



## ANNOUNCEMENT

### Notice of Meeting

**4 June 2013: Brisbane, Australia** – Citigold Corporation Limited (“Citigold” or “Company”) (ASX:CTO, FSE:CHP) advises that the Extraordinary General Meeting of Citigold Corporation Limited to be held on Monday, 8 July 2013 at 10.00am in the Burdekin Room, Mercure Townsville, 166-194 Woolcock Street, Townsville, Queensland 4810, Australia.

This meeting will present you the opportunity to vote on this company’s \$100 million transformational funding opportunity that gives us the catalyst to successfully exploit the impressive gold deposit at Charters Towers.

The Notice of Meeting herewith, includes the Explanatory Notes, Independent Expert Report and Proxy Form, and will be mailed out to all shareholders.

To assist shareholders who can’t attend the General Meeting and wish to vote on the resolution to be considered, your Proxy Form must be received by 12.00pm on Friday, 5 July 2013.

If you plan to attend the meeting, please bring along the proxy form that is mailed out to you to facilitate with registration which will commence at 9.30am.

Your directors and the management of Citigold look forward to seeing you.

Yours sincerely

Mark Lynch  
CEO/Managing Director  
+61 (0)7 3834 000

**Cautionary Note:** *This release may contain forward-looking statements that are based upon management’s expectations and beliefs in regards to future events. These statements are subjected to risk and uncertainties that might be out of the control of Citigold Corporation Limited and may cause actual results to differ from the release. Citigold Corporation Limited takes no responsibility to make changes to these statements to reflect change of events or circumstances after the release.*



## **CITIGOLD CORPORATION LIMITED NOTICE OF EXTRAORDINARY GENERAL MEETING AND EXPLANATORY STATEMENT**

Extraordinary General Meeting to be held at Burdekin Room, Mercure Townsville, 166-194 Woolcock Street, Townsville, Queensland 4810 on Monday 8 July, 2013 commencing at 10am (AEST).

This Notice of Extraordinary General Meeting (**Notice**) and Explanatory Statement (**Explanatory Statement**) should be read in its entirety. If shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

## Corporate Directory

<b>Company</b>	Citigold Corporation Limited ABN: 30 060 397 177 ASX Code: 'CTO'
<b>Directors</b>	Mr John Foley (Non Exec. Chairman) Mr Mark Lynch (Managing Director) Dr Brian White (Executive Director) Mr Matthew Gill (Non Exec. Director) Mr Kim Koh (Non Exec. Director) Mr Satish Panchariya (Non Exec. Director) Mr Raymond Tan (Non Exec. Director)
<b>Company Secretary</b>	Mr Matthew Martin
<b>Registered Office</b>	Level 13, 500 Queen Street, Brisbane, Queensland 4000
<b>Website</b>	<a href="http://www.citigold.com">www.citigold.com</a>
<b>Auditors</b>	KS Black & Co Chartered Accountants Level 6 350 Kent Street Sydney QLD 2000
<b>Legal Advisers</b>	Hemming+Hart Lawyers Level 5 307 Queen Street BRISBANE QLD 4000
<b>Share Registry</b>	Computershare Investor Services Limited 117 Victoria Street WEST END QLD 4101

## **NOTICE OF GENERAL MEETING**

Notice is hereby given that an Extraordinary General Meeting of shareholders of Citigold Corporation Limited (**Citigold** or the **Company**) will be held at Burdekin Room, Mercure Townsville, 166-194 Woolcock Street, Townsville, Queensland 4810 on Monday 8 July, 2013 at 10am (AEST).

To consider and, if thought fit, to pass without amendment the following resolution as an ordinary resolution:

**1. Approval of the issue of Convertible Bonds and Shares upon Conversion of the Converting Bonds, to Express-Link Management Limited**

*"That in accordance with item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the Company to issue to Express-Link Management Limited:*

- (a) up to 100 Convertible Bonds, each having a subscription price and face value of \$1 million; and*
- (b) upon Conversion of the Convertible Bonds, such number of Shares required for Conversion of those Convertible Bonds as determined in accordance with the Funding Agreement,*

*on the terms and conditions described in the Explanatory Statement."*

### **Voting Exclusion**

The Company will disregard any votes cast on this Resolution 1 by Express-Link Management Limited and any associate. The Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by the person chairing the Meeting as a proxy for the person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

### **NOTES**

These notes form part of the Notice of Meeting.

#### **Time and place of meeting**

Notice is given that a general meeting of members will be held at Burdekin Room, Mercure Townsville, 166-194 Woolcock Street, Townsville, Queensland 4810 on Monday 8 July, 2013 at 10am AEST.

#### **Your vote is important**

The business of the general meeting affects your shareholding and your vote is important.

#### **Voting eligibility**

The Directors have determined pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 7pm on Thursday 4 July 2013.

#### **Voting in person**

To vote in person, attend the general meeting at the time, date and place set out above.

#### **Voting by proxy**

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, members are advised that:

- (a) each member has a right to appoint a proxy;
- (b) the proxy need not be a member of the Company; and
- (c) a member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Meeting. Broadly, the changes mean that:

- (a) if proxy holders vote, they must cast all directed proxies as directed; and
- (b) any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes are set out below.

***Proxy vote if appointment specifies way to vote***

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- (c) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- (d) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- (e) if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- (f) if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

***Transfer of non-chair proxy to chair in certain circumstances***

Section 250BC of the Corporations Act provides that, if:

- (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- (b) the appointed proxy is not the chair of the meeting; and
- (c) at the meeting, a poll is duly demanded on the resolution; and
- (d) either of the following applies:
  - (i) the proxy is not recorded as attending the meeting;
  - (ii) the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

***Voting by corporate representative***

A body corporate that is a Shareholder, or that has been appointed as a proxy, may appoint an individual to act as its representative at the general meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the general meeting, evidence of appointment, including any authority under which it is signed, unless it has previously been given to the Company.

***Voting by attorney***

A Shareholder may appoint an attorney to vote on their behalf. For an appointment to be effective for the General Meeting, the instrument effecting the appointment (or a certified copy of it) must be received by the Company in one of the methods listed above for the receipt of Proxy Forms, so that it is received not later than 12 noon on Friday 5 July 2013.

***Forward looking statements***

Certain statements in this Explanatory Statement relate to the future. These statements reflect views only as of the date of this Explanatory Statement. While the Company believes that the expectations reflected in the forward looking statements are reasonable, neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of an event expressed or implied in any forward looking statements in this Explanatory Statement will actually occur.

***Notice to persons outside Australia***

This Explanatory Statement has been prepared in accordance with Australian laws, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

The distribution of this Explanatory Statement may, in some countries, be restricted by law or regulation. Accordingly, persons who come into possession of this Explanatory Statement should inform themselves of, and observe, any such restrictions.

## **Disclaimers**

No person is authorised to give any information or make any representation in connection with the Transaction which is not contained in this Explanatory Statement. Any information or representation not contained in this Explanatory Statement, may not be relied on as having been authorised by the Company or the Board in connection with the Transaction.

## **Privacy**

To assist the Company to conduct the General Meeting, the Company may collect personal information including names, contact details and shareholding of Shareholders and the names of persons appointed by Shareholders to act as proxy at the General Meeting. Personal information of this nature may be disclosed by the Company to its share registry, print and mail service providers, and the Company's agents for the purposes of implementing the Transaction. Shareholders have certain rights to access their personal information that has been collected and should contact the Company Secretary if they wish to access their personal information.

## **Responsibility for information**

The information contained in this Explanatory Statement (except for the Independent Expert's Report and information regarding Express-Link and its intentions) has been prepared by the Company and is the responsibility of the Company. Express-Link assumes no responsibility for the accuracy or completeness of that information. Information concerning Express-Link and its intentions has been provided by Express-Link. None of the Company, its associates or its advisers assumes any responsibility for the accuracy or completeness of that information.

BDO has prepared the Independent Expert's Report and has consented to the inclusion of the report, and references to it, in this Explanatory Statement. BDO takes responsibility for that report, and references to it, but is not responsible for any other information contained within this Explanatory Statement.

Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

## **Competent Person consent statement**

The information in this report that relates to exploration results is based on information compiled by Christopher Towsey, who is a Member of the Australasian Institute of Mining and Metallurgy. Christopher Towsey has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr Christopher Towsey consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

## **ASIC and ASX involvement**

A copy of the Notice of Meeting and Explanatory Statement has been lodged on 3 June 2013 with ASIC pursuant to ASIC Regulatory Guide 74 and ASX pursuant to the Listing Rules. Neither ASIC, ASX nor any of their officers take any responsibility for the contents of the Notice of Meeting and Explanatory Statement.

By Order of the Board of Directors



Matthew Martin  
Company Secretary  
Citigold Corporation Limited  
3 June 2013

## Letter from Chairman

*Dear Shareholder,*

*On behalf of the Board, I am pleased to present you the opportunity to vote on this company's transformational funding opportunity in an environment of uncertain global economic outlook and tight capital markets.*

*Your Board is recommending that you approve the transaction that has been negotiated between Express-Link Management Limited (Express-Link) and Citigold Corporation Limited ("Citigold" or the "Company"), wherein the Company will raise \$100 million through the issue of 100 convertible bonds with a conversion price of 7 cents per share.*

*I am recommending that you vote YES to this proposed transaction at the upcoming meeting of shareholders. This deal is an important step in achieving our simple objective of restoring value for all of our shareholders.*

*As always, in attempting to grow any mining operation outside of its existing constraints, there is an upfront need for working capital, development expenditure and fixed capital prior to the beginning of the opportunity. Then, the revenue follows from the growth in gold ounces, increased profitability and generation of exceptional cash flow which is anticipated. Like all of these plans, it requires a significant working capital uplift and a sizeable development budget, including increased reserve definition expenditure, grade control drilling and mine development, followed by further fixed capital investment in enlarged processing capacity. This process therefore does reshape the size and shape of the Company you are invested in, considerably.*

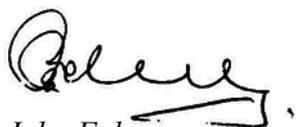
*This investment further confirms the underlying value and future potential of the Charters Towers Project. The deal is about the bigger, longer term picture and not focussed just on the now. The discount reflects the reality of securing an investment of this size in the current environment.*

*However, you would all be aware, that in order to get something you need to give up something. In this case, the objective sought by Express-Link was the ability to obtain a significant interest in Citigold. The serious level of funding that this proposal delivers, would by any investor's assessment, require a level of ownership to put them in a position to assess how things are going and to be directly involved.*

*I and the rest of your Board recommend this transaction to you (subject to no superior proposal arising) as a sound and best way forward for Citigold and its current shareholders. We also ask you to support the Express-Link proposal with a YES vote.*

*We look forward to continuing along this path together and promise you that we are giving our all for the success of your Citigold.*

*Yours Sincerely,*



*John Foley  
Chairman of the Board*

## **EXPLANATORY STATEMENT**

This information forms part of the Notice of General Meeting.

This Explanatory Statement has been prepared for the information of shareholders in relation to the business to be conducted at the Company's Extraordinary General Meeting (**Meeting**) convened at Burdekin Room, Mercure Townsville, 166-194 Woolcock Street, Townsville, Queensland 4810 on Monday 8 July, 2013 at 10am (AEST).

The Explanatory Statement provides information that the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions contained in the Notice of Meeting.

The Notice of Meeting, Explanatory Statement, Independent Expert's Report and Proxy Form are all important documents. They should be read carefully in their entirety before you make a decision on how to vote at the general meeting.

If you have any questions regarding the matters set out in the documents, please contact the Company Secretary on +61 7 3834 0000. You should also contact your accountant, lawyer or other professional adviser.

### **Key dates**

The key dates associated with the General Meeting and this document are set out below:

**Table 1:**

<b>Event</b>	<b>Date</b>
Date of Notice of Meeting	3 June 2013
Completed Proxy Forms to be received	12 noon AEST 5 July 2013
Date and time for determining eligibility to attend and vote at General Meeting	7pm AEST 4 July 2013
General Meeting of Shareholders	10am AEST 8 July 2013

### **Definitions**

Capitalised terms used in this Explanatory Statement are defined in section 8.

### **Who is Express-Link?**

Express-Link Management Ltd (Express-Link) is a company controlled by its sole Director, Mr Ooi Cheu Kok who resides in Malaysia and is a Malaysian citizen. Mr Ooi Cheu Kok manages Express-Link Management Ltd from Malaysia. Mr Ooi Cheu Kok is a veteran of the investing community in his home country, Malaysia, as well as in South East Asia, Mr Ooi started off as a real-estate developer. In 1988, Mr Ooi graduated from La Trobe University (Melbourne, Australia) with a Bachelor of Economics (Accounting). Mr Ooi founded Golden Wave Sdn Bhd, a billion-dollar commercial development project in Kota Kinabalu, East Malaysia. Mr Ooi was instrumental in developing the concept with the local government authorities.

Mr Ooi is a high net worth individual. One of his most significant and recent investment is his holdings in SGX (Singapore mainboard listed) company Blumont Group Ltd (SGX:A33) which has a market capitalisation of SGD\$1.36 billion as at 2 May 2013 (approximately AUD\$1.121 billion as at 3 June 2013). Mr Ooi is currently the second largest shareholder in Blumont Group Ltd and holds 169,118,000 shares in the company. The stock recently trade at SGD0.83 per share (approximately AUD0.68 per share as at 3 June 2013), making the total value of his Blumont shares at SGD\$140,367,940 (approximately AUD\$115,746,321 as at 3 June 2013).

His other holdings include projects in Sabah; residential developments in KolKol and Tenom, and a sea front resort in Marudu, and the Centrepont Shopping Centre in Kota Kinabalu.

Since 2010, Mr Ooi has ventured from real property development to investing in public and private equities in Asia. Most significant and recent is his holdings in SGX (Singapore mainboard listed) company Blumont Group (market cap SGD\$1.36 billion as at 2 May 2013). Mr Ooi holds a substantial stake in the Blumont Group and is its second largest shareholder.

Blumont Group Ltd operates an investment holding business (including equity investments) and a real property development and management business. In March 2013, Blumont acquired an 11.6% interest in Celsius Coal Ltd (ASX:CLA).

Prior to the current transaction, there were no existing interests or relationship between Express-Link and the Company. The Company began its relationship with Express-Link when Mr Ooi approached the Company.

Express-Link is a company incorporated in accordance with the laws of the British Virgin Islands (Company Number 17598547) and is wholly owned by Mr Ooi Cheu Kok. Express-Link has no subsidiaries or affiliated companies. The

sole director of Express-Link is Mr Ooi Cheu Kok. Express-Link does not have any other Australian operations as at the date of this Notice.

Shareholders should note that Express-Link, incorporated in the British Virgin Islands, is not subject to the same requirements as Australian companies. Accordingly, Shareholders of the Company may not be able to obtain the same information about internationally incorporated Express-Link, and its operations, that they may be able to obtain about domestic Australian incorporated companies.

Express-Link's major activities are investment, and, accordingly, Express-Link has decided to invest in the Company as part of its investment strategy.

Express-Link has advanced an initial amount of \$3,000,000 to the Company for the initial tranche of bonds. It is proposed that required funding for the remaining tranches (totaling \$97,000,000) payable by Express-Link over a 21 month period under the Funding Agreement will be facilitated by its shareholder, Mr Ooi, either as a capital contribution or loan to Express-Link. Mr Ooi is a high net worth individual and has numerous other investments and property holdings in Asia.

### **Express-Link's intentions**

This section sets out Express-Link's stated intentions, on the basis of the facts and information concerning the Company that are known to it and the existing circumstances affecting the business of the Company.

#### **(a) Review**

Express-Link and its advisers have reviewed certain information that has been publicly released on the Company, its current activities and its plans for the future, and had certain limited discussions with the Company in relation to its businesses.

However, Express-Link does not necessarily have knowledge of all material information, facts and circumstances that are necessary to assess the operational, commercial, taxation and financial implications of its current intentions. Consequently, final decisions on all of these matters have not been made, and any decisions already made may be subject to change.

If Express-Link subscribes for and Converts the Convertible Bonds, Express-Link may, to the extent that information is available to it, conduct a review of the operations, assets, structure and employees of the Company in light of that information. Final decisions will only be reached after that review and in light of all material facts and circumstances. As such, statements referred to in this section are statements of current intention only which may change as new information becomes available or circumstances change. The statements referred to in this section 3 should be read in this context.

#### **(b) Intentions**

Express-Link's current intentions (if the Funding Agreement is approved and completed) are for the Company to commence ramping up of its Imperial and Central mine projects as soon as practical, on a sustainable basis and to maximise the value of the Company for all Shareholders over the long term.

Except for the changes and intentions referred to in this section 3.1 and elsewhere in this Explanatory Statement, Express-Link indicates that it intends, based on the information presently known to it:

- (i) to continue the business of the Company as it is currently conducted (subject to implementing the development programme set out in section 1.3);
- (ii) not to make any major changes to the business of the Company or the deployment of the Company's assets;
- (iii) not to transfer any Company property between the Company and Express-Link or any person associated with Express-Link;
- (iv) not intend to acquire any additional shares in the Company on-market during the term of the Bonds;
- (v) to continue the employment of the Company's existing Employees;
- (vi) not to interfere with the Company maintaining a strong Board that operates independently of, and separately to, Express-Link; and
- (vii) not to significantly change the financial or dividend distribution policies of the Company.

Express-Link has the right to convert the Convertible Bonds and, as explained elsewhere in this Explanatory Statement, Express-Link may be placed in a position of control over the Company under certain scenarios if Express-Link converts all of the Convertible Bonds.

Before Express-Link can Convert the Convertible Bonds, a number of conditions must be satisfied, including Shareholder approval under this Notice of Meeting, appropriate disclosure to ensure there are no restrictions on Express-Link's ability to sell its Convertible Bonds, Express-Link having obtained FIRB approval (Citigold is advised that the FIRB Approval obtained by Express-Link covers all subscription tranches and is valid until 15 May 2015) and any other regulatory approvals that apply (if any) and there being no material adverse change in relation to the Company, including the Company remaining listed on ASX.

If Express-Link were to gain effective control of the Company, subject to the Corporations Act and the Company's constitution, Express-Link would have the ability to appoint a majority of the Directors on the Company's Board.

The Company currently has seven directors on its Board. Mr Ooi, the sole Director and shareholder of Express-Link has advised that he is intending to appoint one non-executive Director to the Board, who would be an additional Director but that no other changes are intended.

Mr Ooi does not intend to be personally engaged in running the Company, and, other than the appointment of the additional non-executive Director referred to above, Express-Link does not intend to make changes to the senior management of the Company and does not intend to appoint any employees to the Company. Mr Ooi believes that appointments of senior management personnel and employees are matters for the management of the Company.

If the Company were to become a partly owned subsidiary of Express-Link, the implementation of any change Express-Link intends to make to the objectives and goals of the Company (which Express-Link has not currently identified) will be subject to:

- (i) the law and the ASX Listing Rules, particularly in relation to related party transactions and conflicts of interest; and
- (ii) the legal obligation of the Company's Board to act for proper purposes and in the best interests of the Company's Shareholders as a whole.

Proposed Director if members approve the Resolutions

Under the Funding Agreement, Express-Link may nominate a representative to the Company's Board. At the date of this notice Express-Link has not nominated its representative.

### **Independent Expert**

#### Assessment of Fairness

It is the opinion of the independent expert that at the conversion price offered by the Convertible Bonds, the capital raising under the Proposed Transaction is, prima facie, consistent with the previous capital raisings of the Company (the last being conducted at \$0.07 cents per share).

However, concessions granted to ELM by Citigold under the terms of the Convertible Bonds make this comparison inappropriate. Incorporating these concessions (i.e. interest and options), they have calculated an effective capital raising price of \$0.0473.

The implied discount of 14% they have calculated relative to the closing share price of Citigold of \$0.055 immediately prior to the Proposed Transaction is inferior to the prices at which capital has been raised in the past by Citigold. Citigold has previously achieved premiums on its trading price in the order of 20% to 40% in its past three capital raisings. They note however that confidence in the gold sector has generally declined since the last raising with a decline in the gold price and the S&P/ASX All Ordinaries Gold Index of 16% and 38% respectively.

The discount the implied capital raising price represents relative to the closing price prior to the announcement to the Proposed Transaction is within the range of discounts for share issues completed by comparable Australian gold companies in the last 12 months of negative 60% to 16% (set out in Appendix B).

