WPG executes final documentation to acquire the Challenger gold mine

Highlights

- Final agreements have been executed for the acquisition of the Challenger gold mine and South Australian exploration assets from Kingsgate Consolidated Limited (KCN)
- KCN to finalise mining and processing activities and place the mine on temporary care and maintenance on 15 March 2016 with no residual employee or contractor liabilities
- Revised mine plan well advanced for mine re-opening by WPG and DMPL in joint venture
- Gold production from Challenger anticipated before 30 June 2016, subject to approval of the new mine plan
- WPG implementing regional gold strategy in the Gawler Craton and transitioning to gold production.

WPG Resources Ltd (ASX: WPG, WPGO) is pleased to announce that the share purchase agreement (SPA) to acquire the Challenger gold mine and South Australian exploration assets from Kingsgate Consolidated Limited (KCN) has been executed by KCN and the Challenger Joint Venture (CJV).

The 50/50 CJV was established following the exercise of the option to acquire Challenger (announced on 11 December 2015) between related parties of WPG and Diversified Minerals Pty Ltd (DMPL).

DMPL is an entity within the PYBAR Group (PYBAR), one of Australia’s pre-eminent and extremely successful underground mining contractors. The CJV has appointed WPG as manager and PYBAR Mining Services as mining contractor for the Challenger project.
Share Purchase Agreement

**Purchase price**

On completion, WPG will acquire all of the issued capital of Kingsgate’s subsidiary, Challenger Gold Operations Pty Ltd (CGO) and all of its assets for a consideration of $1 million. WPG and DMPL paid $25,000 to KCN in December 2015 on signing the option agreement. A further $75,000 has now been paid following the execution of the SPA. The purchase price will be paid in four quarterly instalments with the first due within 30 days of the recommencement of milling operations at Challenger. The first payment will be offset by the $100,000 already paid.

WPG anticipates there will be approximately 140,000 ounces of gold remaining in known resource.

**Assets**

WPG will acquire the Challenger gold mine and all of KCN’s South Australian exploration assets. Assets to be acquired include the open pits and underground mines, the CIL plant, camp, airstrip and all other relevant assets and infrastructure, as well as all rehabilitation bonds lodged with the South Australian government that now total approximately $2.7 million.

The Challenger gold mine and exploration tenement package surrounding it, and the Barton West mineral sands project tenements, are shown in Figure 1. This drawing also shows the locations of WPG’s Tarcoola and Tunkillia gold projects.

**Completion to occur on 15 March 2016**

Completion will occur after the project is placed on temporary care and maintenance by KCN. KCN will finalise mining and processing activities within the next few weeks. KCN will hand over Challenger on care and maintenance on 15 March 2016 with no residual employee or contractor liabilities.
Royalty Deed

KCN will be paid a royalty of $25 per ounce on gold recovered from the Challenger South South West (CSSW) envelope which is located approximately 300 metres from the Challenger West orebody. This royalty will apply after the first 30,000 ounces of gold are recovered from CSSW. No resource currently exists in the CSSW envelope. No KCN royalty applies from production from any other areas.

Call Option Deed

After the eventual conclusion of all mining and production activities at Challenger by the CJV, KCN has been granted an option to enter into a joint venture with CGO to develop and use the underground workings for hazardous waste disposal.

The tentative findings of the Nuclear Fuel Cycle Royal Commission established by the South Australia Government released last week indicate that South Australia’s Gawler Craton could house a nuclear waste storage facility given its geological stability and arid environment. $257 billion net revenue could be generated over the life of the facility and up to 4,500 jobs created in South Australia. The Commission’s final report is due in May 2016.

The parties have the option to enter into a joint venture for the possible future utilisation of the underground workings as a hazardous waste storage facility. Under the agreement, WPG and DMPL would hold a 20% interest in the joint venture which would be managed by KCN.
Restart of operations

The mine restart plan is well advanced and will be detailed in a separate announcement once it is finalised and adopted by the CJV. The mine plan will focus on a combination of smaller scale mining equipment and reducing mining dilution for a more efficient mining operation. A number of essential site works will be undertaken during the period of temporary care and maintenance prior to the re-start of operations. It is anticipated that the project will recommence operations before the end of the current financial year, subject to approval by the CJV of the new business plan.

