

ASX ANNOUNCEMENT

12 November 2018

VANGO FAILS TO ADDRESS CONCERNS RAISED IN INDEPENDENT EXPERT'S REPORT

Highlights

- **Rather than address issues of substance raised, Vango has attacked the use of a fundamental value based on an independent geologist's report as opposed to its over inflated share price**
- **Vango has not addressed critical issues raised by the independent experts**
- **Dampier calls for improved disclosure from Vango**
- **Concerns over Vango's solvency have been elevated by the commencement of litigation by Superior Gold**

Dampier Gold Ltd (ASX:DAU) notes the ASX Announcement "Vango Mining Response to the Independent Expert's Report of Dampier Gold" released by Vango Mining Limited (**Vango**) on 9 November 2018.

Dampier's Fourth Supplementary Target's Statement issued on 5 November 2018 in response to Vango's takeover offer for Dampier (**Offer**) included an Independent Expert's Report (**IER**) from Stantons International Securities (ABN 42 128 908 289 and AFSL Licence No 448697) (**Stantons**) which included an Independent Technical Assessment and Valuation Report (**ITAR**) by Dunbar Resource Management (**DRM**).

Vango suggests the independent expert should have used its current share price to assess the Offer instead of a value based on independent analysis of Vango's projects. Vango's response has only reinforced Dampier's view that Vango is seeking to use its significantly overvalued share price to exploit Dampier shareholders and mitigate Vango's serious litigation exposures.

Tellingly, Vango has not addressed the key issues of substance raised by the independent experts.

Geotechnical issues with Vango's Trident deposit

Dampier notes the following comments in the ITAR (pages 23 and 24):

"The Trident Mineral Resource estimate is a JORC 2004 estimate and given the geology and extreme deformation in the ultramafic host to the Trident



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mineralisation DRM has concerns regarding the ability of the mineralisation to be extracted by underground mining methods. The principal author has previously drilled within the core of the Trident mineralisation (with RC drilling methods) where the ultramafic sequence is extremely sheared and folded and there were very high-water flows into the host stratigraphy...

...DRM has technical concerns regarding the eventual economic extraction of the mineralisation due to what DRM considers to be the extremely poor ground conditions. If the deposit were able to be accessed then, in DRM's opinion and based on all the information that is in the public domain (at the time of this report) any underground mining would be subject to very high dilution of the ore with the surrounding barren or low-grade host rock.

It is however possible that the observations of the author outlined above are restricted to the portion of the deposit where Mr Dunbar worked and the specific locations that were observed. The recently drilled extensions to the mineralisation may have very different geotechnical characteristics.

Until Vango discloses the geotechnical aspects of a potential underground development at Trident and its approach in overcoming these challenges in DRM's opinion the resources could only be valued as an exploration resource using resource multiples derived from exploration stage projects."

Furthermore, the ITAR highlights that Vango (then Ord River Resources) commenced a definitive feasibility study (**DFS**) for Trident (refer Vango's September quarterly activity report released 31 October 2014) and that stated that "results will be released to the market as they become available."

The ITAR states (at page 24):

"DRM has reviewed all the public statements by Vango since the DFS was announced and is unable to locate the results of the Trident DFS. In DRM's opinion the outcome of these studies is critical in assessing the viability of the Trident deposit."

Dampier calls on Vango to release the results of the Trident DFS.

Vango's complex debt arrangements and opaque reporting

The IER (at Section 5.5) provides an estimated pro forma balance sheet for Vango which includes an adjustment for the issue of convertible notes with a face value of \$2,500,000 and notes that:

"We have assumed these convertible notes were issued in exchange for the extinguishment of unsecured debt of equivalent value. We note the pro forma



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statement of financial position in the Replacement Bidders Statement (page 48) identifies a debt for convertible note swap transaction of \$2,000,000 that has a negative cash impact. Vango's quarterly cash flow statement for the quarter to 30 September 2018 does not appear to reflect this transaction. We have not been able to clearly discern the details of this transaction from Vango disclosures and have made an assumption on the nature and effect of this transaction. We also note that in Vango's September quarterly cash flow statement, item 8 discloses drawn borrowings of \$1,715,000 [and] \$4,000,000 in convertible notes, which is inconsistent with our adjusted position, and accordingly our adjusted balance sheet is an estimated position only."

Dampier notes Vango's track record of ongoing issuance of debt and subsequent conversion into new equity, and has had difficulty keeping track on Vango's borrowings based on inconsistent reporting. Vango raised an additional \$1.029 million in the quarter to 30 September 2018 which is not reflected in the pro forma balance sheet in Vango's Replacement Bidders Statement (see page 48).