They have also considered items of value relevant to the Convertible Bonds (principally interest and the option value represented by the \$0.07 conversion price). They have calculated a return on the Convertible Bonds of 26.4%. In their view, given the risk associated with the Convertible Bonds, this return is not unreasonable.

However, unlike other capital raisings completed by Citigold, there is potential for ELM to gain control of the Company. Comparing the controlling interest share value range they have calculated a price \$0.072 to \$0.077 to the effective capital raising price of \$0.0473 implies a discount of 34% to 39%.

Having regard to the above assessments of the Proposed Transaction, it is their opinion that the Proposed Transaction does not incorporate a control premium into the price paid by ELM for its interest in Citigold upon conversion of the Convertible Bonds. On that basis and having regard to the above analysis they conclude that the Proposed Transaction is Not Fair to the Shareholders.

#### Assessment of reasonableness

It is the opinion of the independent expert that the history of capital raisings completed by Citigold suggests that the Company may have difficulty completing a capital raising of the magnitude contemplated under the Proposed Transaction on more favourable terms than those offered by the Convertible Bonds in the current environment.

After consideration of all of the issues set out in their report, it is their view that the Proposed Transaction is Reasonable to the Shareholders as at the date of the Report.

They are of the view that the advantages of the Proposed Transaction outweigh the disadvantages of the Proposed Transaction.

### **Key reasons why you should vote in favour of the Funding Agreement**

The Company considers that the Funding Agreement has a number of benefits for Shareholders, as summarised below and set out in more detail in section 2.1 (Key Reasons for the Funding Agreement) of this Explanatory Statement.

- (a) The Convertible Bonds provide necessary funding for significant development of the Company's Charters Towers Central and Imperial mines and hence the growth of the Company;
- (b) Structuring the Funding Agreement to utilise Convertible Bonds may be less dilutionary for non-associated shareholders than issuing ordinary shares at a significant discount to market price in a typical placement, since the Convertible Bonds may not be converted into Shares and in any event, capital market conditions make such a placement difficult and costly to enter into;
- (c) The Independent Expert has stated that discount the implied capital raising price represents relative to the closing price prior to the announcement to the Proposed Transaction is within the range of discounts for share issues completed by comparable Australian gold companies in the last 12 months of negative 60% to 16% (set out in Appendix B of the Independent Expert Report);
- (d) The Funding Agreement serves as a basis to establish a relationship with Express-Link, securing Express-Link's ongoing involvement and interest in the growth of the Company and its projects;
- (e) The Company, with the assistance of its external corporate advisers and finance experts, has run an exhaustive process over a long period of time to identify and negotiate the best funding terms available and to date, the Board considers the Funding Agreement as the best finance terms made available to the Company;
- (f) The debt element of the Converting Bonds, when compared to other debt facilities previously considered by Citigold, has been secured on relatively favourable terms, the coupon being 5% per annum and there being no security over the Company's assets;
- (g) The Funding Agreement does not prevent any future equity issuance by the Company; and
- (h) The Independent Expert has concluded that the terms and conditions of the Funding Agreement are *reasonable* (see page 9 for more information on this).

#### **Reasons why you may consider not voting in favour of the Funding Agreement**

Shareholders should be aware that there are some potential disadvantages of the Funding Agreement, as summarised below and set out in more detail in section 2.2 of this Explanatory Statement.

- (a) If Express-Link elects to Convert all of the Converting Bonds issued to it into Shares, Express-Link will substantially increase its voting power in the Company and existing Shareholders will be diluted. Express-Link's voting power may be as high as 51%, assuming full conversion and no application of anti dilution provisions, in which case Express-Link will gain control of the Company without a takeover premium having been paid to Shareholders;
- (b) Notwithstanding that, the Company, with the assistance of its external corporate advisers and finance experts, has run an exhaustive process over a long period of time to identify and negotiate the best funding terms available, you may consider that the Company may be able to obtain superior funding terms (although no superior proposal has emerged since announcement of the Express-Link Funding Agreement on 9 April 2013); and
- (c) Having regard to:
  - (i) the effective capital raising price under the Funding Agreement (after taking into account interest payable by Citigold and the value of the conversions right) being 4.7 cents and hence a discount to Citigold's share price immediately before announcement of the transaction; and
  - (ii) there being no control premium in the effective capital raising price, (where a control premium implies a price of 7.72-7.77 cents, as opposed to the effective capital raising price of only 4.7 cents),
  - (iii) the Independent Expert has concluded (on page 34 of the Report) that the Proposed Transaction is not fair.

#### **Directors' recommendation**

The Directors unanimously support BDO's opinion and recommend approval of the Funding Agreement, because:-

- (a) the Funding Agreement provides the Company with capital to develop its Charters Towers gold project into production, as contemplated in section 1.3 below, in circumstances where the Company will have great difficulty in unlocking the value of its assets for shareholders without a capital injection of the size contemplated in the Funding Agreement;
- (b) the funds raised will allow the Company to move significantly towards its stated goal of realizing the potential of its Charters Towers assets; and

- (c) The Independent Expert, taking into account the following factors (among others), has formed the view that the terms and conditions of the Funding Agreement are *not fair but reasonable* to shareholders of Citigold not associated with Express-Link:
- (i) The conversion price of the Convertible Bonds is fixed at 7 cents (subject to adjustment if Citigold issues further equity);
  - (ii) Taking into account interest and conversion rights, the effective capital raising cost under the Funding Agreement is 4.7 cents and there is no premium for the right of Express-Link to convert and obtain control of Citigold;
  - (iii) The effective capital raising cost is at a discount of 14% to Citigold's share price immediately prior to the announcement of the transaction and is larger than Citigold's previous raisings, which attracted a premium of between 20% and 30%, but:
    - A. Citigold's previous equity capital raisings have been on progressively less favourable terms and were for materially smaller sums of capital;
    - B. Citigold has historically had difficulty attracting debt funding;
    - C. Sentiment in the gold sector and for commodities generally, has become weaker and since Citigold's last completed capital raising, there has been a decline of 16% in the gold price and 38% in the S&P/All Ordinaries Gold Index;
    - D. Given current conditions, there is no evidence Citigold will be able to attract equity capital on terms more favourable than the Funding Agreement;
    - E. Citigold would have difficulty attracting debt funding without offering the lender upside potential similar to that offered under the Funding Agreement;
    - F. Looking at the transaction from the perspective of the Lender, Express-Link gets a rate of return of 26.4% on its investment if it holds the bonds to maturity, which having regard to Citigold and its peers, is an appropriate rate of return for an investment of this nature; and
    - G. The discount implied in the effective capital raising price of 4.7 cents, is in line with discounts offered by comparable gold companies to Citigold in Australia in the preceding 12 months, for equity capital raising;
  - (iv) In this context:
    - A. A transaction is *fair* if the value of the consideration to be received by Shareholders (in this case, \$100 million) is equal to or greater than the value of the Shares and other benefits (in this case, interest and conversion rights) that will be received by the Lender, Express-Link. The Independent Expert has concluded the Proposed Transaction is not fair; and
    - B. An assessment of *reasonableness* evaluates other significant factors Shareholders may consider in deciding to vote for or against a transaction, such as the advantages and disadvantages of the transaction and the Shareholders' position if the transaction is not approved. In other words, a transaction is *reasonable* if there are valid reasons for its approval, even despite (as in this case) the transaction not being assessed as *fair*.
    - C. A transaction may be *reasonable* despite not being *fair* if, after considering other relevant factors, the interests of Shareholders are reasonably balanced.
  - (d) Weighing up all the factors, the Directors believe that despite the Funding Agreement not being *fair*, primarily owing to the absence of a control premium (see page 36 of the Report), the interests of Shareholders are reasonably balanced, having regard to the effective capital raising price, capital market conditions, the gold price, Citigold's current position, equity raisings by comparable gold companies in Australia, the return being received by Express-Link and the preponderance of advantages over disadvantages (see paragraph 2.1).

The Directors therefore unanimously recommend Shareholders vote in favour of the Resolutions to approve the Funding Agreement and the issue of Convertible Bonds. Further information on the reasons for the Directors' recommendation can be found at section 2.

## Table of Contents

<b>1.</b>	<b>Details of the Funding Agreement</b>	<b>13</b>
1.1	Material Commercial Terms	13
1.2	Conditions precedent	13
1.3	Purpose of the Funding Agreement	15
1.4	Independent Expert's Report	15
1.5	Directors' Recommendations	15
<b>2.</b>	<b>Rationale for the Funding Agreement</b>	<b>15</b>
2.1	Key reasons for the Funding Agreement	16
2.2	Reasons why you may consider not voting in favour of the Funding Agreement	17
2.3	Independent Expert Considers Transaction is not fair but reasonable to Shareholders who are not associated with Express-Link	17
<b>3.</b>	<b>About Express-Link</b>	<b>18</b>
3.1	Express-Link's intentions	18
3.2	Proposed Director if members approve the Resolutions	19
<b>4.</b>	<b>About the Company</b>	<b>19</b>
4.1	History	19
4.2	Key Assets	20
4.3	Mineral Resources	20
4.4	Current Directors	20
4.5	Current capital structure	20
4.6	Top 20 Shareholders	21
4.7	Substantial Shareholders	21
<b>5.</b>	<b>Impact on the Company's Financial Position</b>	<b>21</b>
5.1	Use of funds made available under the Express-Link Facilities	21
5.2	<i>Pro forma</i> balance sheet	21
<b>6.</b>	<b>Impact on the Company's Capital Structure</b>	<b>22</b>
6.1	Current capital structure	22
6.2	Potential capital structure as a result of the Funding Agreement	22
6.3	Conversion mechanism for Convertible Bonds and effect of Conversion on the Company	23
6.4	Express-Link's potential shareholding in the Company	23
<b>7.</b>	<b>Additional Information</b>	<b>24</b>
7.1	Regulatory requirements	24
7.2	Section 611, item 7 approval	24
7.3	ASIC Regulatory Guide 74	25
7.4	Application of Listing Rule 7.1	26
7.5	Voting prohibition statement	26
7.6	Consents	26
<b>8.</b>	<b>Glossary</b>	<b>27</b>

### Attachment A

---

## 1. Details of the Funding Agreement

### 1.1 Material Commercial Terms

The material terms of the Funding Agreement are:

- (a) Express-Link will subscribe for unsecured bonds (**Convertible Bonds**) in Citigold, up to an aggregate of \$100 million and each having a face value of \$1 million;
- (b) Express-Link has subscribed for an initial tranche of 3 Convertible Bonds (**First Tranche**) at \$3 million and:
  - (i) a further \$7 million tranche within 4 months of the date of the Funding Agreement, subject to certain conditions precedent including Citigold shareholder approval, FIRB approval, there being no material adverse changes and other more technical legal issues (Citigold is advised that FIRB Approval has now been obtained by Express-Link); and
  - (ii) a further 6 tranches of 15 bonds at \$15 million each, subject to conditions around there being material adverse changes and other technical issues, commencing quarterly 6 months after the date of the Funding Agreement.
- (c) Interest is payable at 5% per annum on the outstanding balance of the Convertible Bonds and is payable:
  - (i) 6 months after the issue of Tranche 1 (ie 16 October 2013);
  - (ii) on the first anniversary of the issue of Tranche 1 (ie 16 April 2014); and
  - (iii) thereafter, on the anniversaries of those dates.
- (d) The Convertible Bonds are not quoted;
- (e) The Convertible Bonds have a maturity date of 3 years after the date of the Funding Agreement;
- (f) Express-Link may elect to convert the Convertible Bonds into Shares in Citigold at any time during the term, at a conversion price of 7 cents per Share and in increments of \$1 million;
- (g) The conversion price is adjusted for changes to Citigold's capital structure during the term. In any event, the conversion price may only be adjusted in such a way so that the holder of the convertible notes will not receive a benefit that holders of ordinary shares do not receive; and
- (h) If shareholders and or the FIRB do not approve the transaction within 4 months of the date of the Funding Agreement, the Company may be required to repay the First Tranche within 30 days (Citigold is advised that FIRB Approval has now been obtained by Express-Link).

The timetable for the issue of the Convertible Bonds is summarised below:

**Table 2:**

Event/Tranche	Date
Execute Bond Subscription Agreement	8 April 2013
Tranche 1 - \$3 million	16 April 2013
Shareholders meeting	8 July 2013
Tranche 2 - \$7 million	Conditions Precedent date +5 Business days
Tranche 3 - \$15 million	8 October 2013
Tranche 4 - \$15 million	8 January 2014
Tranche 5 - \$15 million	8 April 2014
Tranche 6 - \$15 million	8 July 2014
Tranche 7 - \$15 million	8 October 2014
Tranche 8 - \$15 million	8 January 2015

### 1.2 Conditions precedent

The Funding Agreement is not, itself, subject to any conditions precedent and the Tranche 1 Convertible Bonds have already been issued.

However, the Tranche 2 Convertible Bonds and subsequent Tranches are subject to conditions precedent, namely:

**Tranche 2:**

- (a) FIRB approval for the issue of the Tranche 2 Convertible Bonds (Citigold is advised that the FIRB Approval obtained by Express-Link covers all subscription tranches, is valid until 15 May 2015 and permits Express Link Management to hold a maximum of 52% of the ordinary share capital of the Company);
- (b) Approval for the issue of the Tranche 2 Convertible Bonds by Shareholders;
- (c) The Company not having suffered a material adverse change;
- (d) The Company's Shares continuing to be quoted on ASX;
- (e) There not being any materially adverse changes in applicable legislation; and
- (f) The Company complying with certain technical provisions of the Corporations Act and complying with all its legal obligations, including its disclosure obligations;

**Tranche 3 and subsequent tranches**

- (a) FIRB approval, to the extent not already obtained (Citigold is advised that the FIRB Approval obtained by Express-Link covers all subscription tranches, is valid until 15 May 2015 and permits Express Link Management to hold a maximum of 52% of the ordinary share capital of the Company);
- (b) Approval for the issue of the Tranche 2 Convertible Bonds by Shareholders, unless the ASX Waiver has been obtained and approval granted pursuant to this Notice of Meeting;
- (c) There being no legal prohibition on the issue of the Convertible Bonds;
- (d) The Company not having suffered a material adverse change;
- (e) There not being any materially adverse changes in applicable legislation;
- (f) The Company's Shares continuing to be quoted on ASX;
- (g) The Company not having breached the Funding Agreement; and
- (h) The Company complying with certain technical provisions of the Corporations Act and complying with all its legal obligations, including its disclosure obligations.

**Other terms and conditions**

The Funding Agreement includes the following further terms and conditions:

- (a) The Company has agreed to a 3 month exclusivity period ending on 9 July 2013;
- (b) Following completion of the Funding Agreement, Express-Link will have the right to appoint one member to the Board whilst it holds Convertible Bonds;
- (c) The Convertible Bonds can only be transferred to affiliates of Express-Link;
- (d) Where Conversion leads to fractions of Shares, the cash equivalent at the Conversion Price in aggregate exceeding \$10, will be paid to Express-Link;
- (e) The Company will not be prevented from issuing further equity during the term of the Convertible Bonds on terms it sees fit. However, the conversion price of the Convertible Bonds will adjust to reflect any share capital reorganisation or share issue, including a placement or rights issue. Broadly speaking, the conversion price of the Convertible Bonds will adjust proportionately upwards with consolidation of the Company's share capital and downwards where priced below the prevailing market price in the following circumstances:
  - (i) the Company declaring an extraordinary dividend;
  - (ii) any bonus issue of Shares to Shareholders;
  - (iii) consolidation or sub-division of Shares;
  - (iv) any issue of Shares, such as pursuant to a rights issue or placement; and
  - (v) any issue of Shares pursuant to a demerger or spin-off.

**Events of Default**

Express-Link will be entitled, during the Term, to redemption of the Convertible Bonds:

- (a) should the Company become insolvent;
- (b) should the Company be subject to a change of control;
- (c) should the Company cease to have its Shares quoted on ASX;
- (d) should the Company fail to make any payment under the Funding Agreement on the due date;

- (e) should the Company fail to issue Shares upon Conversion of any Convertible Bonds as required;
- (f) should the Company breach the Funding Agreement and fail to remedy that breach;
- (g) should any necessary approvals and consents (including any governmental, regulatory and/or corporate approvals and consents) for the issue redemption or conversion of the Convertible Bonds being revoked or withdrawn;
- (h) should any distress, attachment, execution or other legal process be levied, enforced or sued out on or against any part of the property, assets or revenues of the Company, which adversely affects the ability of the Issuer to perform or observe any of its obligations under the Funding Agreement, and is not discharged or stayed within 30 days;
- (i) should a mortgagee, security interest holder or other encumbrancer take possession of, exercise rights under any security in relation to, or a receiver, receiver and manager, administrator, liquidator, provisional liquidator or officer of the Court appointed in relation to, the whole or any substantial part of the property, assets or revenues of the Company and not be discharged within 30 days;
- (j) should it become unlawful for the Company to perform or comply with any one or more of its obligations under the Funding Agreement.

However, the Company may undertake a reconstruction, amalgamation, reorganisation, merger or consolidation not involving insolvency or which does not adversely affect the ability of the Company to perform or observe its obligations under the Funding Agreement.

### **1.3 Purpose of the Funding Agreement**

The funding from the Funding Agreement will be used for the development into production of the Company's Charters Towers Central and Imperial mines and for working capital. In particular, the following application of funds has been agreed:

- (a) Quarter 1 - \$7 million - Re-commissioning of Central Mine (improvement of infrastructure and modernisation of decline), finalisation of mine plan and drilling program, development of Imperial decline, completion of tender process for contractors and acquisition of land surrounding mining infrastructure.
- (b) Quarter 2 - \$15 million drawdown - Re-commissioning of Central mine (improvement of infrastructure and modernisation of decline), commencement of drill program at 5,000 metres per month, advancement of Imperial decline at 200 metres per month, awarding Central decline contract, finalising acquisition of expansion lands and process plant modernisation.
- (c) Quarter 3 - \$15 million drawdown - Expand dewatering facilities at Central Mine, advance Central decline at 200 metres per month, increase drill program to 6,500 metres per month, commence ore level development at Imperial Mine, continue plant modernisation.
- (d) Quarter 4 - \$15 million drawdown - Continue to advance Central decline (200 metres per month), continue drill program at 6,500 metres per month, continue in ore development at Imperial Mine, commence stoping at Imperial mine.
- (e) Quarter 5 - \$15 million drawdown - Continue to advance Central decline, advance the Imperial decline, continue ore development and stoping at Imperial Mine, trial on site ore pre-processing, continue drill program at 6,500 metres per month
- (f) Quarter 6 - \$15 million drawdown - Commence ore level development at Central mine, continue Decline development at Central mine, continue ore development and stoping at Imperial Mine, increase drill program to 8,000 metres per month
- (g) Quarter 7 - \$15 million drawdown - Continue ore level development at Central mine, continue Decline development at Central mine, continue in ore development and stoping at Imperial Mine, increase drill program to 8,000 metres per month at central decline.

### **1.4 Independent Expert's Report**

The Independent Expert has found that the Funding Agreement is not fair but reasonable to Shareholders who are not associated with Express-Link. Further detail of the values, the methodology and assumptions used by the Independent Expert are contained in the Independent Expert's Report.

### **1.5 Directors' Recommendations**

The Directors recommend Shareholders vote in favour of the Resolutions to approve the Funding Agreement. Further information on the reasons for each Director's recommendation can be found at section 2.1 and on pages 10 and 11 of this Notice.

---

## **2. Rationale for the Funding Agreement**

The Funding Agreement provides the Company with funding to develop its Charters Towers gold project into production, as contemplated in section 1.3 above.

Express-Link represents a logical and mutually beneficial funding partner for Citigold's projects because, in the current difficult capital market, Express-Link has demonstrated a long term vision and confidence in Citigold's assets and has significant and diverse investment acumen.

The Directors believe that the terms of the Funding Agreement are arguably no less dilutionary than an equity raising if the Convertible Bonds are converted.

The Directors believe that this funding will allow the Company to move significantly towards its stated goal of realizing the potential of its Charters Towers assets.

## **2.1 Key reasons for the Funding Agreement**

### **(a) The Convertible Bonds provide necessary funding for development of the Charters Towers gold project and growth of the Company**

The Funding Agreement will provide the Company with funding to significantly progress development of its Charters Towers gold project assets. The Funding Agreement has been structured to ensure, as far as practicable, financial certainty for the Company and to manage its cash flow during development.