The Challenger Gold mine has operated successfully for over 10 years and has produced in excess of 1 million ounces of gold. KCN has demonstrated over the last 18 months that the mine can be operated profitably and WPG anticipates further savings through minimising mining dilution and further reduction of the mine’s operating costs. The PYBAR Group’s expertise in the efficient mining of narrow orebodies will be a key to the successful re-opening and operation of the Challenger mine.

The CJV intends to re-open Challenger based on extraction of known resources with an initial focus on the Challenger West mineralised zone.

Challenger is located close to WPG’s existing Tarcoola and Tunkillia projects in the Gawler Craton which will provide significant operating synergies for all of our assets. Production of gold at Tarcoola is anticipated to commence later this year.

WPG’s Executive Chairman Bob Duffin said: “WPG is pleased to have finalised the transaction documents and we are looking forward to taking possession of Challenger. WPG believes that the mine will be successfully re-opened and envisages a continuation of our excellent working relationship with PYBAR at Challenger.

“We are grateful to KCN’s management and on-site staff for the assistance and ease with which this sale process has advanced and anticipate a smooth handover of the Challenger project on 15 March 2016.”

Challenger Resources and Reserves

The 30 June 2015 published mineral resource estimate for the Challenger gold mine is a total of 0.81 million tonnes at an average grade of 7.47 g/t gold for 0.19 million ounces of contained gold. Further details are set out in the table below. The information is extracted from the report entitled “Kingsgate 2015 Mineral Resources and Ore Reserves” created on 23 October 2015 and is available to view on www.asx.com.au. WPG has not undertaken any work on the project that would impact this published resource estimate.
Mineral Resource Category | Tonnage (Million) | Grade (g/t Au) | Gold (M oz)
--- | --- | --- | ---
Measured | 0.38 | 5.15 | 0.06
Indicated | 0.37 | 9.70 | 0.12
Inferred | 0.06 | 8.41 | 0.02
Total | 0.81 | 7.47 | 0.19

The 30 June 2015 published ore reserve estimate for the Challenger gold mine is a total of 0.59 million tonnes at an average grade of 4.05 g/t gold for 0.08 million ounces of contained gold. Further details are set out in the table below. The information is extracted from the report entitled “Kingsgate 2015 Mineral Resources and Ore Reserves” created on 23 October 2015 and is available to view on www.asx.com.au. WPG has not undertaken any work on the project that would impact this published ore reserve estimate.

Ore Reserves Category | Tonnage (Million) | Grade (g/t Au) | Gold (M oz)
--- | --- | --- | ---
Proved | 0.40 | 4.28 | 0.06
Probable | 0.19 | 3.58 | 0.02
Total | 0.59 | 4.05 | 0.08

PYBAR Mining Services

PYBAR is a nationwide provider of core competencies in metalliferous underground hard rock mining. Founded in 1993, PYBAR’s success to date is based on safe, rapid underground infrastructure development and consistent reliable production, delivering on project from large established mining operations to greenfield developments. Headquartered in Orange, Central NSW, and privately owned, the PYBAR Group has established infrastructure and operations across Australia.

The PYBAR Group provides a comprehensive service offering to the mining industry through a number of businesses including PYBAR Mining Services as underground contractors, HMR Drilling Services (exploration drilling) and JTMEC (mining electrical). As a wholly owned associate Company, Diversified Minerals, holds a number of PYBAR’s investments in other companies and projects. PYBAR has achieved a position of third largest underground hard rock mining contractor in Australia by focussing on productivity and the needs of their clients.

More can be found at: http://www.pybar.com.au or e-mail enquiries@divminerals.com.au

Further Information

*For further information please contact WPG’s Managing Director & CEO, Martin Jacobsen or CFO Wayne Rossiter on (02) 9251 1044.*