Dampier calls on Vango to provide an up to date pro forma balance sheet and to provide disclosure on the holders and key terms of Vango's various borrowing arrangements.

Questions regarding Vango's solvency

The IER (at Section 11.3.4) notes that:

"Vango's financial position is poor. Exclusive of mineral assets Vango is estimated to have net liabilities of approximately \$12,222,000 and a working capital deficiency (current asset less current liabilities) of around \$7,353,000. It is highly likely that Vango will continue to raise new capital which will dilute Vango shareholders' interests. It is uncertain as to what the issue price or prices may be for Vango to raise further capital."

In Vango's 2018 Annual Report, Vango's auditor EY noted:

"Material Uncertainty Related to Going Concern

We draw attention to Note 2a in the financial report, which describes the events or conditions that indicate a material uncertainty exists that may cast significant doubt on the [Vango] Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter."

Note 2 (a) of Vango's financial report states:

"2(a) Going concern

The financial report has been prepared on a going concern basis, which assumes the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The consolidated entity has incurred a net loss after tax for the financial year ended 30 June 2018 of \$3,565,396 (2017: \$5,576,790) and experienced net cash outflows from operating activities of \$638,852 (2017: \$1,512,850). In addition, current liabilities exceed current assets by \$14,399,977 (2017: \$7,418,872). Subsequent to year end, the group agreed to the conversion of \$5,425,713 of borrowings to equity and completed a capital raising of \$5.2 million.

The ability of [Vango] to continue as a going concern is dependent on [Vango] being able to continue to raise additional funds as required to fund ongoing exploration and evaluation commitments for the Plutonic Dome Gold Project, repay borrowings and fund working capital. The [Vango] Directors believe that they will be able to raise additional equity capital and/or debt as required. The [Vango] Directors believe that [Vango] will continue as a going concern. As a result, the financial report has been prepared on a going concern basis. However, should [Vango] be unsuccessful in undertaking additional raisings, there is a significant uncertainty whether [Vango] will be able to continue as a going concern. No adjustments have been made relating to the recoverability of assets and classification of liabilities that might be necessary should [Vango] not continue as a going concern."

Dampier believes that the recent issues raised in the IER and the ITAR and unaddressed by Vango, and the commencement of litigation by Superior Gold may affect Vango's ability to raise capital, and therefore have elevated concerns over Vango's solvency.

Dampier calls on Vango to provide:

- **An opinion on Vango's solvency from a suitably qualified professional.**
- **If Vango's solvency is reliant on an expectation from Vango's directors that they will be able to raise additional debt or equity, then:**
 - **the identity of Vango's available sources of capital**
 - **the terms on which Vango's directors expect to raise additional capital**
 - **the impact on the capital raising on Vango's capital structure**
 - **the reasons supporting the directors' expectation of being able to raise additional capital.**

Superior Gold litigation

The commencement of litigation by Superior Gold against Vango, and its wholly owned subsidiary DPPL, increased the risk of exposure to damages.

Dampier therefore seeks additional details on the potential exposure including whether a contingent liability should be recognised in Vango's accounts.

In relation to the claims made in Vango's 9 November 2018 announcement responding to the IER, Dampier responds as follows:

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

Dampier response: The IER considered a range of valuation methodologies including market prices. ASIC's RG111.69 states that use of quoted market prices is only appropriate where a liquid and active market in those securities exists. The IER follows prescribed ASIC guidance and is entirely consistent with standard market practice. Vango's comments are unfounded, misleading and inconsistent as it then tries to argue that Vango shares demonstrate sufficient liquidity.

A sufficient liquid and active market is considered to be where 1% of a company's shares trade per week. Vango's own analysis demonstrates that liquidity in Vango shares is significantly below this level.

More importantly, Vango does not refute that Vango shares are overvalued, just that the overvalued market price should have been used for assessing the Offer.

2. Vango claim: The IER accepts that the Offer price provides a substantial premium based on recently traded share prices of Vango and Dampier

Dampier response: Dampier considers this to largely be restating analysis included in the IER, and notes this statement is predicated on an assumption that Vango's current share price is sustainable, which Dampier believes is unlikely.

If Vango believes a share price of 18 cents is sustainable then:

- **Why hasn't Vango raised additional equity at 18 cents and put a cash offer to Dampier shareholders?**
- **Why didn't Vango directors and large shareholders materially participate in the recent raising at 18 cents per Vango share?**
- **Why didn't Vango raise more funds to cover its working capital deficit?**
- **Why has Vango continued to borrow more when it already has a substantial working capital deficit and very little revenue to sustain debt?**

Dampier believes the answers to these questions are all based on overwhelming evidence that Vango's shares are substantially overvalued.