The Funding Agreement will help the Company progress its transformation from project developer to producing miner.

If the Funding Agreement is not approved, the Company may not be able to proceed as effectively with its planned development as it would if the Funding Agreement is approved. If the Company continues to seek alternative funding arrangement, this is likely to significantly delay the date for development of its projects to their full potential and in the future, conditions for attracting investment may deteriorate.

### **(b) Utilising Convertible Bonds is not likely to be any more dilutionary for Shareholders than the corresponding amount of equity funding in a typical placement and to the extent not converted, the Convertible Bonds are less dilutionary**

If the subscription money for the Convertible Bonds is repaid and the Convertible Bonds are not converted into Shares by Express-Link, there will be no dilution to Shareholders.

If the Convertible Bonds are Converted into Shares, the effect will be that the voting power of Express-Link will increase to a maximum of approximately 51% on a fully diluted basis (1,428,571,429 shares). However, Conversion has been agreed at a price per Share (adjustable only in limited circumstances proportionate to changes to the Company's capital structure).

In the absence of the Funding Agreement, the Company would still need to pursue other funding alternatives. If those alternatives include equity funding, such as a placement or other equity investment, the result is not likely to be materially less dilutionary to existing Shareholders than the impact of conversion of the Convertible Bonds. The Independent Expert has noted that the effective capital raising cost is at a discount of 14% to Citigold's share price immediately prior to the announcement of the transaction and is larger than Citigold's previous raisings, which attracted a premium of between 20% and 30%, has noted that:

- (i) Given current conditions, there is no evidence Citigold will be able to attract equity capital on terms more favourable than the Funding Agreement; and
- (ii) the discount implied in the effective capital raising price of 4.7 cents, is in line with discounts offered by gold companies comparable to Citigold in Australia in the preceding 12 months, for equity capital raising. It should be noted however that the issue under the Proposed Transaction represents a potential controlling interest in the Company, relative to other minority raisings.

### **(c) The issue of the Convertible Bonds may not result in dilution of Shareholders**

Once the Convertible Bonds have been issued, Express-Link may elect to either:

- (i) Allow the Company the amounts advanced pursuant to subscription for the Convertible Bonds on the Maturity Date; or
- (ii) Convert those Convertible Bonds into Shares at any time prior to the Maturity Date.

If Express-Link elects to convert the Convertible Bonds into Shares it must convert at least 1 Bond. If Express-Link does not make such an election, no Conversion Shares will be issued to Express-Link. For further information on the dilutionary impact of a conversion of the Convertible Bonds, see section 6

The portion of the Convertible Bonds that is converted into Shares proportionally reduces the Company's debt to Express-Link and does not require repayment.

### **(d) The Funding Agreement establishes a strategic relationship with Express-Link**

The Funding Agreement strengthens the Company's strategic relationship with Express-Link, whose Director, Mr Ooi, has a demonstrated track record of strategic investment into diverse asset classes.

As part of the Funding Agreement, the Company has also agreed to provide Express-Link with 1 seat on the Board for as long as Express-Link still holds Convertible Bonds.

The Directors believe that having Express-Link as a funding partner will provide significant benefits for Shareholders because with Express-Link's major investment into the Company, they will have a vested interest in the Company's success.

(e) **Express-Link's Board representative has the potential to bring additional skills**

Express-Link will have the right to appoint one member to the Board for so long as it holds Convertible Bonds. The Company believes that this has the potential to add value to the Board by bringing additional experience in the financing and development of land based assets.

(f) **Further equity issues permitted**

The Funding Agreement provides the Company with significant flexibility to manage its cash flow and future capital raising ability. In this respect, the Funding Agreement with Express-Link would not prevent the Company from issuing new equity in the future, as Express-Link's interest in the Company's Shares will be proportionately adjusted to maintain its interest at pre-issue levels.

## **2.2 Reasons why you may consider not voting in favour of the Funding Agreement**

- (a) If Express-Link elects to Convert all of the Convertible Bonds into Shares, Express-Link will substantially increase its voting power in the Company and existing Shareholders will be diluted – the maximum extent of Express-Link's relevant interest in the Company's Shares, if all the Convertible Bonds are issued and Converted, is approximately 51%, in which case Express-Link will gain control of the Company without providing Shareholders with a takeover premium.

The level of Express-Link's increased shareholding and maximum voting power will ultimately depend on:

- (i) the number of Convertible Bonds Express-Link ultimately subscribes for (which depends on the stated conditions precedent being satisfied and no events of default occurring) and therefore, the value of the Convertible Bonds issued to Express-Link;
- (ii) the extent to which Express-Link elects to convert the Convertible Bonds into Shares and not have the Company repay the Convertible Bonds in cash; and
- (iii) the number of other Shares held by Express-Link at the time the Convertible Bonds are converted into Shares.

Details of the potential capital structure of the Company and Express-Link's potential holding of Shares, as a result of the issue of the Convertible Bonds and their potential Conversion, is set out in sections 6.2 and 6.4.

For example, at the Conversion Price of 7 cents, on Conversion of all 100 of the Convertible Bonds, Express-Link may hold a relevant interest in more than 50% of Shares. Express-Link would effectively be able to control the Company, but in those circumstances, it would not have paid a premium to obtain that control.

In addition, while Express-Link holds Convertible Bonds, Express-Link will have the right to request that the Company appoint to the Board one person nominated by Express-Link, and will therefore participate in the Company's Board discussions and decisions, subject always to the Corporations Act and the ASX Listing Rules.

Notwithstanding that the Company, with the assistance of its external corporate advisers and finance experts, has run an exhaustive process over a long period of time to identify and negotiate the best funding terms available, you may consider that the Company may be able to obtain superior funding terms (although no superior proposal has emerged since announcement of the Express-Link Funding Agreement on 9 April 2013).

A rigorous process was pursued to find the best available terms. Following a lengthy process the most definitive, commercially attractive terms that the Company was able to negotiate, were with Express-Link. In accepting the terms and conditions of the Funding Agreement, the Directors took into account the substantial length of time the Company has been seeking a funding partner and the pressing need for the Company to secure financing in a timely manner to enable development of its projects, as desired.

Notwithstanding this, you may consider that a superior proposal may still arise that will be more attractive than the Funding Agreement and this may be a reason you may consider voting against the Funding Agreement. If you are considering this, the Directors would also like to highlight that other potential funders have had the opportunity to provide alternative proposals and, as at the date of this document, no other proposals have been presented to the Board since the Company announced the Funding Agreement on 9 April 2013.

## **2.3 Independent Expert Considers Transaction is not fair but reasonable to Shareholders who are not associated with Express-Link**

The Independent Expert has considered the Express-Link Funding Agreement and has found that the Funding Agreement is not fair but reasonable to Shareholders not associated with Express-Link.

In light of the findings of the Independent Expert, and after considering the potential advantages and disadvantages of the Funding Agreement, the Directors recommend Shareholders vote in favour of the Resolutions to approve the Express-Link Funding Agreement.

---

### **3. About Express-Link**

Express-Link Management Ltd (**Express-Link**) is a company controlled by its sole Director, Mr Ooi Cheu Kok who resides in Malaysia and is a Malaysian citizen. Mr Ooi Cheu Kok manages Express-Link Management Ltd from Malaysia. Mr Ooi Cheu Kok is a veteran of the investing community in his home country, Malaysia, as well as in South East Asia. In 1988, Mr Ooi graduated from La Trobe University (Melbourne, Australia) with a Bachelor of Economics (Accounting). Upon his return to Asia, Mr Ooi started off as a real-estate developer. Mr Ooi founded Golden Wave Sdn Bhd, a billion-dollar commercial development project in Kota Kinabalu, East Malaysia. Mr Ooi was instrumental in developing that project with the local government authorities.

Mr Ooi is a high net worth individual. One of his most significant and recent investment is his holdings in SGX (Singapore mainboard listed) company Blumont Group Ltd (SGX:A33) which has a market capitalisation of SGD\$1.36 billion as at 2 May 2013 (approximately AUD\$1.121 billion as at 3 June 2013). Mr Ooi is currently the second largest shareholder in Blumont Group Ltd and holds 169,118,000 shares in the company. The stock recently trade at SGD0.83 per share (approximately AUD0.68 per share as at 3 June 2013), making the total value of his Blumont shares at SGD\$140,367,940 (approximately AUD\$115,746,321 as at 3 June 2013).

His other interests include projects in Sabah; residential developments in KolKol and Tenom, and a sea front resort in Marudu, and the Centrepoint Shopping Centre in Kota Kinabalu.

Since 2010, Mr Ooi has ventured from real property development to investing in public and private equities in Asia. Most significant and recent are his holdings in SGX (Singapore mainboard listed) company Blumont Group (market cap SGD\$1.36 billion as at 2 May 2013). Mr Ooi holds a substantial stake in the Blumont Group and is its second largest shareholder.

Blumont Group Ltd operates an investment holding business (including equity investments) and a real property development and management business. In March 2013, Blumont acquired an 11.6% interest in Celsius Coal Ltd (ASX:CLA).

Prior to the current transaction, there were no existing interests or relationship between Express-Link and the Company. The Company began its relationship with Express-Link when Mr Ooi approached the Company.

Express-Link is a company incorporated in accordance with the laws of the British Virgin Islands (Company Number 17598547) and is wholly owned by Mr Ooi Cheu Kok. Express-Link has no subsidiaries or affiliated companies. The sole director of Express-Link is Mr Ooi Cheu Kok. Express-Link does not have any other Australian operations as at the date of this Notice.

Shareholders should note that Express-Link, incorporated in the British Virgin Islands, is not subject to the same requirements as Australian companies. Accordingly, Shareholders of the Company may not be able to obtain the same information about internationally incorporated Express-Link, and its operations, that they may be able to obtain about domestic Australian incorporated companies.

Express-Link's major activities are investment, and, accordingly, Express-Link has decided to invest in the Company as part of its investment strategy.

Express-Link has advanced an initial amount of \$3,000,000 to the Company for the initial tranche of bonds. It is proposed that required funding for the remaining tranches (totaling \$97,000,000) payable by Express-Link over a 21 month period under the Funding Agreement will be facilitated by its shareholder, Mr Ooi, either as a capital contribution or loan to Express-Link. Mr Ooi is a high net worth individual and has numerous other investments and property holdings in Asia.

#### **3.1 Express-Link's intentions**

This section sets out Express-Link's stated intentions, on the basis of the facts and information concerning the Company that are known to it and the existing circumstances affecting the business of the Company.

(a) **Review**

Express-Link and its advisers have reviewed certain information that has been publicly released on the Company, its current activities and its plans for the future, and had certain limited discussions with the Company in relation to its businesses.

However, Express-Link does not necessarily have knowledge of all material information, facts and circumstances that are necessary to assess the operational, commercial, taxation and financial implications of its current intentions. Consequently, final decisions on all of these matters have not been made, and any decisions already made may be subject to change.

If Express-Link subscribes for and Converts the Convertible Bonds, Express-Link may, to the extent that information is available to it, conduct a review of the operations, assets, structure and employees of the Company in light of that information. Final decisions will only be reached after that review and in light of all material facts and circumstances. As such, statements referred to in this section are

statements of current intention only which may change as new information becomes available or circumstances change. The statements referred to in this section 3 should be read in this context.

(b) **Intentions**

Express-Link's current intentions (if the Funding Agreement is approved and completed) are for the Company to commence ramping up of its Imperial and Central mine projects as soon as practical, on a sustainable basis and to maximise the value of the Company for all Shareholders over the long term.

Except for the changes and intentions referred to in this section 3.1 and elsewhere in this Explanatory Statement, Express-Link indicates that it intends, based on the information presently known to it:

- (i) to continue the business of the Company as it is currently conducted (subject to implementing the development programme set out in section 1.3);
- (ii) not to make any major changes to the business of the Company or the deployment of the Company's assets;
- (iii) not to transfer any Company property between the Company and Express-Link or any person associated with Express-Link;
- (iv) not intend to acquire any additional shares in the Company on-market during the term of the Bonds;
- (v) to continue the employment of the Company's existing Employees;
- (vi) not to interfere with the Company maintaining a strong Board that operates independently of, and separately to, Express-Link; and
- (vii) not to significantly change the financial or dividend distribution policies of the Company.

Express-Link has the right to convert the Convertible Bonds and, as explained elsewhere in this Explanatory Statement, Express-Link may be placed in a position of control over the Company under certain scenarios if Express-Link converts all of the Convertible Bonds.

Before Express-Link can Convert the Convertible Bonds, a number of conditions must be satisfied, including Shareholder approval under this Notice of Meeting, appropriate disclosure to ensure there are no restrictions on Express-Link's ability to sell its Convertible Bonds, Express-Link having obtained FIRB approval (Citigold is advised that the FIRB Approval obtained by Express-Link covers all subscription tranches, is valid until 15 May 2015 and permits Express Link Management to hold a maximum of 52% of the ordinary share capital of the Company) and any other regulatory approvals that apply (if any) and there being no material adverse change in relation to the Company, including the Company remaining listed on ASX.

If Express-Link were to gain effective control of the Company, subject to the Corporations Act and the Company's constitution, Express-Link would have the ability to appoint a majority of the Directors on the Company's Board.

The Company currently has seven directors on its Board. Mr Ooi, the sole Director and shareholder of Express-Link has advised that he is intending to appoint one non-executive Director to the Board, who would be an additional Director but that no other changes are intended.

Mr Ooi does not intend to be personally engaged in running the Company, and, other than the appointment of the additional non-executive Director referred to above, Express-Link does not intend to make changes to the senior management of the Company and does not intend to appoint any employees to the Company. Mr Ooi believes that appointments of senior management personnel and employees are matters for the management of the Company.

If the Company were to become a partly owned subsidiary of Express-Link, the implementation of any change Express-Link intends to make to the objectives and goals of the Company (which Express-Link has not currently identified) will be subject to:

- (i) the law and the ASX Listing Rules, particularly in relation to related party transactions and conflicts of interest; and
- (ii) the legal obligation of the Company's Board to act for proper purposes and in the best interests of the Company's Shareholders as a whole.

### **3.2 Proposed Director if members approve the Resolutions**

Under the Funding Agreement, Express-Link may nominate a representative to the Company's Board. At the date of this notice Express-Link has not nominated its representative.

---

## **4. About the Company**

### **4.1 History**

Citigold is an Australian Public Company listed on the Australian Securities Exchange (ASX), trading code 'CTO', in 1993.

After achieving 100% control of the goldfield in 2004, based on over 146 kilometres of drilling plus extensive past mining data, Citigold in 2005 announced a JORC compliant Inferred Mineral Resource of 10 million ounces of gold in 23 million tonnes of mineralisation having an estimated gold content of 14 grams per tonne.

Citigold, in 2012, updated the Inferred Mineral Resource to 11 million ounces of gold in 25 million tonnes of mineralisation having an estimated gold content of 14 grams per tonne. The Probable Ore Reserve increased to 620,000 ounces of gold in 2,500,000 tonnes at 7.7 grams per tonne gold. This upgrade was based on a data base of over 300 kilometres of drilling plus the extensive mining data.

#### 4.2 Key Assets

Citigold Corporation Limited is developing the 11 million ounce Charters Towers gold deposit and has commenced commercially extracting gold with the objective to build up gold production from its underground mines in stages to over 300,000 ounces per annum.

The Charters Towers area produced over 200 tonnes (6.6 million ounces) of gold from 1871-1917. The gold is concentrated in sheeted veins (reefs) and is Australia's highest grade major goldfield with the historical average grade of 38 grams per tonne (over 1 ounce per tonne). The regional area, in recent years, has produced an additional 8 million ounces.

The Company has already invested almost \$200 million building the required infrastructure to grow production, including a 340,000 tonne per annum process plant, over 4 kilometres of underground access declines, workshops, offices, site based access to the state electricity grid, mobile mining fleet and water storage and access facilities. This infrastructure is all accessed by paved roads maintained by the state authority.

#### 4.3 Mineral Resources

Table 3

Category	Tonnes	Grade g/t Au	Cut off	Contained Ounces
<b>Inferred Mineral Resource</b>	25,000,000	14.0	3.0 g/t	11,000,000
<b>Indicated Mineral Resources</b> (includes Probable Ore Reserves)	3,200,000	7.6	4.0 g/t	780,000
<b>Probable Ore Reserves</b> (derived from and contained within Indicated Mineral Resource)	2,500,000	7.7	4.0 g/t	620,000

#### 4.4 Current Directors

As at the date of this Explanatory Statement, the Company's Directors are:

Table 4:

Director	Position	Interest in the Company Shares
Mr John Foley	Chairman	4,736,450
Mr Mark Lynch	Managing Director	81,347,083
Dr Brian White	Executive Director	28,350
Mr Matthew Gill	Non Exec. Director	-
Mr Kim Koh	Non Exec. Director	49,000,000
Mr Satish Panchariya	Non Exec. Director	-
Mr Raymond Tan	Non Exec. Director	-

#### 4.5 Current capital structure

The following sets out the capital structure of the Company as at the date of this Explanatory Statement.

Table 5

Securities on Issue	Number
Shares	1,352,907,765
Convertible Bonds	3

Options (Options expiring 28 June 2015)	7,997,917
---	-----------

#### 4.6 Top 20 Shareholders

The top 20 Shareholders of the Company as at 3 June 2013, being the last practical date before the date of this Explanatory Statement are shown in the table below:

**Table 6:**

Shareholders	Shares	Relevant interest %
Liongold Corp Ltd	239,285,714	17.69
K Sera Sera Holdings Pty Ltd	96,951,372	7.16
Citicorp Nominees Pty Limited	72,729,805	5.38
Aurora Investments Limited	68,659,983	5.07
UOB Kay Hian Private Ltd	45,638,105	3.37
Phillip Securities Pte Ltd	39,363,471	2.91
JP Morgan Nominees Australia Limited	38,661,707	2.86
Dmg & Partners Securities Pte Ltd	29,082,913	2.15
JFO Investments Pty Ltd	21,542,292	1.59
HSBC Custody Nominees Limited	20,123,438	1.49
Mr Kim Teck Koh	20,000,000	1.48
JF Apex Securities Berhad	11,645,132	0.86
Mr Weitian Zhang	9,899,129	0.73
Underwriting & Mining Investment Corp P/L	9,832,732	0.73
Nefco Nominees Pty Ltd	8,354,757	0.62
Bill Ford Nominees Pty Ltd	6,153,981	0.45
John Francis Lynch	5,669,090	0.42
Miss Lily Lee	5,500,000	0.41
Mr Kenos + Mrs Kenos	5,000,000	0.37
Pal Group Limited	4,411,111	0.33
<b>Top 20 total</b>	<b>758,504,732</b>	<b>56.07</b>

#### 4.7 Substantial Shareholders

Based on the substantial holder reporting information provided to the Company, the Substantial Shareholders of the company are:

**Table 7:**

Shareholder	Number of shares	Relevant interest (%)
Liongold Corp Ltd	239,285,714	17.69
K Sera Sera Holdings Pty Ltd	96,951,372	7.16
Aurora Investments Limited	68,659,983	5.07

## 5. Impact on the Company's Financial Position

### 5.1 Use of funds made available under the Express-Link Facilities

The funding from the Funding Agreement will be used for the development of the Company's Charters Towers project, as set out in section 1.3.

### 5.2 Pro forma balance sheet

The audited consolidated balance sheet of Citigold at 30 June 2012, the unaudited balance sheet at 31 March 2013 and the unaudited pro forma balance of Citigold at 31 March 2013 are set out below. The pro forma balance sheet is based on the unaudited accounts of Citigold as at 31 March 2013 adjusted for the Funding Agreement as set out below.

The pro forma balance sheet at 31 March 2013 assumes the following occurred as at that date:

- (i) issue of the convertible notes (\$100M) to Express-Link in accordance with the Convertible Note Deed. The pro forma balance sheet assumes net cash received as there are no commissions payable on the Proposed Transaction and transaction costs (professional fees) are immaterial. The \$99.85M is allocated between debt (\$76.22M), equity (\$23.63M). No tax effect accounting is taken into consideration as any deferred tax liability is offset against carried forward tax losses (previously unrecognised).

