

**Chairman's letter to shareholders**  
**Re matched bargain facility**



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**Dear Shareholders**

**Matched Bargain Facility**

On May 20, 2014 the Company announced that, subject to shareholder approval, it would cancel the admission of the Company's ordinary shares of 5p each ("Shares") to trading on AIM ("Cancellation" or "Delisting"). The Cancellation was approved by shareholders and Delisting became effective on July 1, 2014.

At that time, Zhongrun International Mining Co. Ltd. ("Zhongrun"), the Company's major shareholder, informed the Company, that conditional on the Delisting becoming effective, it would be prepared to acquire the Shares of any shareholders who did not wish to remain a Shareholder at a price of 3.72 pence per Share. The Company therefore made arrangements to put in place a matched bargain trading facility ("Matched Bargain Facility") so that shareholders who did not wish to remain as a shareholder would be able to dispose of their shares by making use of the facility.

Subsequently, Zhongrun became involved in negotiations for the sale of certain of its mining assets, including its interest in VGM, and therefore put the Matched Bargain Facility on hold whilst those negotiations were in progress. However, those negotiations were terminated and Zhongrun is now in a position to proceed with its original intention. To facilitate the implementation of the Matched Bargain Facility, details of the actions by shareholders are set out below.

**Operation and Prospects**

The operational results from the company's 100% owned Vatukoula Gold Mine in Fiji for the six months ended 31 December 2014 were published in our update to shareholders on 2 April 2015.

The comparative operational results for the year ended 31 December 2014 and 2013 are presented in the table below.

12 months ended 31 December

	2014	2013
<b><u>Underground Mining</u></b>		
Total underground tonnes mined (ore, waste & capital)	340,078	412,535
Operating development (metres)	5,554	4,290
Strike drive development (metres)	3,003	1,453
Capital development (metres)	3,629	4,311
Total development (metres)	12,186	10,053
<b><u>Sulphide Plant</u></b>		
Sulphide ore delivered (tonnes)	250,221	236,517
Sulphide head grade (grams/tonne)	5.20	5.05
<b><u>Oxide Plant</u></b>		
Oxide ore delivered (tonnes)	87,958	173,994
Oxide head grade (grams/tonne)	2.40	2.24
<b><u>Total (sulphide + oxide)</u></b>		
Ore processed (tonnes)	338,179	410,511
Average ore head grade (grams/tonne)	4.47	3.86
Total recovery	80.60%	77.89%
Gold produced	38,193	39,845
Gold shipped	39,160	39,168
<b><u>Cash Costs</u></b>		
Cash cost per ounce shipped (US\$)	1,376	1,525
Cash cost per tonne mined and milled (US\$/tonne)	160	157
Average realised gold price (US\$/ounce)	1,184	1,354

The cost per tonne ore mined and milled increased slightly from US\$157 per tonne for the year ended 31 December 2013 to US\$160 per tonne for the same period in 2014. However, the cash costs for gold have decreased from US\$1,525 per ounce for the year ended 31 December 2013 to US\$1,376 per ounce for the same period ended 31 December 2014, mainly due to the decrease in energy costs and increase in ore grade delivered to the mill. However, despite the improved ore grade, the mine continued to be unprofitable through 2014.

The comparative operational results for six months ended 30 June 2015 and 2014 are presented in the table below.

6 months ended 30 June

	2015	2014
<b><u>Underground Mining</u></b>		
Total underground tonnes mined (ore, waste & capital)	218,415	146,558
Operating development (metres)	4,003	1,007
Strike drive development (metres)	2,215	1,738
Capital development (metres)	1,005	2,345
Total development (metres)	7,223	5,090
<b><u>Sulphide Plant</u></b>		
Sulphide ore delivered (tonnes)	165,374	111,214
Sulphide head grade (grams/tonne)	4.54	4.71
<b><u>Oxide Plant</u></b>		
Oxide ore delivered (tonnes)	53,041	34,344
Oxide head grade (grams/tonne)	2.15	2.37
<b><u>Total (sulphide + oxide)</u></b>		
Ore processed (tonnes)	216,891	146,259
Average ore head grade (grams/tonne)	3.96	4.17
Total recovery	78.5%	82.7%
Gold produced	22,370	16,425
Gold shipped	21,733	16,942
<b><u>Cash Costs</u></b>		
Cash cost per ounce shipped (US\$)	1,192	1,731
Cash cost per tonne mined and milled (US\$/tonne)	119	200
Average realised gold price (US\$/ounce)	1,211	1,290

The cash cost per tonne ore mined and milled decreased from US\$200 per tonne for the six months ended 30 June 2014 to US\$119 per tonne for the same period 2015. The cash costs for gold decreased to US\$1,192 per ounce for the six months ended 30 June 2015, from US\$1,731 for the same period in 2014. This decrease in cash cost per ounce of gold is mainly due to the substantial decrease in energy costs and the increase in ore output, offset by lower head grades.

Although the Board and Zhongrun believe that, in the longer term, the prospects for the mine remain attractive, the company's gold mining operation in Fiji remains a high cost producer in the bottom quartile among its peer producers in the industry. Moreover, considerable further investment will be required to develop and expand the mine to a capacity that will enable economies of scale to reduce the unit costs of production to a level which enables an economic return to be achieved. Accordingly, the future of the mine will remain dependent on the financial backing of its major shareholder for the near and medium term.

**Financial support and Shareholder dilution**

Zhongrun has confirmed to the board that it continues to believe in the future viability of the mine and that it will therefore be prepared to invest further in the necessary capital improvements. However, further investment by Zhongrun will have the effect of diluting further the interests of other shareholders. Moreover, it is likely to be a number of years before the Company will be in a position to pay dividends or provide any sort of shareholder return, both because of the need, first, to repay the shareholder loans and then to make further significant investment in order to improve the mine operations and reduce production costs.

However, as stated above and recognising the lack of liquidity available to shareholders, Zhongrun has indicated that it is prepared to stand by its original proposal to acquire the shares of any shareholder who no longer wishes to remain a shareholder in the Company at a price of 3.72 pence per share.

**Action to be taken**

Shareholders who are considering whether to take advantage of this facility are encouraged to read the most recent information on our website and to take into account my comments above. If you decide that you do wish to sell your shares you or your broker should contact the Company's broker James Bavister at WH Ireland, at [james.bavister@wh-ireland.co.uk](mailto:james.bavister@wh-ireland.co.uk) or call 0207 220 1666 to indicate your wish. They will ask you to provide details of the CREST account in which the shares are held or send to them the relevant share certificate, if the shares are held in certificated form, together with a letter confirming that you would like to sell your shareholding by taking advantage of the Matched Bargain Facility.

Yours sincerely

Y.B. Ian He

*Chairman of the Board*