3. Vango claim: The "technical valuation" adopted in the IER in relation to Vango shares does not reflect Vango's recent successful drilling

Dampier response: DRM does not consider these results to materially affect the values ascribed to Vango's projects.

The ITAR (on pages 32 and 33) notes:

"The majority of the exploration drilling conducted in the project since 2017 has been at the Trident deposit with all the intersections either at depth or along strike / down plunge from the existing Mineral Resource. Therefore, they are unlikely to impact on the viability of the Trident deposit as accessing the existing deposit has significant geotechnical constraints as detailed above. Therefore, unless this exploration has shown the newly intersected mineralisation is significantly more competent than it is, in DRM's opinion unlikely to have a significant impact on the overall economics of the project."

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

Dampier response: The IER is attached to the Fourth Supplementary Target's Statement. The Fourth Supplementary Target Statement provides a summary of the findings of the IER. Dampier shareholders are encouraged to read the IER in full to understand the various scenarios and considerations that have been taken in to account in arriving at the findings.



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

Dampier response: Dampier's current cash balance is \$2.45 million and is required to spend a further \$2.75 million to earn its 50% interest in K2.

Vango is estimated to have a working capital deficiency of \$7.35 million and has expenditure commitments of approximately \$3.3 million (the minimum annual expenditure requirement for the Plutonic Dome Gold Project mining tenements. Total tenement rents payable to the Western Australian Government are just under \$600,000 per year, with a similar amount payable for shire rates (see Section 4.2 of the ITAR).

Both companies will require additional capital raisings and the methodology used in the IER is consistent across both companies.

6. Vango claim: Dampier commissioned its auditors to prepare the IER

Dampier response: Audit relationships require independence which is consistent with the independence requirement for an IER. Dampier notes the key valuation judgements leading to the opinion of the IER were made by DRM which has no other relationships with Dampier, and Stantons' choice of methodology was in line with regulatory guidance.

In Dampier's opinion, Vango's attempt to impugn the independence of the independent is designed to deflect from the concerning issues raised in the IER and the ITAR which Vango has chosen not to address.

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

Dampier response: Stantons has provided additional disclosure which is included as an annexure to this announcement.

Dampier considers these fees to be within market norms.

The effect of Vango controlling Dampier on the financial interests of Stantons cannot be assessed by Dampier as this would be determined by Vango.

Vango is:

- **Substantially overvalued, according to two separate independent experts, and its actions are entirely consistent with opportunistically using an inflated share price to exploit Dampier shareholders**
- **Potentially insolvent if it cannot raise further capital which will have a dilutive impact on Vango shareholders**
- **Attempting to impugn the independence of the independent expert instead of providing sufficient disclosure on critical issues**
- **In dispute with its joint venture partner for frustrating the development of K2**
- **Subject to litigation by the company it is reliant upon for toll treatment of its projects**
- **Exposed to potential company sinking damages**
- **A bad deal for Dampier shareholders**



Malcolm Carson
Chairman
Dampier Gold Ltd



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Annexure – Letter from Stantons “Addendum to IER”

12 November 2018

The Directors
Dampier Gold Limited
116 Alastair Street
LOTA, QLD, 4179

Dear Sirs

RE: ADDENDUM TO INDEPENDENT EXPERT'S REPORT ("IER") FOR DAMPIER GOLD LIMITED ("DAMPIER") RELATING TO THE TAKEOVER OFFER BY VANGO MINING LIMITED ("VANGO")

Further to the independence declaration and statements made in Appendix A of our IER dated 1 November 2018, Stantons International Securities Pty Ltd and its related entities ("Stantons") makes the following additional disclosures:

- As disclosed in Dampier's 2018 Annual Report, fees paid by Dampier to Stantons for the year ended 30 June 2018 were as follows:
 - Audit fees: \$32,641
 - Non audit fee for an IER (related to the sale of Aurigin Foods): \$10,075
- Audit fees for the year ending 30 June 2019 are expected to be consistent with the prior year.
- For the preparation of the IER relating to the Vango takeover offer, Stantons will receive a fee of \$40,000.

All amounts referred to above are exclusive of GST.

Yours faithfully
STANTONS INTERNATIONAL SECURITIES PTY LTD
(Trading as Stantons International Securities)



John P Van Dieren - FCA
Director