	\$'000		
	Actual		Pro Forma
	Jun-12	Mar-13	Mar-13
<i>Current assets</i>			
Cash and cash equivalents	3,182	454	100,304
Receivables	7,230	633	633
Inventories	203	607	607
	10,615	1,694	101,544
<i>Non-current assets</i>			
Investments in associates	2,960	-	-
Property, plant and equipment	195,793	204,993	204,993
Other	553	553	553
	199,306	205,546	205,546
	209,921	207,240	307,090
<i>Liabilities</i>			
Payables and accrued liabilities	7,803	5,047	5,047
Borrowings	3,405	1,075	1,075
Provisions	2,489	1,425	1,425
Convertible Notes - unsecured	-	-	76,220
	13,697	7,547	83,767
Net assets	196,224	199,693	223,323
<i>Equity</i>			
Issued capital	189,868	197,868	197,868
Other equity – value of conversion rights	-	-	23,630
Reserves	39,311	39,257	39,257
Accumulated Losses	(33,024)	-37,501	-37,501
Minority interest	69	69	69
	196,224	199,693	223,323

## 6. Impact on the Company's Capital Structure

### 6.1 Current capital structure

See section 4.5 for details of the Company's current capital structure.

### 6.2 Potential capital structure as a result of the Funding Agreement

As at the date of this Explanatory Statement, Express-Link does not have a relevant interest in the Company.

If the Funding Agreement is approved and Resolutions 1 and 2 are passed by Shareholders, and all other conditions to the Funding Agreement are satisfied, the Convertible Bonds will be issued to Express-Link.

Assuming that the Company issues the Convertible Bonds for the full \$100 million, and **no** Convertible Bonds have been Converted into Shares, the capital structure of the Company will be as follows:

**Table 8:**

Securities on Issue	Number
Shares	1,352,907,765

Convertible Bonds	100
Options (Options expiring 28 June 2015)	7,997,917

Under the terms of the Funding Agreement, in certain circumstances, Express Link may elect to Convert the Convertible Bonds into Shares in the Company and not have the Company repay the outstanding aggregate face value in cash. The capital structure of the Company if the Convertible Bonds are converted into Shares and not repaid in cash, is set out below in section 6.4.

### 6.3 Conversion mechanism for Convertible Bonds and effect of Conversion on the Company

The number of Shares to be issued upon conversion of a Convertible Bond is determined as follows:

$$\frac{\text{Principal Amount}}{\text{Conversion Price in effect on the conversion date}}$$

Where:

**Principal Amount** means, in respect of each Convertible Bond at any time, the outstanding principal amount of that Convertible Bond.

**Conversion Price** means 7 cents.

The Conversion Price in effect on the Conversion date will be the Conversion Price, subject to any subsequent adjustment in accordance with the Convertible Bond Agreement.

### 6.4 Express-Link's potential shareholding in the Company

The level of Express-Link's maximum potential shareholding will ultimately depend on:

- the extent to which Express-Link subscribes for Convertible Bonds under the Funding Agreement and therefore the aggregate value of the Convertible Bonds issued to Express-Link;
- the extent to which the Convertible Bonds are converted into Shares and not repaid in cash;
- the Conversion Price for the Convertible Bonds (as adjusted in accordance with the terms of the Funding Agreement);
- the number of Shares on issue at the time the Convertible Bonds are converted into Shares; and
- the number of Shares held by Express-Link at the time that the Convertible Bonds are converted into Shares.

The table below assumes the following:

- The Company issues Convertible Bonds to Express-Link for the full \$100 million;
- All Convertible Bonds are converted into Shares in accordance with their terms;
- Express-Link does not acquire any Shares (other than the Subscription Shares) until Conversion of the Convertible Bonds and the Company does not issue any additional Shares prior to the Conversion of the Convertible Bonds; and
- No adjustment event occurs that would result in an amendment to the Conversion Price of the Convertible Bonds (for example, if the Company makes a bonus issue of Shares, or if there were a consolidation or subdivision of Shares).

Prior to Conversion of the Convertible Bonds, Express-Link would not be restricted from acquiring Shares on-market, subject to the limits imposed by Australia's takeover laws. If Express-Link acquires additional Shares, this will increase Express-Link's total percentage shareholding following any Conversion of the Convertible Bonds. Express-Link has confirmed that it currently has no intention of acquiring additional Shares in the Company on-market during the term of the Bonds. Further, such an acquisition would need FIRB approval.

**Table 9**

Capital structure	Scenario 1 <i>Conversion of none of the Convertible Bonds</i>	Scenario 2 <i>Conversion of half of the Convertible Bonds</i>	Scenario 3 <i>Conversion of all of the Convertible Bonds</i>
Shares	1,352,907,765	2,067,193,480	2,781,479,194

---

## **7. Additional Information**

### **7.1 Regulatory requirements**

Section 606(1) of the Corporations Act provides that a person must not (without an available exemption under the Corporations Act) acquire a relevant interest in issued voting shares of a listed company if the person acquiring the interest does so through a transaction in relation to the securities entered into by or on behalf of the person and, because of the transaction, that person's or someone else's voting power in the listed company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

Under section 608(1) of the Corporations Act, a person has a relevant interest in securities if they are the holder of the securities, have power to exercise, or control the exercise of, a right to vote attached to the securities or have power to dispose of, or control the exercise of a power to dispose of, the securities. It does not matter how remote the relevant interest is, or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

### **7.2 Section 611, item 7 approval**

An exemption for the issue of the Convertible Bonds (and the issue of any Shares upon conversion of the Convertible Bonds) is available under item 7 of section 611 of the Corporations Act.

This section broadly provides that an acquisition approved previously by a resolution passed at a general meeting of the company in which the acquisition is made is exempt from the prohibition in section 606(1), if:

- (a) no votes are cast in favour of the resolution by:
  - (i) the person proposing to make the acquisition and their associates; or
  - (ii) the persons (if any) from whom the acquisition is to be made and their associates; and
- (b) the members of the Company were given all information known to the person proposing to make the acquisition or their associates, or known to the Company, that was material to the decision on how to vote on the resolution, including:
  - (i) the identity of the person proposing to make the acquisition and their associates;
  - (ii) the maximum extent of the increase in that person's voting power in the company that would result from the acquisition;
  - (iii) the voting power that person would have as a result of the acquisition;
  - (iv) the maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition; and
  - (v) the voting power that each of that person's associates would have as a result of the acquisition.

The Notice of Meeting includes a voting prohibition statement restricting Express-Link and each of its associates from voting on the resolutions. The information required under item 7 of section 611 of the Corporations Act is also set out below.

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person, and the person's associates, have a relevant interest.

An "associate" of a company includes (among others):

- (a) a body corporate that controls the company or a body corporate controlled by the company;
- (b) a person with whom the company has, or proposes to enter into, a relevant agreement for the purposes of controlling or influencing the composition of the company's board or the conduct of the company's affairs; and
- (c) a person who is acting or proposing to act in concert in relation to the company's affairs.

Resolution 1 seeks Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act for the issue 100 Convertible Bonds.

The following information is provided to Shareholders:

- (a) The identity of the person proposing to make the acquisition and their associates  
The Convertible Bonds, and any Shares issued upon conversion of the Convertible Bonds, being issued pursuant to Resolution 1, are being issued to Express-Link or its related body corporate.

See section 3 for further information about Express-Link.

- (b) The maximum extent of the increase in that person's voting power in the company and the voting power that would result from the acquisition.

Express-Link currently has zero voting power in the Company. The increase in Express-Link's voting power from this initial point will ultimately depend on:

- (i) the number of Convertible Bonds ultimately subscribed for by Express-Link;
- (ii) the extent to which the Convertible Bonds are converted into Shares and not repaid in cash;
- (iii) the Conversion Price for the Convertible Bonds (as adjusted in accordance with the terms of the Funding Agreement);
- (iv) the number of Shares on issue at the time the Convertible Bonds are converted into Shares; and
- (v) the number of Shares held by Express-Link at the time the Convertible Bonds are Converted into Shares.

For illustrative purposes, various scenarios have been included in section 6.4.

- (c) The maximum extent of the increase in the voting power of each of that person's associates and the voting power that would result from the acquisition.

The maximum extent of each of Express-Link's associates' increase in voting power, and its voting power, will be equivalent to the increase in voting power held by Express-Link. For further details of the potential voting power of Express-Link, see section 6.4.

### 7.3 ASIC Regulatory Guide 74

ASIC Regulatory Guide 74 requires that the following information be provided to Shareholders to enable Shareholders to make an informed decision on the Resolutions:

- (a) The identity of the allottee or purchaser and any person who will have a relevant interest in the shares to be allotted or purchased.
- (b) The Convertible Bonds, and any Shares issued upon conversion of the Convertible Bonds, are currently intended to be issued to Express-Link Management Limited.
- (c) See section 3 for further information about Express-Link.
- (d) Full particulars (including the number and the percentage) of the Shares in the company to which the allottee or purchaser is or will be entitled immediately before and after the proposed acquisition.
- (e) Full details of the of the potential shares in the Company to which the allottee or purchaser is or will be entitled immediately before and after the proposed acquisition are set out in section 6.4.
- (f) The identity, associations (with the allottee, purchaser or vendor and with any of their associates) and qualifications of any person who it is intended will become a Director if the Shareholders agree to the allotment or purchase.
- (g) See section 3.1 above.
- (h) A statement of the allottee's or purchaser's intentions regarding the future of the company if Shareholders agree to the allotment or purchase, and in particular, any intention to change the business of the company; any intention to inject further capital into the company and if so, how; the future employment of the present employees of the company; any proposal whereby any property will be transferred between the company and the allottee, vendor or purchaser or any person associated with any of them; and any intention to otherwise redeploy the fixed assets of the company.  
See section 3.1 above.
- (i) Particulars of the terms of the proposed allotment or purchase and any other contract or proposed contract between the allottee and the company or vendor or any of their associates which is conditional upon, or directly or indirectly dependent on, Shareholders' agreement to the allotment or purchase

All the Convertible Bonds except those under Tranche 1 are subject to Shareholder approval under item 7 of Section 611 of the Corporations Act.

- (j) When the allotment is to be made or the purchase is to be completed.

The Convertible Bonds will be subscribed for, and issued to, Express-Link in accordance with the timetable set out in Table 1 above.

Express-Link may Convert any Convertible Bonds it holds in increments of \$1 million at any time before the Maturity Date and Conversion Shares must be issued within 1 business day after receipt by the Company of the relevant notice from Express-Link.

- (k) An explanation of the reasons for any proposed allotment.

An explanation of the rationale for the Funding Agreement, including the issue of the Convertible Bonds, is set out in section 2.

- (l) The interests of the Directors in the Resolutions

The Directors do not have a material personal interest in the outcome of the resolutions other than in their capacity as Shareholders. The Directors' interests in Shares and Options are set out in section 4.4 above.

- (m) The recommendation or otherwise of each Director as to whether the non-associated Shareholders should agree to the acquisition, and the reasons for that recommendation or otherwise.

The Directors unanimously recommend Shareholders **vote in favour of the Resolutions** to approve the Funding Agreement. This recommendation is based on the information set out in this document and as a result of the Independent Expert finding that the Funding Agreement is not fair but reasonable to Shareholders who are not associated with Express-Link.

The Directors concluded that the Funding Agreement represents the best funding proposal for the Company for the reasons set out in this Notice of Meeting, including those set out in more detail in section 2.1 and on pages 10 and 11.

The Directors further note that the Independent Expert has found the Funding Agreement to be not fair but reasonable to Shareholders who are not associated with Express-Link (for more information, see pages 12 and 13).

- (n) Any intention of the acquirer to change significantly the financial or dividend policies of the company.

Express-Link has not indicated any such intention to the Company.

- (o) An analysis of whether the proposal is fair and reasonable when considered in the context of the interests of the Shareholders other than those involved in the proposed allotment or purchase or associated with such persons.

In accordance with ASIC Regulatory Guide 74, the Company commissioned BDO to prepare an Independent Expert's Report to assess whether the Express-Link Facilities are fair and reasonable to Shareholders not associated with Express-Link.

The Independent Expert's Report concluded that the Funding Agreement is not fair but reasonable to Shareholders who are not associated with Express-Link.

A copy of the Independent Expert's Report is contained in **Attachment A**.

Neither the Company nor the Directors are aware of any additional information not set out in this Explanatory Statement that would be relevant to Shareholders in deciding how to vote on the Resolutions.

#### **7.4 Application of Listing Rule 7.1**

Listing Rule 7.1 imposes a limit on the number of equity securities (eg shares or options to subscribe for shares) that a company can issue without shareholder approval. In general terms, a company may not, without prior shareholder approval, issue equity securities if the equity securities will in themselves or when aggregated with the securities issued by the company during the previous 12 months, exceed 15% of the number of fully paid ordinary shares on issue at the commencement of that 12 month period.

Listing Rule 7.2, exception 16 states that Listing Rule 7.1 does not apply to an issue of securities approved by shareholders for the purposes of item 7 of section 611 of the Corporations Act. Accordingly, the resolutions do not seek approval for the issue of Convertible Bonds, or the issue of Shares upon conversion of the Convertible Bonds, to Express-Link for the purposes of Listing Rule 7.1.

#### **7.5 Voting prohibition statement**

In accordance with item 7 of section 611 of the Corporations Act, none of Express-Link and its associates are permitted to vote in favour of the Resolutions.

#### **7.6 Consents**

Each of the following persons has consented in writing to being named in this Explanatory Statement in the form and context in which they are named, and has not withdrawn that consent as at the date of this Explanatory Statement:

- (a) Express-Link; and  
(b) BDO.

The Independent Expert also consents to the inclusion of the Independent Expert's Report and references to the Independent Expert's Report in this Explanatory Statement, in the form and context in which they are included.

---

## 8. Glossary

<b>AEST</b>	means Australian Eastern Standard Time.
<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>ASX</b>	means ASX Limited (ACN 008 624 691).
<b>ASX Listing Rules or Listing Rules</b>	means the official listing rules of ASX.
<b>Board</b>	means the Company Board of Directors.
<b>Conversion</b>	means the conversion of the Convertible Bonds into Shares in accordance with the terms of the issue of the Convertible Bonds and Funding Agreement, essentially involving the issue of Shares at an issue price of 7 cents in repayment of the outstanding balance of the Convertible Bonds.
<b>Convertible Bond</b>	means the unsecured bonds in the Company to be issued to Express-Link Management Limited pursuant to the Funding Agreement.
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth).
<b>Director</b>	means a current director of the Company.
<b>FIRB Approval</b>	means the Treasurer of the Commonwealth of Australia approving or failing to object to the Funding Agreement and transactions contemplated in it under the <i>Foreign Acquisition and Takeovers Act 1975</i> (Cth).
<b>Funding Agreement</b>	means the agreement between the Company and Express-Link Management Limited dated 9 April 2013 pursuant to which Express-Link has agreed to subscribe, subject to certain limited conditions, for \$100 million in Convertible Notes.
<b>Fully Diluted</b>	means having regard to the maximum number of Shares that would be on issue of all securities in the Company convertible into Shares were Converted.
<b>Independent Expert</b>	means BDO Corporate Finance (QLD) Ltd.
<b>Notice of Meeting</b>	means the notice of general meeting accompanying this Explanatory Statement
<b>Report</b>	means the Independent Expert's Report of BDO dated 30 May 2013.
<b>Resolution</b>	means a resolution 1 put to Shareholders in this Notice of Meeting.
<b>Share</b>	means a fully-paid Ordinary Share in the Company.
<b>Shareholder</b>	means a holder of a Share.
<b>Tranche 1</b>	means the 3 Convertible Bonds issued on 16 April 2013 pursuant to the Funding Agreement and having an aggregate face value of \$3 million.



**Attachment A**

**CITIGOLD CORPORATION LIMITED  
Independent Expert's Report**

30 May 2013



## TABLE OF CONTENTS

Financial Services Guide	iii
Glossary	v
1.0 Introduction	1
2.0 Summary of Opinion	2
2.1 Fairness of the Proposed Transaction	2
2.2 Reasonableness of the Proposed Transaction	2
2.3 Other Considerations	5
3.0 Overview of the Proposed Transaction	6
3.1 Description of the Proposed Transaction	6
3.2 Conditions of the Proposed Transaction	7
3.3 Strategic Rationale of the Proposed Transaction	8
3.4 ELM's Intentions for Citigold	8
4.0 Scope of Report and Assessment Methodology	10
4.1 Scope of Report	10
4.2 Assessment Methodology	11
5.0 Background of Citigold	13
5.1 Overview of Citigold	13
5.2 Equity Structure of Citigold	15
5.3 Share Market Performance of Citigold	16
5.4 Historical Financial Information	20
6.0 Background of ELM	25
7.0 Assessment of the Fairness of the Proposed Transaction	26
7.1 Implied Capital Raising Price of the Proposed Transaction	27
7.2 Appropriateness of Capital Raising Discount or Premium	29
7.3 Citigold's Ability to Raise Funds	30



7.4	Consideration of the Rate of Return on the Convertible Bonds	32
7.5	Control Premium	33
7.6	Assessment of Fairness	34
8.0	Assessment of the Reasonableness of the Proposed Transaction	35
8.1	Advantages of the Proposed Transaction	35
8.2	Disadvantages of the Proposed Transaction	36
8.3	Position of Citigold Shareholders if the Proposed Transaction is Not Approved	37
8.4	Reasonableness of the Proposed Transaction	37
9.0	Sources of Information	39
10.0	Representations, Indemnities and Warranties	40
10.1	Representations	40
10.2	Indemnities and Warranties	40
11.0	Experience, Disclaimers and Qualifications	41
Appendix A - Industry Information		42
A.1	Gold Mining in Australia	42
Appendix B - Capital Raisings Conducted by Gold Exploration Companies		47
Appendix C - Control Premium Research		50
Appendix D - Estimate of Future Cash Flow from Convertible Bonds		52
D.1	Drawdown of Principal on Convertible Bonds	52
D.2	Estimate of Principal and Interest Payments on Convertible Bonds	52



## Financial Services Guide

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

- a) financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and
- b) arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

### General Financial Product Advice

This Report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs, and therefore does not represent personal financial product advice. Consequently any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

### The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Citigold Corporation Limited ('Citigold' or 'the Company') in relation to the issue of convertible bonds ('the Proposed Transaction') to Express-Link Management Limited.

Further details of the Proposed Transaction to which this Report relates are set out in Section 3. The scope of this Report is set out in detail in Section 4. This Report provides an opinion as to whether or not the Proposed Transaction is fair and reasonable to the Citigold shareholders.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote for or against the Proposed Transaction is likely to be influenced by their particular circumstances, for example, their taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

### Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate the fee for the preparation of this Report will be approximately \$40,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of the Proposed Transaction.



Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

### Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ has not previously provided services to Citigold. The signatory to the Report does not hold any shares in Citigold and no such shares have ever been held by the signatory.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

### Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with the Institute of Chartered Accountants, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission ('ASIC') also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

### Contact Details

#### BDO Corporate Finance (QLD) Ltd

Location Address	Postal Address
Level 18 300 Queen Street BRISBANE QLD 4000	GPO Box 457 BRISBANE QLD 4001
Phone: (07) 3237 5999	Email: cf.brisbane@bdo.com.au
Fax: (07) 3221 9227	

## Glossary

Reference	Definition
ASIC	Australian Securities and Investment Commission
BDO CFQ, we, us and our	BDO Corporate Finance (QLD) Ltd
BDO Persons	BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates
BSA, the	The Bond Subscription Agreement signed on the 8th of April 2013
Citigold, or the Company	Citigold Corporation Limited
CME	Capitalisation of Maintainable Earnings
Convertible Bonds, the	The unsecured convertible bonds with a 5% coupon for a term of three years which are convertible at \$0.07
Corporations Act, the	The Corporations Act 2001
DCF	Discounted Cash Flows
ELM	Express Link Management Limited
FIRB	Foreign Investment Review Board
FSG	The Financial Services Guide
Initial Tranche	First tranche of the share placement between Citigold Corporation Limited and Express Link Management Limited as announced on 16 April 2013
JORC	Joint Ore Reserves Committee
Proposed Transaction, the	The proposed issue of convertible bonds to Express-Link Management Limited
Report, this	This report prepared by BDO CFQ dated XXXX
RG 111	ASIC Regulatory Guide 111: Content of Experts Reports
RGs	Regulatory Guides published by ASIC
Second Completion Date	8 October 2013, being the date at which certain conditions will or will not be met as part of the requirements on the drawdown of the second tranche of the Convertible Bonds
Shareholders, the	Shareholders of Citigold Corporation Limited
VWAP	Daily volume-weighted average share price

The Shareholders  
C/- The Directors  
Citigold Corporation Limited  
Level 13, 500 Queen St  
Brisbane QLD 4000

30 May 2013

Dear Shareholders,

## Independent Expert's Report

### 1.0 Introduction

BDO Corporate Finance Limited ('BDO CFQ', 'we', 'us' or 'our') has been engaged by the directors of Citigold Limited ('Citigold' or 'the Company') to prepare an independent expert's report ('this Report') to the shareholders of Citigold. This Report relates to the proposed issue of convertible bonds ('the Proposed Transaction') to Express Link Management Limited ('ELM'). The Proposed Transaction allows ELM to become a majority shareholder in Citigold in certain circumstances.

