yet to be earned and find that Dampier Gold is likely to need to raise additional equity (cash) of \$2,754,760 obligation to earn a 50% joint venture interest. Stantons International considers that Dampier Gold may also need to raise additional funds to bring the K2 Mine into production.
- The IER notes that the terms on which Dampier Gold could raise additional equity are uncertain and accordingly there is risk that funds may be raised at a lower price than the values described above, which would dilute value to existing shareholders.
- Dampier Gold has undertaken significantly dilutive share issues since the Offer was made. On 16 October 2018, Dampier Gold announced that it had issued 40,000,000 Dampier Gold shares in a private placement (**Private Placement**) at a price of \$0.025 per Dampier Gold share. The Private Placement raised \$1,000,000 of working capital at a discount of approximately 124% to the implied value of Vango Mining's Offer Price of \$0.056 per Dampier Gold share at the Announcement Date.
- The Private Placement diluted the issued capital of Dampier Gold by 33.4% (based on 119,640,141 Dampier Gold shares on issue prior to the Private Placement). As noted in the IER, additional, significantly dilutive capital raisings will be required as Dampier Gold will require \$2,754,760 to possibly acquire a 50% joint venture interest. For example, were Dampier Gold to raise additional funding of \$2,754,760 at a price of \$0.025, the Private Placement price, it would require the issue of a further 110,190,400 Dampier Gold shares. The dilutionary impact of this raising would mean that, instead of a preferred value per Dampier Gold share of 6.01 cents as outlined in the IER, the preferred value would be 3.61 cents per Dampier Gold share.
- The IER makes no assumptions in its valuation methodology, or provides any assessment at all, of how such dilutive capital raisings will affect the valuations of Dampier Gold shares. The valuations of Dampier Gold shares have been calculated by Stantons International based on the current issued capital of Dampier Gold, with no

provision made for the necessary further capital raising required by Dampier Gold to earn up to a 50% joint venture interest in the K2 Mine. As a result, the valuations of Dampier Gold shares, based on Dampier Gold holding a 50% joint venture interest in the K2 Mine, are misleading as they do not account for the dilutive effect of further capital raisings.

6. Dampier Gold commissioned its auditors to prepare the IER

- Stantons International, who provided the IER, are also auditors of Dampier Gold. Stantons International should not have been commissioned to act as an independent expert in circumstances where there are serious issues of independence. It is highly unusual that a company would engage its auditors to act as an independent expert.
- Stantons International have been auditors to Dampier Gold for each financial year between 2011 and 2018. Indeed, Stantons International have been the only auditors Dampier Gold has had since listing on the ASX in 2010. Stantons International also provided the investigating accountant's report on Dampier Gold's initial public offering in 2010.
- Vango Mining is particularly concerned by Dampier Gold commissioning Stantons International to provide the IER in circumstances where it had previously appointed and then terminated (without explanation) a third party corporate adviser, RFC Ambrian, as its corporate adviser in relation to the Offer. Dampier Gold then appointed its own auditor as an independent expert.
- In January 2018, Stantons International acted as independent expert for Dampier Gold. Stantons International provided the independent expert's report on the proposed sale by Dampier Gold of Aurigin Foods Pty Ltd (**Aurigin Foods**) to Aurigin Australia Limited (**Aurigin Australia**), a company associated with Malcolm Carson and Hui Guo. Under that transaction:
 - The independent expert's report of Stantons International concluded that the proposed sale by Dampier Gold of Aurigin Foods was not fair but reasonable for shareholders of Dampier Gold not associated with Aurigin Australia.
 - Following completion of the sale, Dampier Gold provided Aurigin Foods with an unsecured and interest free loan of \$500,000 which remains outstanding. At the balance date for Dampier Gold's Annual Report 2018, the value of the loan had been fully provided for as a doubtful debt.
- Stantons International provided the IER in its capacity as licensed financial services provider. Licensed financial service providers have legal obligations to manage conflicts of interest. By accepting the engagement, Stantons International placed itself in a position where there was a material conflict between its own interests as an independent expert (and accompanying duties owed to Dampier Gold shareholders) and the interests of its audit client, Dampier Gold. As a licensed financial services provider, Stantons International should not have permitted such conflicts to arise.

7. The disclosure of conflicts of interest in the IER is inadequate and must be addressed urgently

- There is no disclosure in the IER of key terms of the relationship between Stantons International and Dampier Gold, required to be included in the IER by ASIC guidance, including:
 - the actual amount of fees paid, or other benefits provided, to Stantons International for the report; and
 - the financial interest of Stantons International in remaining auditors to Dampier Gold (no disclosure of the current terms of the audit engagement between

Stantons International and Dampier Gold is provided) and how Vango Mining controlling Dampier Gold would affect this financial interest.

- There is no disclosure in the IER of Stantons International providing the independent expert's report in relation to the proposed sale of Aurigin Foods by Dampier Gold.
- Stantons International, as a licensed financial services provider, is required to provide disclosure of conflicts of interest in a timely, prominent, specific and meaningful way, and provide such disclosures with sufficient time to allow Dampier Gold shareholders reasonable opportunity to assess the effect of the conflict.
 - The disclosure of Stantons International conflicts of interest in acting as both the independent expert and auditor of Dampier Gold should have been made at the earliest possible opportunity in the Third Supplementary Target's Statement.
 - Stantons International does not provide prominent, specific and meaningful disclosure of the conflict of interest. The conflict of interest is disclosed in very brief terms in the middle of a paragraph in an appendix to the IER (included on page 41 of the Fourth Supplementary Target's Statement).
 - The conflict of interest should have been disclosed specifically and prominently in the Fourth Supplementary Target's Statement.
- Vango Mining has serious concerns about the adequacy of disclosure in the Fourth Supplementary Target's Statement and the IER if these documents are not amended.

Dampier Gold shareholders are encouraged to accept the Offer without delay

Vango Mining notes that the Offer represents very attractive premiums to the recently traded prices for Dampier Gold shares (prior to the announcement of the Offer on 17 September 2018), no superior offer has been received and Dampier Gold's share price may fall materially if the Offer is not successful. In these circumstances, Vango Mining encourages shareholders of Dampier Gold to **accept the Offer without delay.**

Key dates for the Offer are set out below.

Key dates	
Date of the original Bidder's Statement	17 September 2018
Date of the Replacement Bidder's Statement	15 October 2018
Date of Offer	15 October 2018
Date of the Second Supplementary Bidder's Statement	15 October 2018
Offer closes (unless further extended)	7.00pm (Sydney time) on 16 November 2018

If you have any questions, including in relation to how to accept the Offer, please call the Vango Mining Offer Information Line on 1300 737 760 (toll free for callers within Australia) or on +61 2 9290 9600 (for callers outside Australia).

For more information in relation to this announcement, please contact:

Vango Mining Limited
 Mr Bruce McInnes
 +61 (0) 2 8278 9941

DJ Carmichael
 Oliver Morse / Matthew Hall
 +61 (0) 8 9263 5200