Under the terms of the Bond Subscription Agreement ('the BSA') signed on 8 April 2013, ELM has agreed to provide Citigold with \$100 million over 21 months from the date of the BSA. In exchange, Citigold will provide unsecured convertible bonds with a 5% coupon for a term of three years which are convertible at \$0.07 ('the Convertible Bonds'). A more detailed description of the Proposed Transaction is set out in Section 3 of this Report.

In this Report, BDO CFQ has expressed an opinion as to whether the Proposed Transaction is fair and reasonable to the shareholders of Citigold ('the Shareholders'). This Report has been prepared solely for use by the Shareholders to provide them with information relating to the Proposed Transaction. We understand that this Report will be provided to Shareholders to assist them to make an informed decision on whether to vote in favour of or against the Proposed Transaction. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or for any other person or entity.

This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to the Shareholders in conjunction with this Report, including the Notice of General Meeting and Explanatory Statement.

This Report does not address circumstances specific to individual shareholders. A shareholder's decision to vote in favour of or against the Proposed Transaction is likely to be influenced by the shareholder's particular circumstances, for example, their taxation considerations and risk profile. Shareholders should obtain their own professional advice in relation to their circumstances.

## 2.0 Summary of Opinion

This section provides a summary of our opinion only and cannot substitute for a complete reading of this Report.

### 2.1 Fairness of the Proposed Transaction

To assess whether the Proposed Transaction is fair to Shareholders, we have completed the following analysis:

- a) Considered the implied price at which the Proposed Transaction raises capital, having regard to the interest and options also received by ELM (refer to Section 7.1);
- b) Compared this implied price to the price at which capital has been raised by Citigold and other junior gold companies (refer to Section 7.2);
- c) Considered the ability of Citigold to raise funds from equity and debt markets as an alternative to the Convertible Bonds (refer to Section 7.3);
- d) Considered the implied rate of return on the debt component of the Convertible Bonds and considered the appropriateness of this return in comparison to the rate of return that would be applicable to a comparable debt facility (refer to Section 7.4); and
- e) Considered the issue of potential control gained by ELM if it elects to convert the Convertible Bonds (refer to Section 7.5).

After considering the relevant matters it is our opinion that the Proposed Transaction is **Not Fair to the Shareholders**.

Our opinion is current as at the date of this Report. Further details of our analysis are set out in Section 7.

Before making a decision to vote for or against the Proposed Transaction, we recommend that Shareholders also consider the additional information set out in the rest of Section 2 and the remainder of this Report.

### 2.2 Reasonableness of the Proposed Transaction

Our assessment of the reasonableness of the Proposed Transaction is set out in Section 8.

In summary, we have assessed the reasonableness of the Proposed Transaction having regard to other significant factors to which the Shareholders may give consideration prior to voting in favour of or against the Proposed Transaction. This includes comparing the likely advantages and disadvantages of the Proposed Transaction with the position of the Shareholders if the Proposed Transaction is not approved.

After considering the information and methodology summarised above and set out in further detail in the balance of this Report, it is our view that in the absence of a superior proposal, the Proposed Transaction is **Reasonable** as at the date of this Report.

Table 2.1 below summarises the potential advantages to the Shareholders of approving the Proposed Transaction. The potential advantages of the Proposed Transaction are discussed in further detail in Section 8.1.

**Table 2.1: Potential Advantages of the Proposed Transaction**

Advantage	Explanation
Commitment for funding	<p>The Proposed Transaction provides the Shareholders with a commitment for the funding the Company anticipates will be required to advance its key project.</p> <p>The directors are of the view that the significant funding required for the Charters Towers Gold Project cannot currently be obtained on terms superior to those offered under the Proposed Transaction. We are instructed that the Company has undertaken a comprehensive capital raising process, canvassing interest from many potential investors and utilising the networks of highly regarded funding intermediaries including global banks, and that this is the best offer available.</p> <p>The Charters Towers Gold Project, as the key asset of Citigold, will need to be advanced in order for Shareholders to realise value from the assets held by the Company. Without advancing the Charters Towers Gold Project, it may be difficult for Citigold to create value for the Shareholders.</p> <p>As set out in Section 7.3, Citigold has not previously raised as much capital as that contemplated under the Proposed Transaction. Many capital raising attempts in the past have been unsuccessful. Further, recent capital raisings have been at progressively less favourable terms than each preceding raising.</p>
Introduction of a cornerstone investor	<p>ELM will become a cornerstone investor in Citigold with a material interest in the success of the Company and its flagship asset, the Charters Towers Gold Project.</p> <p>Cornerstone investors often assist with future funding and have a strong incentive to hold management accountable for the results of the Company.</p>
Flexibility to raise further capital at market prices which may dilute the majority stake potentially held by ELM	<p>ELM will not gain a controlling interest of greater than 50% of the voting rights until the final tranche of the Convertible Bonds is converted (if it is converted).</p> <p>Until this event occurs (if it occurs), the Shareholders will continue to collectively hold interests in the Company greater than 50%. Further, the Company could raise capital in the meantime which may result in ELM no longer holding 50% or more of the voting shares in the Company, depending on the terms of the capital raising.</p>
The Proposed Transaction is potentially less dilutive than other capital raising options	<p>Shareholders may not be diluted to the extent of a more traditional capital raising because:</p> <ul style="list-style-type: none"> <li>• ELM may not convert all or any of the Convertible Bonds, potentially reducing the impact of dilution on the Shareholders (provided the Company can repay the outstanding Convertible Bonds); and</li> <li>• As shown by the data relating to capital raisings of other gold companies set out in Appendix B, a traditional equity raising may be materially more dilutive than that contemplated under the Proposed Transaction.</li> </ul>

Source: BDO CFQ analysis

Table 2.2 below summarises the potential disadvantages to Shareholders of approving the Proposed Transaction. The potential disadvantages of the Proposed Transaction are discussed in further detail in Section 8.2.

**Table 2.2: Potential Disadvantages of the Proposed Transaction**

Disadvantage	Explanation
<p>Reduced potential for a takeover offer</p>	<p>In the event that Citigold is taken over, the terms of the BSA must still be honoured by the acquirer. On this basis, ELM could gain control over the Company, irrespective of the majority shareholders at the time.</p> <p>It is our view that the BSA likely reduces the possibility of a takeover offer occurring, particularly where ELM is not amiable to the offer. The possibility of a takeover offer succeeding without the support of ELM may also be reduced post the term of the BSA if ELM converts the Convertible Bonds and gains control of the Company.</p> <p>There are also other provisions in the BSA, including the anti-dilution provisions, which may reduce the Company’s attractiveness as a takeover target.</p> <p>Notwithstanding the above, it should be noted that a traditional equity raising of the magnitude provided for under the Proposed Transaction may also result in the Shareholders no longer controlling the Company (particularly if raised from a single capital provider).</p>
<p>BSA uncertainty</p>	<p>Unlike a direct, upfront equity injection, the Convertible Bonds are subject to certain warranties, undertakings and obligations in the BSA. Further, a material adverse change, suspension or delisting, change in legislation which results in a material adverse change or an injunction may result in the full funds not being received.</p> <p>Notwithstanding the above, we note that if capital were to be raised in smaller portions, many of the above risks would remain (e.g. a material adverse change) from one capital raising to the next.</p> <p>Agreements such as the BSA are also subject to uncertainty of legal interpretation. Often the exact meaning of terms in the BSA cannot be known with certainty until tested in a court of law. For example, the legal interpretation of a ‘material adverse change’ cannot be determined with any certainty as at the date of this Report.</p> <p>We also note that the BSA is subject to Singaporean law which may introduce further uncertainty to investors more familiar with Australian laws.</p>
<p>Potential loss of control</p>	<p>If all the Convertible Bonds to be issued under the BSA are converted to equity, ELM will most likely gain a controlling stake in Citigold, unless diluted. This will likely provide ELM with the ability to control the Company and dictate the policies of Citigold.</p> <p>It should be noted however that unless significant funds came from the Shareholders, it is likely, based on the Company’s forecast cash flows, that a controlling number of shares would need to be issued to new shareholders, reducing the control of the Shareholders.</p>
<p>Additional risk of debt</p>	<p>By issuing the Convertible Bonds, Citigold is taking on a significant amount of debt. If ELM elects not to convert the Convertible Bonds and the Company cannot raise the required capital to pay back the Convertible Notes, the Company may become insolvent.</p> <p>In the event of a default, there is the potential for the Shareholders to lose their claim to any assets held by Citigold, particularly where its debts are greater than the value of its assets.</p> <p>We note this disadvantage is relevant to all material debt instruments issued by the Company.</p>

Disadvantage	Explanation
Set conversion price	<p>The Shareholders will have less exposure to any potential upside in the value of Citigold as each tranche of the Convertible Notes is invested in the Charters Towers Gold Project. The Shareholders would likely be able to retain a greater level of exposure to any potential upside in the value of Citigold in circumstances where the Company could raise capital in a more incremental manner as individual milestones were met.</p> <p>This disadvantage should be considered against the risk of the project losing value, the risk of capital being raised on inferior terms relative to the Proposed Transaction and the relative certainty of the commitment provided by the BSA for the \$100 million in funding.</p>

Source: BDO CFQ analysis

Notwithstanding our view that the Proposed Transaction is **Not Fair but Reasonable** as at the date of this Report, we recommend that Shareholders also have regard to the other considerations set out in Section 2.3 below.

## 2.3 Other Considerations

Before forming a view on the Proposed Transaction, we strongly recommend that Citigold shareholders:

- Consult their own professional advisors;
- Carefully read all relevant documents provided to them in relation to the Proposed Transaction, including this Report and the Explanatory Statement; and
- Consider their own specific circumstances.

We note that in circumstances where the Proposed Transaction does not proceed, the Directors of Citigold are of the view that it is likely that the Company may be required to raise capital on terms less favourable than those of the Proposed Transaction. Having regard to the cash position of Citigold, it is likely that the Company will be required to raise significant capital from another source to realise the value of its main asset, the Charters Towers Gold Project.

### 3.0 Overview of the Proposed Transaction

This section sets out an overview of the Proposed Transaction and is structured as follows:

- Section 3.1 provides a description of the Proposed Transaction;
- Section 3.2 summarises the conditions of the Proposed Transaction;
- Section 3.3 summarises the strategic rationale of the Proposed Transaction; and
- Section 3.4 summarises ELM's intentions for Citigold if the Proposed Transaction is approved.

The information set out below is a summary only. Citigold shareholders should refer to the Explanatory Statement for more information in relation to the Proposed Transaction.

#### 3.1 Description of the Proposed Transaction

On 8 April 2013, Citigold announced that it had entered into an agreement to provide Convertible Bonds to ELM in exchange for \$100 million in funding that it intended to drawdown over the following 21 months.

In broad terms, the Convertible Bonds have the following terms:

- An interest rate of 5% per annum, which is to be paid in cash at approximately quarterly intervals;
- A maturity date of 3 years from 8 April 2013;
- A conversion price of \$0.07. This conversion price will adjust in the event of a consolidation, subdivision, reclassification or share distribution to provide ELM with a constant percentage entitlement to the Company;
- The conversion feature is at the discretion of ELM;
- The principal drawdown will be in eight tranches as follows:
  - \$3 million on completion of the agreement (already received by Citigold);
  - \$7 million on satisfaction of the conditions of the Proposed Transaction (set out in 3.2); and
  - Six subsequent tranches of \$15 million each quarter, commencing six months after the date of the agreement (8 April 2013);
- The Company is limited in the level of dividends it can provide to the Shareholders while the Convertible Bonds are outstanding. We note however that this is not an unusual requirement for debt providers and we are instructed that the Company does not intend on paying dividends prior to the maturity of the Convertible Bonds; and
- In broad terms, the anti-dilution provisions will most likely impact the percentage holding obtained by ELM where:
  - Capital is raised at a price below the lesser of \$0.07 a share (the conversion price) or the prevailing market price;
  - Capital is required to be raised within the term of the notes issued (prior to the maturity date); and

- ELM actually converts the Convertible Bonds to equity post that event.

Broadly, in such circumstances, if capital were to be raised, Shareholders would be diluted and the conversion price of ELM would be adjusted to give ELM the same percentage holding in Citigold it would have been entitled to, had capital been raised at the higher of the prevailing market price or the conversion price.

In reference to the anti-dilution provisions above, we note the following:

- ELM will not hold a controlling stake of greater than 50% of the shares in Citigold (as a result of the Convertible Bonds) unless it converts the final tranche. Therefore, collectively, the Shareholders will likely have control of the Company while the non-dilution provisions remain in effect;
- The Company is of the view that it will not require further funding to become cash flow positive and therefore will not require any additional equity; and
- The ability of Citigold to raise secured debt may be increased as the Company further develops its assets using the proceeds from the Convertible Bonds, possibly reducing the need to raise additional equity (if indeed any capital is required).

For completeness, we note that Citigold is obligated to issue all the Convertible Bonds and that ELM is obligated to provide the full \$100 million in funding (excluding certain events, such as default). In other words, neither party can decide not to accept or provide the funding and take on the associated obligations as specified in the BSA. The continued support of ELM will be relied upon for the continued payment of each tranche.

Citigold cannot be certain that ELM will have the resources available to provide the additional funding required as each tranche becomes due. We note that Citigold have received the first \$3 million tranche which has been provided prior to this Proposed Transaction.

Refer to Section 1.1 of the Explanatory Statement for further details in relation to the terms of the Proposed Transaction.

### **3.2 Conditions of the Proposed Transaction**

While the first tranche (the 'Initial Tranche') has already been drawn down (as announced on 16 April 2013), drawing down the second tranche of the Convertible Bonds will be subject to certain conditions being met by 8 October 2013 (the 'Second Completion Date'). In broad terms, we understand that the BSA outlines the following conditions precedent:

- Foreign Investment Review Board ('FIRB') approval, which has already been received;
- Shareholder approval;
- The issuance of an appropriate cleansing notice; and
- No material adverse change, suspension or delisting, change in legislation which results in a material adverse change, no injunctions and no breach by Citigold of the warranties, undertakings and obligations it has under the BSA.



In the event that the conditions are not satisfied and the Proposed Transaction does not occur, Citigold must repay the Initial Tranche in full within 20 days of the Second Completion Date.

All subsequent tranches are also subject to similar conditions precedent.

ELM will also have the right to appoint a member of the board.

Refer to Section 1.2 of the Explanatory Statement for further details in relation to the conditions of the Proposed Transaction.

### **3.3 Strategic Rationale of the Proposed Transaction**

The Directors of Citigold are of the view that the Proposed Transaction is the best prospect for securing financing for the Charters Towers Gold Project.

The directors of Citigold are of the view that the Proposed Transaction provides the following benefits to Citigold:

- The Convertible Bonds provide necessary funding for significant development of the Company's Charters Towers Gold Project mines and therefore supports the growth of the Company;
- The Convertible Bonds are likely to be no more dilutive to the Shareholders than issuing ordinary shares at a significant discount to the market price in a typical placement. We note that the directors consider that current capital market conditions make a placement difficult and costly to enter into as at the date of this Report;
- The conversion price of the Convertible Bonds is at a premium to the Company's recent VWAP prior to announcing the Proposed Transaction;
- The Proposed Transaction serves as a basis to establish a relationship with ELM, securing ELM's ongoing involvement and interest in the growth of the Company and its projects;
- The Company, with the assistance of its external corporate advisers and finance experts, has run an exhaustive process over a long period of time to identify and negotiate the best funding terms available. The directors consider the BSA provides the best finance terms available to the Company as at the date of this Report;
- The debt element of the Convertible Bonds has been secured on favourable terms with a coupon of 5% per annum; and
- The Company may be required to repay the \$3 million advanced to date within 20 days if the shareholders do not approve the transaction.

Citigold shareholders should refer to Section 2.1 of the Explanatory Statement for additional information in relation to the directors' strategic rationale.

### **3.4 ELM's Intentions for Citigold**

We understand from our discussions with Citigold management that ELM is seeking to invest in Citigold to further progress the Charters Towers Gold Project and obtain a controlling exposure to the Company and its flagship project.



Having regard to the information known at the current time, ELM has indicated that it intends:

- To continue the business of the Company as it is currently conducted;
- Not to make any major changes to the business of the Company or the deployment of the Company's assets;
- Not to transfer any Company property between the Company and ELM or any person associated with ELM;
- To continue the employment of the Company's existing employees;
- Not to interfere with the Company maintaining a strong board that operates independently of, and separately to, ELM; and
- Not to significantly change the financial or dividend distribution policies of the Company.

Citigold shareholders should refer to Section 3.1 of the Explanatory Statement for additional information in relation to ELM's intentions.

## 4.0 Scope of Report and Assessment Methodology

### 4.1 Scope of Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Corporations Act 2001 ('the Corporations Act'), the regulatory guides published by the Australian Securities and Investments Commission ('ASIC') and in some cases the listing requirements of the stock exchanges on which a company is listed. We have summarised the requirements of the Corporations Act and the ASX listing requirements in Sections 4.1.1 and 4.1.2 below respectively. We have summarised the guidance provided by the regulatory guides in Section 4.2 below.

The sole purpose of this Report is to express BDO CFQ's opinion on whether the Proposed Transaction is fair and reasonable to the Shareholders. This Report cannot be used by any other person for any other reason or for any other purpose. A copy of this Report will accompany the Explanatory Statement to be sent to the Shareholders.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of individual shareholders. Before acting in relation to their investment, individual shareholders should consider the appropriateness of the advice having regard to their own business objectives, financial situation or needs (including their taxation consequences). Shareholders should read the Explanatory Statement in full.

The decision to vote in favour of or against the Proposed Transaction is a matter for individual shareholders based on their expectations as to value, future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

#### 4.1.1 Requirements of the Corporations Act

We understand that there is no legal requirement under the Corporations Act for the provision of an independent expert's report in relation to the Proposed Transaction. Notwithstanding this, Citigold has requested that we prepare this Report having regard to the requirements that would ordinarily apply to an independent expert's report drafted for the purpose of complying with the Corporations Act.

Section 606 of the Corporations Act states that a relevant interest in a listed company cannot be increased from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, unless one of the exceptions set out in section 611 of the Corporations Act is met. As the Convertible Bonds will provide ELM with the right to obtain a stake in Citigold greater than 20%, Section 606 would ordinarily prevent the Proposed Transaction unless it met one of the exemptions set out in Section 611 of the Corporations Act.

Item 7 of Section 611 of the Corporations Act, in certain circumstances, may provide an exemption from the prohibition of the issue of securities under Section 606. Item 7 of Section 611 states that an acquisition is exempt from the regulations of Section 606 if the acquisition proposal is approved by a requisite majority of shareholders not associated with the person making the proposal or their associates by passing a resolution at a general meeting.

Non-associated shareholders voting pursuant to item 7 of Section 611 of the Corporations Act are to be provided with all information known to the person proposing to make the acquisition or their associates, or known to the company, that is material to the decision on how to vote on the resolution.

To aid in their obligation to provide all relevant information in relation to the Proposed Transaction, the directors of Citigold have commissioned the preparation of this Report.

#### 4.1.2 ASX Listing Requirements

This report is not specially required under ASX Listing Rules.

### 4.2 Assessment Methodology

ASIC have issued RG 111 *Content of experts reports*, which provides guidance in relation to independent experts' reports. RG 111 relates to the provision of independent experts' reports in a range of circumstances, including those where the expert is required to give an opinion as to whether a transaction is 'fair' and 'reasonable' to the shareholders.

RG 111 states that the report should explain the particulars of how the proposal was examined and evaluated as well as the results of the examination and evaluation. The report should provide an opinion by the expert stating whether or not, in the opinion of the expert, the proposal is 'fair and reasonable'. RG 111 also provides guidance on common valuation methodologies and some matters which should be considered by an expert when completing a valuation.

To meet the ASIC requirements, an expert seeking to determine whether the Proposed Transaction is 'fair and reasonable' should complete the steps set out below.

#### 4.2.1 Step 1 - Assessment of Fairness

In our view, for assessment purposes, the Proposed Transaction is a significant capital raising which has the potential to lead to control of Citigold by ELM (due to the potential to obtain greater than 50% of the shares in the Company on conversion of the Convertible Bonds). RG 111 sets out guidance for experts when opining on takeover bids that are being completed having regard to Chapter 6 of the Corporations Act.

Under RG 111, the Proposed Transaction will be considered 'fair' if the value of the consideration to be received by the Shareholders is equal to or greater than the value of the shares and other benefits that are the subject of the takeover bid (i.e. including the shares issued on conversion of the Convertible Bonds and coupons). In making this assessment, the guidance in RG 111 indicates that the expert should compare the value of the consideration to be received by the Shareholders to the value of Citigold shares issued that assumes a 100% ownership interest in Citigold.

Our assessment of the fairness of the Proposed Transaction is set out in Section 7.

#### 4.2.2 Step 2 - Assessment of Reasonableness

Reasonableness examines other significant factors to which Shareholders may give consideration, prior to voting in favour of or against the Proposed Transaction. This includes comparing the likely advantages and disadvantages of voting in favour of or against the Proposed Transaction, with the position of the Shareholders if the Proposed Transaction is not approved. This step can be classified as an assessment of whether the Proposed Transaction is 'reasonable'.

Our assessment of the reasonableness of the Proposed Transaction is set out in Section 8.

#### 4.2.3 Step 3 - Conclusion

Upon completion of steps 1 and 2, it may be possible to conclude that the Proposed Transaction is 'reasonable' if there are valid reasons for its approval, notwithstanding that the Proposed Transaction may not be regarded as being 'fair' to the shareholders. Generally speaking, an offer is 'reasonable' if it is 'fair'.

It may also be 'reasonable', despite not being 'fair', if after considering other significant factors the interests of Shareholders are reasonably balanced.

This Report will conclude by providing our opinion as to whether or not the Proposed Transaction is 'fair and reasonable'. While all issues need to be considered before drawing an overall conclusion, we will assess the fairness and reasonableness issues separately for clarity.

We have not provided any advice, taxation, legal or otherwise in relation to the operation of the Proposed Transaction. Other advisors have provided advice to Citigold in relation to the Proposed Transaction on those matters.

In the process of making an assessment of the Proposed Transaction, we have made certain assumptions. Where these assumptions are material to our work, we have stated them in this Report.

This Report has been prepared in accordance with APES 225: Valuation Services issued by the Accounting Professional & Ethical Standards Board in May 2012.

## 5.0 Background of Citigold<sup>1</sup>

This section provides a background summary of Citigold and is structured as follows:

- Section 5.1 provides a brief overview of Citigold and its key assets;
- Section 5.2 describes the equity structure of Citigold;
- Section 5.3 summarises the share market performance of Citigold shares; and
- Section 5.4 summarises the historical financial information of Citigold.

### 5.1 Overview of Citigold

#### 5.1.1 Background of Citigold

Citigold is an Australian gold mining and exploration company operating in the Charters Towers goldfields. The Company was originally formed in 1993 as 'Charters Towers Gold Mines' before changing its name to Citigold Corporation in 2004.

Citigold's mining area, the Charters Towers Goldfield, is located 1,000 kilometres north of Brisbane, and 128 kilometres south west from the major coastal port of Townsville. The Charters Towers Goldfield consists of 47 mining leases covering a total area of approximately 26.4 square kilometres. Established mine sites in the Charters Towers Goldfield include the Central Mine and the Imperial Mine, which are a part of the central and southern areas of the Charters Towers Goldfield respectively. Citigold has been mining and extracting valuable metals in these areas intermittently from 2003, and continuously since 2007. Over 95,000 ounces of gold and 45,000 ounces of silver have been produced since 1997 from the area.

In May 2012, the Company engaged a geological expert, Pathfinder Explorations, to conduct a review and evaluation of the technical aspects of the Charters Towers Goldfield. According to the report, Mineral Resources in the Charters Towers Goldfield are 25 million tonnes of gold bearing ore at an average grade of 14 grams of gold per tonne, implying 11 million ounces of inferred gold resource defined to Joint Ore Reserves Committee ('JORC') Code reporting standards. The JORC probable ore reserves was approximately 0.62 million ounces of gold and 0.41 million ounces of silver. This gold deposit is currently the largest high grade gold resource in Australia.

With this substantial resources and reserves base, Citigold plans to build up gold production to 330,000 ounces per annum in stages over a five year ramp up period with a life of over 20 years. Based on a series of modelling, the capital development program requires \$230 million to be invested over the next four years. The Company estimates that it will require \$100 million (as raised under the Proposed Transaction) for the development program with the rest to be provided from cash flow from the development.

The level of capital required will ultimately depend on a number of factors including the prevailing gold price, actual capital costs incurred, operating costs, availability of debt finance etc.

---

<sup>1</sup> Unless otherwise stated, the information in this section of the Report is based on Citigold's Annual Reports, documents from Citigold's website and information provided to us by Citigold.

Existing mining operations at Charters Towers Goldfield adopt underground mining methods, known as the drill and blast techniques. The gold deposits are accessed by two downward sloping tunnels. Following the mining process, broken ore is then transported from the stopes to a transportable underground crushing, screening, and auto sorting plant for initial pre-processing to remove the barren waste.

The gold extraction plant is located away from the populated areas of the town about 10 kilometres south west of the Charters Towers town centre along the Gregory Highway. It has a capacity to process approximately 340,000 tonnes of gold bearing ore per year. There is also a gravity gold recovery circuit within the overall plant design to recover some coarse gold particles. Currently, the gold extraction plant still has substantial spare capacity.

In addition to the primary operation in the Charters Towers Goldfield, Citigold also controls approximately 1,000 square kilometres of exploration tenements adjacent to its mining operations. These tenements comprise Mineral Development Licenses ('MDL') that cover the direct extensions to the mining areas in readiness for future conversion into Mining Leases prior to gold production, and Exploration Permits Minerals that are being explored to expand the known gold deposits. These exploration tenements cover approximately 80 prospects that have potential for economic mineralisation.

An analysis of the Australian gold mining industry and Australian minerals exploration industry, in which Citigold could be considered to operate, is provided in Appendix A of this Report.

A summary of Citigold's mineral tenures is provided in Section 5.1.2.

## 5.1.2 Overview of Citigold's Mineral Tenures

### Central Mining Area

The Central Mining Area was initially established as a mine site in the late 1990s. Citigold achieved full control of the area in 2004 when the Company acquired two companies (Great Mines Ltd and Charters Towers Mines Pty Ltd) that held certain mining leases and rights over parts of the Charters Towers Goldfield.

As part of Citigold's mineral resource estimation in May 2012, there were 455 new drill intersections in the Central Mining Area. Of the 11 million ounces of total resource in the Charters Towers Goldfield, the Central Mining Area contains approximately 6 million ounces of the gold resource at 14 grams of gold per tonne.

Currently, there is no gold being produced from the Central Mining Area. This area includes several major reefs that will form the basis of the 'super mine' where nearly four kilometres of reef strike line will be developed. The Company predicts that the Central Mining Area will be able to produce over 200,000 ounces of gold per annum once the major development work is completed.

### Southern Mining Area

The Southern Mining Area of the Charters Towers Goldfield contains Citigold's primary mine known as the Imperial Mine. The Imperial Mine commenced production in 2006 and is located approximately five kilometres southeast of Charters Towers' city centre.

The May 2012 resource and reserves report indicates that the Southern Mining Area represents approximately 5 million ounces of the overall inferred gold resource at Charters Towers of 11 million ounces.

Citigold's 2012 financial year production was primarily from the Imperial Mine. Approximately 35,000 tonnes of gold bearing ore was trucked from the Imperial Mine to the processing plant. Processing plant recoveries have consistently been around 97%.

### Mineral Development Licences and Exploration Permits

In May 2012, Citigold was granted a new 17.2 square kilometre MDL by the Minister for Natural Resources and Mines for the State of Queensland.

Citigold currently has five MDL's (MDL 116, MDL 118, MDL 119, MDL 251, and MDL 252), five Exploration Permits Minerals ('EPM') (EPM 15964, EPM 15966, EPM 16979, EPM 18465 and EPM 18820), and one Exploration Permits Minerals Applications ('EPMA') (EPMA 18813) located adjacent to the central and southern areas of the Charters Towers Goldfield. These development licences and exploration permits cover a total area of 1,546 square kilometres (1,242 square kilometres excluding the EPMA's).

## 5.2 Equity Structure of Citigold

As at 22 April 2013, Citigold had the following securities on issue:

- 1,352,907,765 fully paid ordinary shares;
- 7,997,917 unlisted options expiring on 28 June 2015, exercisable at \$0.12 per option; and
- Three convertible bonds convertible to 42,857,143 shares on or before 9 April 2016.<sup>2</sup>

### 5.2.1 Top Ten Shareholders of Citigold Ordinary Shares

The top 10 shareholders of Citigold ordinary shares as at 22 April 2013 are set out in Table 5.1 below.

**Table 5.1: Top 10 Citigold Shareholders as at 22 April 2013**

	Shareholder	Number of Shares	Percentage of Total Shares (%)
1	Liongold Corp Ltd	239,285,714	17.7%
2	K Sera Sera Holdings Pty Ltd	96,951,372	7.2%
3	Aurora Investments Limited	68,659,983	5.1%
4	Citicorp Nominees Pty Limited	67,475,086	5.0%
5	UOB Kay Hian Private Limited	45,512,360	3.4%
6	Phillip Securities Pte Ltd	39,393,471	2.9%
7	JP Morgan Nominees Australia Limited	39,117,432	2.9%
8	DMG & Partners Securities Pty Ltd	28,392,913	2.1%
9	HSBC Custody Nominees (Australia) Limited	21,996,786	1.6%
10	Mr Kim Teck Koh	20,000,000	1.5%
	Balance of Shareholders	686,122,648	50.7%
	<b>Total</b>	<b>1,352,907,765</b>	<b>100%</b>

Source: Citigold Share Register as at 22 April 2013

<sup>2</sup> On 16 April 2013, an Initial Tranche of \$3 million was received by Citigold. If all of these bonds were to be converted, 42,857,143 new shares in Citigold would be issued, subject to the anti-dilution provisions in the agreement.

### 5.3 Share Market Performance of Citigold

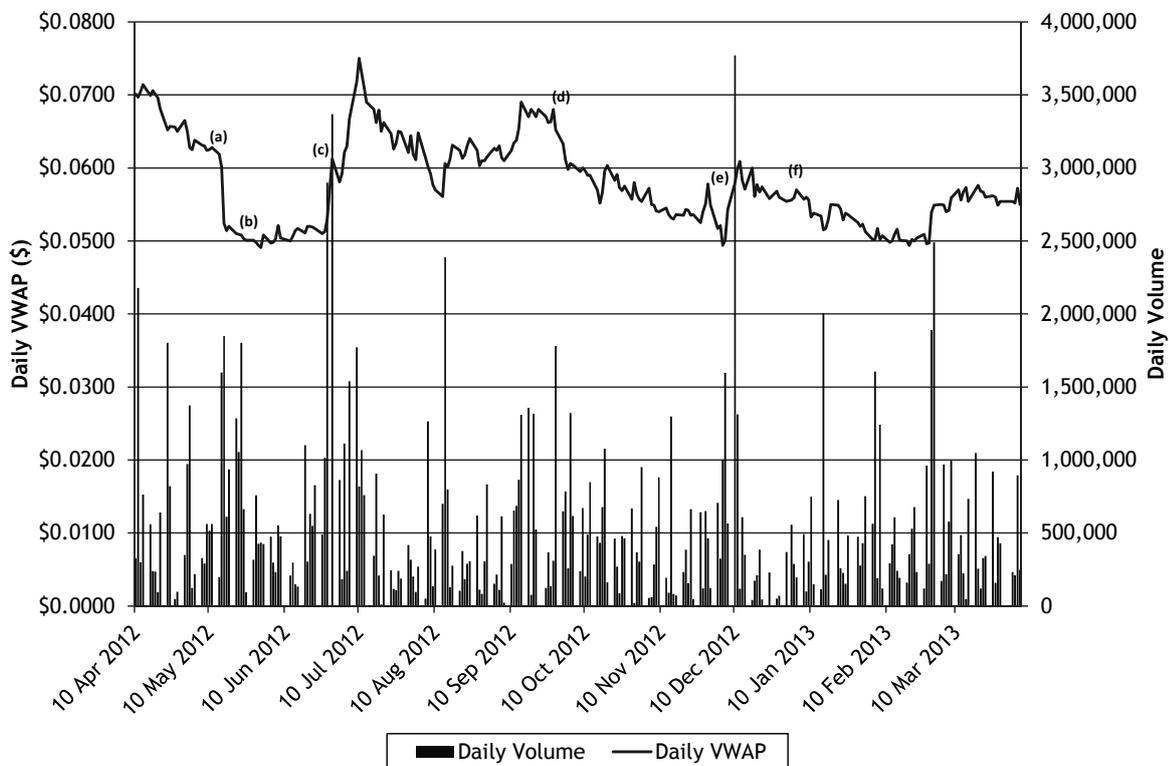
This section sets out an analysis of the share market performance of Citigold shares by considering the following:

- The most recent price of Citigold shares on the ASX (Section 5.3.1); and
- The liquidity of Citigold shares (Section 5.3.2).

#### 5.3.1 Citigold Share Price Movements

Citigold shares are listed on the ASX. Figure 5.1 below shows Citigold’s daily volume-weighted average share price and the volume of shares traded each day over the period from 6 April 2012 to 5 April 2013 inclusive.

Figure 5.1: Daily VWAP and Volume Traded for Citigold from 6 April 2012 to 5 April 2013



Source: Bloomberg as at 23 April 2013

Over the period graphed in Figure 5.1, Citigold’s daily VWAP shows a period low of A\$0.0491 on 31 May 2012 and a period high of A\$0.0750 on 10 July 2012.

In addition to the share price and trading data, we have also provided additional information in this Report to assist readers to understand possible reasons for movements in Citigold’s share price and volume of shares traded over the time period analysed. The references in Figure 5.1 correspond to the references in Table 5.2 below.

**Table 5.2: Summary of Selected Citigold Announcements over the Period 6 April 2012 to 5 April 2013**

	Date	Announcement
(a)	08-May-12	Citigold announces that a new 1,724 hectare MDL (MDL 252) has been granted to the Company by the Minister for Natural Resources and Mines for the State of Queensland.
(b)	21-May-12	Citigold announces the release of the technical report 'Mineral Resources and Reserves 2012' for the Charters Towers Gold Project. The gold ore reserves have increased by nearly 90% and the mineral resources have increased by 10%.
(c)	28-Jun-12	Citigold announces that it has reached an agreement with LionGold Corp Limited to invest \$10 million in Citigold. Under the terms of the placement, 125 million new Citigold shares are issued at \$0.08 per share, representing a premium of over 30% to the last traded Citigold share price.
(d)	28-Sep-12	Citigold releases its full year statutory accounts, which summarise the financial performance of the Company for the 2012 financial year.
(e)	07-Dec-12	Citigold announces that it has reached an agreement with LionGold Corp Limited to invest an additional \$8 million in Citigold. Under the terms of the placement, 114.3 million new Citigold shares are issued at \$0.07 per share, representing a premium of over 37% to the last traded Citigold share price.
(f)	31-Dec-12	Citigold announces that it has agreed to sell its entire holding in Gateway Mining Limited for \$2.3 million.

Source: Citigold ASX Announcements

In Table 5.3 below, we have set out Citigold's VWAP for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months prior to 5 April 2013.

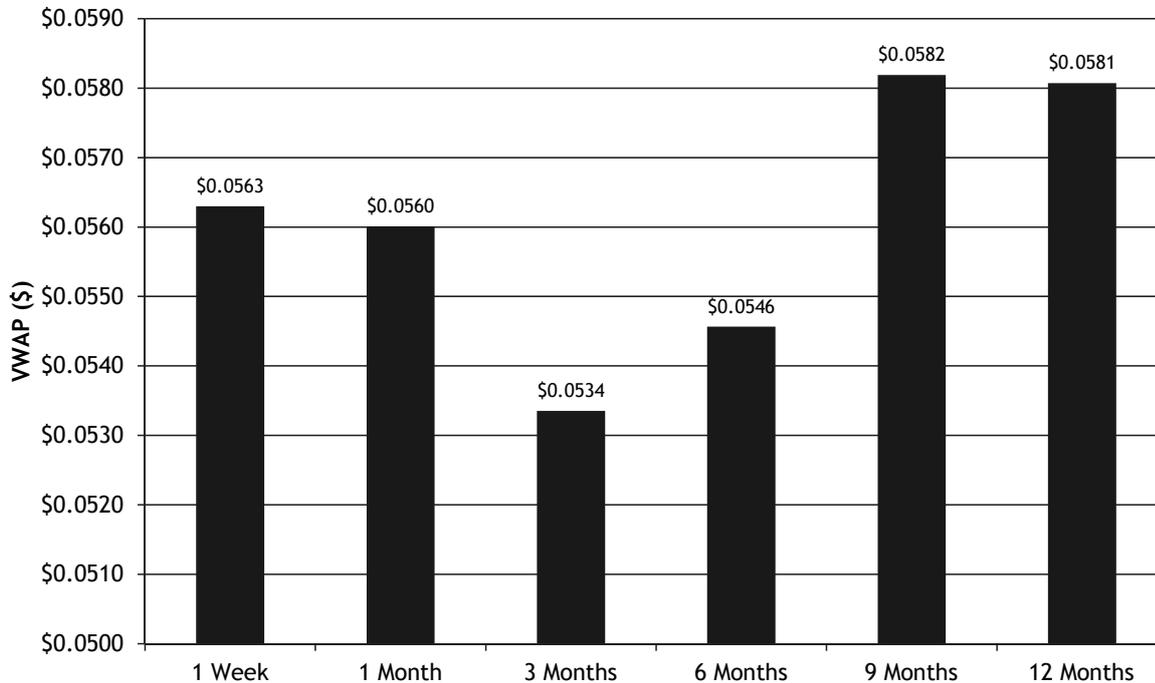
**Table 5.3: Citigold's VWAP prior to 5 April 2013**

Period before 5 April 2013	Period included in VWAP	VWAP (\$)
1 Week	30 Mar 2013 to 5 Apr 2013	\$0.0563
1 Month	6 Mar 2013 to 5 Apr 2013	\$0.0560
3 Months	6 Jan 2013 to 5 Apr 2013	\$0.0534
6 Months	6 Oct 2012 to 5 Apr 2013	\$0.0546
9 Months	6 Jul 2012 to 5 Apr 2013	\$0.0582
12 Months	6 Apr 2012 to 5 Apr 2013	\$0.0581

Source: Bloomberg as at 23 April 2013

The information presented in Table 5.3 above is shown graphically in Figure 5.2 below.

Figure 5.2: Citigold’s VWAP prior to 5 April 2013



Source: Bloomberg

### 5.3.2 Liquidity of Citigold Shares

The rate at which shares are traded is generally referred to as the ‘liquidity’ of the shares. Changes in liquidity may impact the trading price of shares, depending on the number of shares required to be bought and/or sold and the time period over which the shareholder needs to buy and/or sell those shares. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the share or a shift in value of the company to which the shares relate as a whole.

Table 5.4 below summarises the monthly liquidity of Citigold shares from April 2012 to April 2013. Liquidity has been summarised by considering the following:

- Volume of Citigold share trades per month;
- Value of total trades in Citigold shares per month;
- Number of trades in Citigold shares per month;
- Volume weighted average price per month; and
- Number of shares traded per month as a percentage of total shares outstanding at the end of the month.

**Table 5.4: Liquidity of Citigold Shares on the ASX**

Month	Traded Volume	Value (Millions)	Number of Trades	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
March 2013	11,341,636	2,563	226	1,352,908,000	0.84%	\$0.0556
February 2013	11,451,815	2,748	240	1,352,908,000	0.85%	\$0.0509
January 2013	8,656,446	1,645	190	1,352,908,000	0.64%	\$0.0535
December 2012	11,933,084	6,157	516	1,352,908,000	0.88%	\$0.0555
November 2012	8,299,629	2,116	255	1,238,622,000	0.67%	\$0.0543
October 2012	11,728,745	2,662	227	1,238,622,000	0.95%	\$0.0590
September 2012	10,921,311	3,189	292	1,238,622,000	0.88%	\$0.0658
August 2012	10,389,921	3,657	352	1,238,622,000	0.84%	\$0.0606
July 2012	12,088,465	4,146	343	1,238,622,000	0.98%	\$0.0672
June 2012	14,431,963	7,418	514	1,105,078,000	1.31%	\$0.0539
May 2012	16,978,652	6,588	388	1,105,078,000	1.54%	\$0.0556
April 2012	11,654,318	4,872	418	1,105,078,000	1.05%	\$0.0688
<b>Total</b>	<b>139,875,985</b>	<b>47,763</b>	<b>3,961</b>	-	<b>11.25%<sup>(a)</sup></b>	<b>\$0.0584</b>

Source: Bloomberg

(a) Weighted average number of shares outstanding over the period analysed

Assuming a weighted average number of 1,243,331,333 ordinary Citigold shares on issue over the period, approximately 11.25% of total shares on issue were traded over the 12 month period to 5 April 2013. In our view, this indicates that Citigold's shares display a relatively low level of liquidity.

## 5.4 Historical Financial Information

This section sets out the historical financial information of Citigold. As this Report contains only summarised historical financial information, we recommend that any user of this Report also read and understand the additional notes and financial information contained in Citigold's annual reports.

Citigold's financial statements are prepared in accordance with Australian equivalents to International Financial Reporting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act. Citigold's financial statements for the 12 months periods ended 30 June 2010, 2011 and 2012 were audited by KS Black and Co.

BDO CFQ has not performed any audit or review of any type on the historical financial information of Citigold. We make no statement as to the accuracy of the information provided.

### 5.4.1 Comprehensive Income

Table 5.5 summarises the consolidated statement of comprehensive income for Citigold for the 12 month periods ended 30 June 2010, 2011, 2012, and the nine months to 31 March 2013.

**Table 5.5: Statement of Comprehensive Income**

	Audited 12 Months Ended 30-Jun-10 \$	Audited 12 Months Ended 30-Jun-11 \$	Audited 12 Months Ended 30-Jun-12 \$	Unaudited 9 Months Ended 31-Mar-13 \$
Revenue	19,835,815	11,894,122	12,553,108	1,940,748
Cost of sales	(10,852,135)	(7,860,822)	(4,756,738)	(835,280)
<b>Gross profit</b>	<b>8,983,680</b>	<b>4,033,300</b>	<b>7,796,370</b>	<b>1,105,468</b>
Other income	1,059,235	268,347	61,075	254,120
Employee benefits expense	(3,155,786)	(2,745,036)	(3,549,461)	(1,635,071)
Depreciation and amortisation expense	(2,539,159)	(2,182,957)	(944,765)	(223,406)
Finance costs	(1,050,948)	(815,327)	(1,517,817)	(737,427)
Consulting expense	(446,762)	(365,867)	(532,594)	(1,320,686)
Other expenses	(2,613,165)	(2,492,329)	(2,465,853)	(1,325,646)
Impairment of non-current asset	-	(975,312)	595,317	-
Share of loss of associate	(163,918)	(158,676)	(608,398)	(594,442)
<b>Profit/(loss) before income tax</b>	<b>73,177</b>	<b>(5,433,857)</b>	<b>(1,166,126)</b>	<b>(5,582,558)</b>
Income tax expense	-	-	-	-
<b>Profit/(loss) after income tax</b>	<b>73,177</b>	<b>(5,433,857)</b>	<b>(1,166,126)</b>	<b>(4,477,090)</b>
Share of other comprehensive income of associate	80,651	(571)	(26,492)	(53,588)
<b>Total comprehensive income</b>	<b>153,828</b>	<b>(5,434,428)</b>	<b>(1,192,618)</b>	<b>(4,530,678)</b>

Source: Citigold Annual Reports for the years ended 30 June 2010, 2011, 2012, and 31 March 2013 management accounts

In relation to the financial performance of Citigold set out in Table 5.5 above we note the following:

- Citigold's revenue was approximately \$19.8 million in FY2010 due to boosting its production temporarily to 15,888 ounces of gold. Subsequent to FY2010, revenues remained relatively consistent at approximately \$11.9 million and \$12.6 million for FY2011 and FY2012 respectively;
- In the nine months to 31 March 2013, Citigold's revenue decreased to \$1.9 million due to a major site restructure and maintenance at the processing plant. Over the nine month period, the processing of ore from the Imperial Mine was only conducted during the first three weeks of November;
- Citigold had approximately \$1.0 million of impairment expense in FY2011 due to a decline in the share price of the Company's holdings in Gateway Mining Ltd. Approximately \$0.6 million of the impairment expense was reversed in FY2012, reflecting the increase in the share price of Gateway Mining Ltd;
- Finance costs increased from \$0.8 million in FY2011 to \$1.5 million in FY2012 due to the Company's decision to borrow an additional \$2.8 million. Interest on the additional loans is calculated at a rate of 10% to 60% per annum;
- Over the three financial years, depreciation and amortisation expense has decreased from \$2.5 million in FY2010 to \$0.9 million in FY2012, reflecting a significant reduction of leased plant and equipment;
- The relatively high consulting expense of \$0.5 million in FY2012 and \$1.3 million in the nine months to March 2013 can be partially attributed to the cost of the independent technical report prepared by Pathfinder Exploration and the cost of engaging Snowden Mining Industry Consultants Pty Ltd to provide an independent audit on the technical report prepared by Pathfinder Exploration; and
- Other expenses on the profit and loss statement includes insurance, administration cost, royalty payments, tenement charges, travel expenses, professional fees, and losses relating to currency translations.

## 5.4.2 Financial Position

Table 5.6 summarises the consolidated statement of financial position for Citigold as at 30 June 2010, 2011, 2012, and as at 31 March 2013.

**Table 5.6: Statement of Financial Position**

	Audited As at 30-Jun-10 \$	Audited As at 30-Jun-11 \$	Audited As at 30-Jun-12 \$	Unaudited As at 31-Mar-13 \$
<b>Current Assets</b>				
Cash and cash equivalents	510,700	760,473	3,182,121	454,285
Receivables	464,493	315,584	7,230,029	633,301
Inventories	1,056,038	2,097,671	203,164	607,273
<b>Total current assets</b>	<b>2,031,231</b>	<b>3,173,728</b>	<b>10,615,314</b>	<b>1,694,859</b>
<b>Non-Current Assets</b>				
Investments in associates	4,134,559	3,000,000	2,960,427	-
Property, plant and equipment	184,319,611	190,415,036	195,792,675	204,992,954
Other non-current assets	544,204	553,204	553,204	553,204

	Audited As at 30-Jun-10 \$	Audited As at 30-Jun-11 \$	Audited As at 30-Jun-12 \$	Unaudited As at 31-Mar-13 \$
Total non-current assets	188,998,374	193,968,240	199,306,306	205,546,158
Total assets	191,029,605	197,141,968	209,921,620	207,241,017
<b>Current Liabilities</b>				
Payables and accrued liabilities	7,996,500	6,506,267	7,803,119	5,047,481
Borrowings	2,949,487	1,764,401	3,404,841	1,075,207
Provisions	1,564,136	1,375,678	1,949,758	868,013
Others	952,000	-	-	-
Total current liabilities	13,462,123	9,646,346	13,157,718	6,990,701
<b>Non-Current Liabilities</b>				
Borrowings	2,590,989	208,902	-	-
Provisions	553,952	537,357	539,657	556,749
Total non-current liabilities	3,144,941	746,259	539,657	556,749
Total liabilities	16,607,064	10,392,605	13,697,375	7,547,450
Net assets	174,422,541	186,749,363	196,224,245	199,693,567
<b>Equity</b>				
Issued capital	161,439,496	179,200,747	189,868,247	197,868,247
Reserves	39,338,193	39,337,622	39,311,130	39,257,542
Accumulated losses	(26,424,381)	(31,858,199)	(33,024,286)	(37,501,341)
Total equity attributable to shareholders of the company	174,353,308	186,680,170	196,155,091	199,624,448
Non-controlling interest	69,233	69,193	69,154	69,119
Total equity	174,422,541	186,749,363	196,224,245	199,693,567

Source: Citigold Annual Reports for the years ended 30 June 2010, 2011, 2012, and 31 March 2013 Management accounts

With reference to the financial position of Citigold set out in Table 5.6 above, we note the following:

- Inventory decreased from \$2.1 million in FY2011 to \$0.2 million in FY2012 due to the sale of gold and silver on hand during the period;
- Citigold's investments in associates were nil as at 31 March 2013 due to the sale of the Company's entire holding in Gateway Mining Ltd in 31 December 2012;
- As at 30 June 2012, property, plant, and equipment comprise of:
  - Exploration, evaluation and development expenditure (57.9%);
  - Development property (37.9%);
  - Plant and equipment (3.5%);
  - Freehold land and buildings (0.2%); and

- Citigold's level of gearing has been relatively low, ranging from 1.1% in FY2011 to 3.1% in FY2010. This is consistent with the Company's target gearing level of below 15% and suggests that the company is not currently subject to substantial debt obligations.

### 5.4.3 Cash Flows

Table 5.7 summarises the consolidated statement of cash flows for Citigold for the 12 month periods ended 30 June 2010, 2011, 2012, and the nine months to 31 March 2013.

**Table 5.7: Statement of Cash Flows**

	Audited 12 Months Ended 30-Jun-10 \$	Audited 12 Months Ended 30-Jun-11 \$	Audited 12 Months Ended 30-Jun-12 \$	Unaudited 9 Months Ended 31-Mar-13 \$
<b><i>Cash flows from operating activities</i></b>				
Receipts from customers	21,317,528	12,283,133	14,324,268	2,169,392
Payments to suppliers and employees	(13,015,965)	(15,763,963)	(9,073,943)	(10,213,616)
Interest and other costs of finance paid	(1,587,302)	(1,252,337)	(1,613,156)	(543,165)
<b>Net cash flows from/(used in) operating activities</b>	<b>6,714,261</b>	<b>(4,733,167)</b>	<b>3,637,169</b>	<b>(8,587,389)</b>
<b><i>Cash flows from investing activities</i></b>				
Interest received	16,171	28,244	7,843	25,477
Proceed (Payment) from property, plant and equipment	(170,031)	1,607,868	414,913	(1,149,155)
Proceed (Payment) for investment in associate	(2,669,325)	-	-	1,262,397
Development costs paid	(14,039,366)	(9,886,250)	(6,737,316)	(6,949,530)
<b>Net cash flows from/(used in) investing activities</b>	<b>(16,862,551)</b>	<b>(8,250,138)</b>	<b>(6,314,560)</b>	<b>(6,810,811)</b>
<b><i>Cash flows from financing activities</i></b>				
Proceeds from issues of equity securities	10,317,368	16,809,250	3,667,500	15,000,000
Proceeds from borrowings	34,711	-	2,855,577	-
Repayment of borrowings	(3,544,059)	(3,576,172)	(1,424,038)	(2,329,635)
<b>Net cash flows from/(used in) financing activities</b>	<b>6,808,020</b>	<b>13,233,078</b>	<b>5,099,039</b>	<b>12,670,365</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(3,340,270)</b>	<b>249,773</b>	<b>2,421,648</b>	<b>(2,727,835)</b>
Cash and cash equivalents at the beginning of the period	3,850,970	510,700	760,473	3,182,120
<b>Cash and cash equivalents at the end of the period</b>	<b>510,700</b>	<b>760,473</b>	<b>3,182,121</b>	<b>454,285</b>

Source: Citigold Annual Reports for the years ended 30 June 2010, 2011, 2012, and 31 March 2013 management accounts



With reference to the statement of cash flows of Citigold set out in Table 5.7 above, we note that over the past three years, the company has been able to raise approximately \$45.7 million of equity to fund the Charters Towers Gold project. Relative to the \$45.7 million raised from equity, Citigold has expended a total of \$37.5 million in development expenditures from 30 June 2009 to 31 March 2013.

According to management, Citigold requires capital of approximately \$230 million in order to fund future expansion of the Charters Towers Gold Project.

## 6.0 Background of ELM

Mr (Billy) Ooi, Cheu Kok is the sole director of ELM. ELM is an investment holding company. The information set out in this section has been provided by Citigold, having received the information in their due diligence and negotiation process.

We are advised that Mr Ooi is a veteran in the investing community in his home country, Malaysia, as well as South East Asia. Mr Ooi started off as a real-estate developer and founded Golden Wave Sdn Bhd, a billion-dollar commercial development project in Kota Kinabalu, East Malaysia. Mr Ooi was instrumental in developing the concept with the local government authorities.

His other holdings include projects in Sabah, residential developments in KolKol and Tenom, a sea front resort in Marudu, and the Centrepoint Shopping Centre in Kota Kinabalu.

Since 2010, Mr Ooi has ventured from property investment to investing in public and private equities in Asia. Most significant and recent is his holdings in SGX (Singapore mainboard listed) company Blumont Group (SGX.A33) which has a market capitalisation of SGD\$1.36 billion as at 2 May 2013. Mr Ooi is currently the second largest shareholder in the Blumont Group.

Further information about ELM and its intentions for Citigold are set out in Section 3 of the Explanatory Statement.

## 7.0 Assessment of the Fairness of the Proposed Transaction

The Proposed Transaction represents a significant capital raising for Citigold. There are however some key differences between a traditional equity capital raising (as completed by Citigold in the past) and the Proposed Transaction.

Relative to a traditional equity raising, these differences include:

- The Convertible Bonds entitle ELM to interest until such time as ELM elects to convert them (if they ultimately elect to convert the Convertible Bonds);
- The Convertible Bonds offer an option to convert into equity at a predetermined price;
- Citigold will hold ongoing debt to the extent that ELM does not elect to convert the Convertible Bonds to equity; and
- ELM may gain control or significant influence over Citigold if the Convertible Bonds are converted. Citigold's previous capital raisings have not involved the potential relinquishment of control of the Company.

Ultimately, it is the potential conversion of the Convertible Bonds into shares which the Shareholders are requested to approve under the Proposed Transaction as ELM has the potential to increase its holding in Citigold to greater than 50% of the Company. In our view, it is appropriate to consider the implied price at which the proposed capital raising may be completed, having regard to the conversion price of the Convertible Bonds (currently \$0.07) adjusted for any relevant additional features including the interest payments and the embedded options.

Having regard to the above, to assess whether the Proposed Transaction is fair to the Shareholders, we have completed the following analysis:

- a) Considered the implied price at which the Proposed Transaction raises capital, having regard to the interest and options also received by ELM (refer to Section 7.1);
- b) Compared this implied price to the price at which capital has been raised by Citigold and other junior gold companies (refer to Section 7.2);
- c) Considered the ability of Citigold to raise funds from equity and debt markets as an alternative to the Convertible Bonds (refer to Section 7.3);
- d) Considered the implied rate of return on the debt component of the Convertible Bonds and considered the appropriateness of this return in comparison to the rate of return that would be applicable to a comparable debt facility (refer to Section 7.4); and
- e) Considered the issue of potential control gained by ELM if it elects to convert (refer to Section 7.5).

Having regard to the above, we conclude on the fairness of the Proposed Transaction in Section 7.6 of this Report.

## 7.1 Implied Capital Raising Price of the Proposed Transaction

As set out in Section 3.1 of this Report, the Convertible Bonds may be converted into ordinary shares at the election of ELM at any time prior to maturity at \$0.07 per share (with the exception of limited events, as detailed in Section 3.1).

There are two other key components of value which are included in the Convertible Bonds having regard to the terms of the BSA:

- Unlike traditional equity, where all capital is provided without the obligation of repayment, ELM can request the repayment of the face value of the Convertible Bonds (if it elects not to convert them). Theoretically, ELM would elect to have the Convertible Bonds repaid where the value of the shares in Citigold is less than \$0.07. This conversion factor effectively represents an option to convert the Convertible Bonds at \$0.07 per share; and
- Unlike traditional equity, the Convertible Bonds receive an interest payment. We understand that, in the coming three years, as Citigold develops its Charters Towers Project, dividends are unlikely to be paid by the Company with all funds instead being reinvested towards the further development of the Company's assets. On this basis, the interest payments provide value that traditional equity is unlikely to provide in a similar circumstance.

To calculate the implied price at which capital is effectively raised, we have:

- Calculated the value of the embedded options in the Convertible Bonds (Section 7.1.1);
- Calculated the present value of the interest payments received on the Convertible Bonds (Section 7.1.2); and
- Subtracted the values calculated above from the \$0.07 conversion price to calculate the implied price at which capital has been raised under the Proposed Transaction (Section 7.1.3).

### 7.1.1 Value of the Options

As discussed above, a component of the Convertible Bonds is the embedded call options over Citigold shares with an exercise price of \$0.07.

Table 7.1 below sets out the key variables used in the Black Scholes Options Pricing Model to determine the price of each call option over Citigold shares.

**Table 7.1: Key Variables of the Black Scholes Model used to Value the Embedded Call Options in the Convertible Bonds**

Key Driver	Value	Calculation Method
Share Price	\$0.055	Closing share price of Citigold on 5 April 2013 (day prior to the announcement of the Proposed Transaction).
Exercise Price	\$0.070	Conversion price of the Convertible Bonds.
Volatility of Share Price	52.5%	We have adopted the historical volatility of Citigold shares over the previous 252 trading days.
Risk Free Rate	2.84%	Interest rate on 3 year Government Bonds as at 5 April 2013 (in our opinion, this best matches the term of the options).
Time to Maturity	3.0 years	Length of time from the issue of the Initial Tranche to the expiration date.

Key Driver	Value	Calculation Method
Annual Dividend Yield	0%	Citigold has not previously paid a dividend and we have assumed Citigold will not pay a dividend before the Convertible Bonds mature.

Source: Bloomberg and BDO CFQ Analysis

The value of one option using the inputs contained in Table 7.1 above and calculated using the Black Scholes option pricing methodology is \$0.0165, rounded.

Assuming the total ultimate number of shares over which the options are held is 1,428,571,428 as calculated in Table 7.2 below, the total value of the embedded call options is \$23,632,369.

### 7.1.2 Value of the Interest

As discussed above, a further component of the Convertible Bonds relates to the interest payments received. The interest payments will be received so long as the Convertible Bonds are not converted.

For the purpose of calculating the interest payments received, we have assumed that the Convertible Bonds will not be converted until maturity, calculating the highest amount of interest payable possible.

Table D.2 in Appendix D sets out the interest payments calculated at 5% per annum and received bi-yearly based on the tranche drawdown profile we have assumed.

The total interest until the maturity date of the Convertible Bonds is calculated to be \$9,842,072. However, we have discounted this interest amount to calculate a present value for the interest payments.

Given there is a relatively low risk that the interest component will not be paid (as each subsequent tranche can fund the interest from the previous tranches), we are of the view that a relatively low discount rate is appropriate. For the purposes of this calculation, we have adopted a discount rate of 5%, being a rate at the higher end of the interest rate range which could be received at the current time on a cash investment in Australia, for a term of 3 years or less.

Adopting the interest calculated in Table D.2 and the discount rate of 5%, we calculate a present value for the interest of \$8,847,517.

To calculate the value of the interest coupon on a per share basis we have first calculated the total number of shares that would be issued if all of the Convertible Bonds were converted to shares. The total number of shares issued is calculated as the value of the outstanding principal divided by conversion price of \$0.07. Table 7.2 sets out the calculation of the number of shares.

**Table 7.2: Calculation of the Number of Shares Potentially Issued**

		\$
Value of Total Principal of Convertible Bonds		100,000,000
Conversion Price	÷	0.07
<b>Number of Options</b>		<b>1,428,571,428</b>

Source: BDO CFQ Analysis

Table 7.3 sets out our calculation of the present value of the interest having regard to the 1,428,571,428 shares assumed to be issued.

**Table 7.3: Present Value of Interest per Share**

		\$
Present Value of Interest		8,847,517
Potential Number of Shares Issued	÷	1,428,571,429
<b>Calculated Present Value of the Interest</b>		<b>0.0062</b>

Source: BDO CFQ Analysis

The present value of the interest on a per share basis as calculated above is \$0.0062, rounded.

### 7.1.3 Implied Price of the Capital Raising

Adopting the values calculated in Sections 7.1.1 and 7.1.2, we calculate the implied price at which capital is raised under the Proposed Transaction as follows in Table 7.4.

**Table 7.4: Calculation of Implied Price of Capital Raising**

		\$
Current Conversion Price		0.0700
Less Option Value		(0.0165)
Less Interest Value		(0.0062)
<b>Effective price of Capital Raising</b>		<b>.0473</b>

Source: BDO CFQ Analysis

Having regard to the analysis set out in Section 7.1, we calculate that implied capital raising price as \$0.0473 per share.

## 7.2 Appropriateness of Capital Raising Discount or Premium

### 7.2.1 Recent Capital Raisings of Gold Companies in Australia and Citigold

Table B.1 of Appendix B sets out the discount/premium to trading prices offered in capital raisings by Australian gold companies in the past 12 months. The discount/premium to the observed trading prices immediately prior to the raisings was within the range of a premium of 16% to a discount of 60% with a median discount of 10%.

We note the following information from the three most recent capital raisings by Citigold:

- In January 2012, Citigold reached an agreement with Reignwood International Investment Company Ltd to invest \$50 million in Citigold over four weeks in two separate tranches. Under the first tranche, Citigold was to issue 274 million new shares to Reignwood International Investment Company Ltd at \$0.09 cents per share, representing a premium of 22% to Citigold's share price based on a 30 day VWAP prior to the placement. The agreement did not proceed as it did not satisfy the conditions set by the regulatory requirements;
- In June 2012, Citigold issued 125.0 million new shares to LionGold Corp Ltd at \$0.08 cents per share, representing a premium of 33% to the last traded Citigold share price on the day prior to the placement. The Company raised approximately AUD\$10.0 million through this process; and

- In December 2012, Citigold issued 114.3 million new shares to LionGold Corp Ltd at \$0.07 cents per share, representing a premium of 37% to the last traded Citigold share price on the day prior to the placement. The Company raised approximately AUD\$8.0 million through this process.

The discount to the trading price immediately prior to the announcement of the issue of the Convertible Bonds on 8 April 2013 to the implied price of the capital raised by the Convertible Bonds (calculated to be \$0.0473 in Section 7.1) is 14% (in comparison to the closing price of the previous trading day, 5 April 2013, of \$0.055).

This discount is less favourable than the terms of most recent capital raisings completed by Citigold, which have been completed at a minimum price of \$0.07 per share and have generally attracted premiums between 20% and 30%, rather than a discount, to the Citigold share price at the time.

However, we also note that the discount implied by the capital raising price, being 14%, is not unreasonable relative to the capital raisings completed by other Australian junior gold companies.

### **7.3 Citigold's Ability to Raise Funds**

Citigold's flagship project, the Charters Towers Gold Project, while currently producing, requires significant capital to access the majority of the resources held by the Company as detailed in Section 5.1.

In order for Citigold to gain access to the funding required to progress the Charters Towers Gold Project, and in the absence of the Proposed Transaction, Citigold would likely need to raise funds from another source in the debt or equity markets. Section 7.3.1 and Section 7.3.2 below assess Citigold's ability to raise funds from either of these markets.

#### **7.3.1 Funding from Equity Markets**

Recent equity capital raisings conducted by Citigold are summarised in Section 7.2 above.

The recent capital raisings by Citigold demonstrate that the Company historically has had the ability to raise capital at a premium to the market trading price of its shares from equity markets. We note that these capital raisings have been completed on a more regular basis and that the amount of capital raised on each occasion was materially less than the \$100 million proposed to be raised by the Convertible Bonds.

We note the largest recent raising of Citigold from equity markets was \$10 million in June 2012. Each subsequent capital raising since this time has been at a lower share price and for a lesser amount of capital.

Citigold does not have a history of being able to raise sufficiently large amounts of capital for the medium to longer term development of the Charters Towers Gold Project.

Since the last completed capital raising in December 2012, there has been a decline in the gold price and the S&P/ASX All Ordinaries Gold Index of 16% and 38% respectively. There is no guarantee that Citigold will be able to raise the equity capital required at the current time on terms more favourable than those offered by the Convertible Bonds.

### 7.3.2 Funding from debt markets

Citigold has not previously obtained substantial funding through debt. Existing debt facilities of Citigold include \$2.8 million of loans from unrelated parties at an interest rate of between 10% and 60% per annum, \$0.5 million of finance lease liabilities at an interest rate of 12% per annum, and \$0.1 million of insurance funding. We note the following information on Citigold's recent attempts to raise debt (or hybrid debt) finance:

- On 21 September 2008, Citigold announced a capital raising deal of \$35 million with Dubai Group. Of the \$35 million, the second tranche of \$15 million was staged as a convertible loan at 9% per annum that is convertible to shares of Citigold at \$0.26 per share within a 2.5 year term. The arrangement of the \$15 million convertible bonds was ultimately unsuccessful;
- On 31 May 2010, Citigold announced that the Company was in the final stages of completing an \$18 million capital raising through RB Capital Group of Singapore and Khandwala Securities of India, comprising of 50% debt and 50% equity. These arrangements were ultimately unsuccessful; and
- On 28 February 2012, Citigold announced that the \$50 million capital raising agreed to by Reignwood International Investment Company Ltd had not been completed due to several regulatory requirements.

Having regard to the information above, we consider that Citigold has historically encountered difficulty in securing debt finance to raise capital for future expansions of the Charters Towers Gold Project. We note that investment in junior gold companies such as Citigold are often regarded as speculative for reasons including the following:

- The share price volatility of gold companies tends to be higher than the share price volatility of companies in many other sectors, as the share price of gold companies can be heavily dependent on announcements made relating to the progress of a company's exploration activities;
- Movements in the share prices of junior gold companies are sensitive to the prevailing gold price, which can experience large movements in relatively short periods of time;
- There are often few assets, apart from the resource itself (which can often not be easily monetised) to secure finance against; and
- Value can be created or lost over very short periods of time as project development milestones are either met or missed by the gold company.

Having regard to the nature of Citigold and its key assets, it is our view that Citigold would have difficulty obtaining the required funding through a direct debt raising without offering significant upside potential (e.g. equity price exposure such as in the Convertible Bonds).

### 7.3.4 Citigold's Ability to Raise Funds

In our view, Citigold has not clearly demonstrated that it can reliably raise sufficiently large amounts of capital as required to advance the development of the Charters Towers Gold Project to production levels that no longer require external funding.

## 7.4 Consideration of the Rate of Return on the Convertible Bonds

The implied rate of return (also known as the yield to maturity) on the Convertible Bonds can be calculated having regard to the total additional value generated by the holder of the Convertible Bonds over time relative to the face value of the Convertible Bonds (or the cost of the Convertible Bonds in terms of principal paid to the Company).

By determining the implied rate of return on the Convertible Bonds we are able to consider whether or not the rate of return is reasonable relative to the risks associated with an investment in Citigold.

In order to determine the implied rate of return on the Convertible Bonds we have completed the following steps:

- Calculated the value of the call option component using the Black Scholes Option Pricing Methodology. The calculation of the value of the option is set out in Section 7.1.1. We assume that this value is received at the date of the agreement as Citigold is obliged to issue shares as a result of the BSA;
- Calculated the interest paid on the Convertible Bonds. Our interest calculations are set out in Table D.2; and
- Calculated the implied rate of return received by ELM on the Convertible Bonds by discounting the estimated stream of future interest payments, principal payments (i.e. the tranches received by Citigold, set out in Table D.2) and other returns generated by the Convertible Bonds (i.e. the option value) such that the net present value of those cash flows is nil.

### 7.4.1 Convertible Bond Returns

Table 7.5 sets out the value of the components of the Convertible Bonds.

**Table 7.5: Value of the Convertible Bond Components**

	(\$)
Value of the call options (refer to Section 7.1.1)	23,632,369
Total Interest over the Convertible Bond term (refer Table D.2 of Appendix D)	9,842,072
<b>Value of Convertible Bond returns without discounting</b>	<b>33,474,441</b>
Face Value of Convertible Bonds	100,000,000
<b>Value of Convertible Bond returns (including principal) without discounting</b>	<b>133,474,441</b>

Source: BDO CFQ

### 7.3.4 Implied Rate of Return on the Convertible Bonds

The implied rate of return received by ELM on the Convertible Bonds can be determined by discounting the estimated stream of future interest payments, principal payments and other returns on the Convertible Bonds (set out in Table 7.5) to a present value of nil.

Table 7.6 sets out our determination of the discount rate at which the present value of the estimated future interest cash flows of the Convertible Bonds is equal to nil.

**Table 7.6: Actual Rate of Return on Convertible Bonds**

	\$
Face value of the Convertible Bonds	100,000,000
Total returns on the Convertible Bonds (including principal)	133,474,441
Discount rate at which the total returns on the Convertible Bonds equals the face value of the Convertible Bonds (refer Appendix D)	26.4%

Source: BDO CFQ

The rate of 26.4% set out above is the implied rate of return ELM may receive on the Convertible Bonds based on our calculated option value and the cash flow profile assumed in Appendix D, assuming that the Convertible Note is held to maturity.

For reasons discussed in Section 7.2.2 of this Report, Citigold can be considered to be a speculative investment. It is our view that in the current debt market, and given the nature of Citigold, it is reasonable to expect that an investor would demand a rate of return of at least 26.4% for investing in Citigold.

The analysis in this section assumes that the Convertible Bonds are held without converting to equity for the term of the Convertible Bonds.

## 7.5 Control Premium

Under the terms of the Proposed Transaction ELM may obtain a controlling interest in Citigold upon the election to convert the Convertible Bonds to ordinary shares in Citigold. It is appropriate to consider whether or not a premium should be paid by ELM for the potential to obtain control of the Company.

ELM has the potential, as set out in Section D.1, to obtain a shareholding in Citigold which may provide it with control over the Company. The level of influence or control that ELM ultimately obtains will be dependent on the number of Convertible Bonds that ELM elects to convert for shares.

Having regard to Table D.1, it is possible that ELM could potentially have a significant shareholding of greater than 20% post the issue of the third tranche if the Convertible Bonds are converted to equity and a controlling interest of greater than 50% if all tranches, including the final tranche are converted to equity.

Appendix C sets out control premium research on Australian listed gold companies, having regard to transactions completed since January 2010.

The research shows that the premiums vary from a discount of 18% to a premium of 129%. The average and median premiums are 35.9% and 40.3% respectively. Having regard to this research and other academic literature available, we are of the view that a premium in the range of 30% to 40% may be appropriate to apply in the circumstances of Citigold.

Applying this premium range to the closing share price prior to the announcement of the Proposed Transaction (\$0.055) implies a controlling interest price of \$0.072 to \$0.077.

Shareholders should note that control over more than 50% of the issued equity in Citigold cannot be held by ELM until the final tranche is converted to equity. ELM will not have the opportunity to do so until around December 2014.

Further, in the event that capital is raised prior to ELM obtaining control, particularly at a price higher or at the prevailing market price at the time, ELM may no longer hold 50% or more of the Company. It would still however likely hold a significant position in Citigold and this analysis would remain relevant.

## 7.6 Assessment of Fairness

At the conversion price offered by the Convertible Bonds, the capital raising under the Proposed Transaction is, prima facie, consistent with the previous capital raisings of the Company (the last being conducted at \$0.07 cents per share).

However, as set out in Section 7.1, other concessions granted to ELM by Citigold under the terms of the Convertible Bonds make this comparison inappropriate. Incorporating these concessions (i.e. interest and options), we calculate an effective capital raising price of \$0.0473.

The implied discount of 14% we calculated relative to the closing share price of Citigold of \$0.055 immediately prior to the Proposed Transaction is inferior to the prices at which capital has been raised in the past by Citigold. Citigold has previously achieved premiums on its trading price in the order of 20% to 40% in its past three capital raisings. We note however that confidence in the gold sector has generally declined since the last raising with a decline in the gold price and the S&P/ASX All Ordinaries Gold Index of 16% and 38% respectively.

The discount the implied capital raising price represents relative to the closing price prior to the announcement to the Proposed Transaction is within the range of discounts for share issues completed by comparable Australian gold companies in the last 12 months of negative 60% to 16% (set out in Appendix B).

We have also considered items of value relevant to the Convertible Bonds (principally interest and the option value represented by the \$0.07 conversion price). We have calculated a return on the Convertible Bonds of 26.4%. In our view, given the risk associated with the Convertible Bonds, this return is not unreasonable.

However, unlike other capital raisings completed by Citigold, there is potential for ELM to gain control of the Company. Comparing the controlling interest share value range we have calculated in Section 7.4 of \$0.072 to \$0.077 to the effective capital raising price of \$0.0473 implies a discount of 34% to 39%.

Having regard to the above assessments of the Proposed Transaction, it is our opinion that the Proposed Transaction does not incorporate a control premium into the price paid by ELM for its interest in Citigold upon conversion of the Convertible Bonds. On that basis and having regard to the above analysis we conclude that the Proposed Transaction is **Not Fair to the Shareholders**.

## 8.0 Assessment of the Reasonableness of the Proposed Transaction

This section sets out our opinion on the reasonableness of the Proposed Transaction and is set out as follows:

- Section 8.1 summarises the potential advantages to the Shareholders if the Proposed Transaction is approved;
- Section 8.2 summarises the potential disadvantages to the Shareholders if the Proposed Transaction is not approved;
- Section 8.3 considers the position of the Shareholders if the Proposed Transaction is not approved; and
- Section 8.4 sets out our assessment of the reasonableness of the Proposed Transaction.

### 8.1 Advantages of the Proposed Transaction

Table 8.1 summarises the potential advantages to Citigold shareholders if the Proposed Transaction is approved.

**Table 8.1: Potential Advantages of the Proposed Transaction**

Advantage	Explanation
Commitment for funding	<p>The Proposed Transaction provides the Shareholders with a commitment for the funding the Company anticipates will be required to advance its key project. The directors are of the view that the significant funding required for the Charters Towers Gold Project cannot currently be obtained on terms superior to those offered under the Proposed Transaction. We are instructed that the Company has undertaken a comprehensive capital raising process, canvassing interest from many potential investors and utilising the networks of highly regarded funding intermediaries including global banks, and that this is the best offer available.</p> <p>The Charters Towers Gold Project, as the key asset of Citigold, will need to be advanced in order for Shareholders to realise value from the assets held by the Company. Without advancing the Charters Towers Gold Project, it may be difficult for Citigold to create value for the Shareholders.</p> <p>As set out in Section 7.3, Citigold has not previously raised as much capital as that contemplated under the Proposed Transaction. Many capital raising attempts in the past have been unsuccessful. Further, recent capital raisings have been at progressively less favourable terms than each preceding raising.</p>
Introduction of a cornerstone investor	<p>ELM will become a cornerstone investor in Citigold with a material interest in the success of the Company and its flagship asset, the Charters Towers Gold Project. Cornerstone investors often assist with future funding and have a strong incentive to hold management accountable for the results of the Company.</p>
Flexibility to raise further capital at market prices which may dilute the majority stake potentially held by ELM	<p>ELM will not gain a controlling interest of greater than 50% of the voting rights until the final tranche of the Convertible Bonds is converted (if it is converted). Until this event occurs (if it occurs), the Shareholders will continue to collectively hold interests in the Company greater than 50%. Further, the Company could raise capital in the meantime which may result in ELM no longer holding 50% or more of the voting shares in the Company, depending on the terms of the capital raising.</p>

Advantage	Explanation
The Proposed Transaction is potentially less dilutive than other capital raising options	<p>Shareholders may not be diluted to the extent of a more traditional capital raising because:</p> <ul style="list-style-type: none"> <li>• ELM may not convert all or any of the Convertible Bonds, potentially reducing the impact of dilution on the Shareholders (provided the Company can repay the outstanding Convertible Bonds); and</li> <li>• As shown by the data relating to capital raisings of other gold companies set out in Appendix B, a traditional equity raising may be materially more dilutive than that contemplated under the Proposed Transaction.</li> </ul>

Source: BDO CFQ analysis

## 8.2 Disadvantages of the Proposed Transaction

Table 8.2 summarises the potential disadvantages to Citigold shareholders if the Proposed Transaction is approved.

**Table 2.2: Potential Disadvantages of the Proposed Transaction**

Disadvantage	Explanation
Reduced potential for a takeover offer	<p>In the event that Citigold is taken over, the terms of the BSA must still be honoured by the acquirer. On this basis, ELM could gain control over the Company, irrespective of the majority shareholders at the time.</p> <p>It is our view that the BSA likely reduces the possibility of a takeover offer occurring, particularly where ELM is not amiable to the offer. The possibility of a takeover offer succeeding without the support of ELM may also be reduced post the term of the BSA if ELM converts the Convertible Bonds and gains control of the Company.</p> <p>There are also other provisions in the BSA, including the anti-dilution provisions, which may reduce the Company's attractiveness as a takeover target.</p> <p>Notwithstanding the above, it should be noted that a traditional equity raising of the magnitude provided for under the Proposed Transaction may also result in the Shareholders no longer controlling the Company (particularly if raised from a single capital provider).</p>
BSA uncertainty	<p>Unlike a direct, upfront equity injection, the Convertible Bonds are subject to certain warranties, undertakings and obligations in the BSA. Further, a material adverse change, suspension or delisting, change in legislation which results in a material adverse change or an injunction may result in the full funds not being received.</p> <p>Notwithstanding the above, we note that if capital were to be raised in smaller portions, many of the above risks would remain (e.g. a material adverse change) from one capital raising to the next.</p> <p>Agreements such as the BSA are also subject to uncertainty of legal interpretation. Often the exact meaning of terms in the BSA cannot be known with certainty until tested in a court of law. For example, the legal interpretation of a 'material adverse change' cannot be determined with any certainty as at the date of this Report.</p> <p>We also note that the BSA is subject to Singaporean law which may introduce further uncertainty to investors more familiar with Australian laws.</p>

Potential loss of control

If all the Convertible Bonds to be issued under the BSA are converted to equity, ELM will most likely gain a controlling stake in Citigold, unless diluted. This will likely provide ELM with the ability to control the Company and dictate the policies of Citigold.

It should be noted however that unless significant funds came from the Shareholders, it is likely, based on the Company’s forecast cash flows, that a controlling number of shares would need to be issued to new shareholders, reducing the control of the Shareholders.

Additional risk of debt

By issuing the Convertible Bonds, Citigold is taking on a significant amount of debt. If ELM elects not to convert the Convertible Bonds and the Company cannot raise the required capital to pay back the Convertible Notes, the Company may become insolvent.

In the event of a default, there is the potential for the Shareholders to lose their claim to any assets held by Citigold, particularly where its debts are greater than the value of its assets.

We note this disadvantage is relevant to all material debt instruments issued by the Company.

Set conversion price

The Shareholders will have less exposure to any potential upside in the value of Citigold as each tranche of the Convertible Notes is invested in the Charters Towers Gold Project. The Shareholders would likely be able to retain a greater level of exposure to any potential upside in the value of Citigold in circumstances where the Company could raise capital in a more incremental manner as individual milestones were met.

This disadvantage should be considered against the risk of the project losing value, the risk of capital being raised on inferior terms relative to the Proposed Transaction and the relative certainty of the commitment provided by the BSA for the \$100 million in funding.

Source: BDO CFQ analysis

### 8.3 Position of Citigold Shareholders if the Proposed Transaction is Not Approved

In the event that the Proposed Transaction is not approved, Citigold will be liable to repay the initial \$3 million tranche of Convertible Bonds already issued within 20 days.

Further to this requirement, the Company will need to raise additional capital to continue the development of the Charters Towers Project. The Company has advised that further funding will be required by within the next 3 to 4 months at the current planned rate of development. Further we understand that ELM has been granted an exclusivity period until 9 July 2013. The Company is precluded from undertaking further capital raising activities without ELM’s consent during the exclusivity period.

It is uncertain if Citigold will be able to raise funds on more favourable terms than those offered under the Proposed Transaction as and when required by the Company.

### 8.4 Reasonableness of the Proposed Transaction

The history of capital raisings completed by Citigold suggests that the Company may have difficulty completing a capital raising of the magnitude contemplated under the Proposed Transaction on more favourable terms than those offered by the Convertible Bonds in the current environment.



After consideration of all of the issues set out in this Report, including those set out in Section 8.1 to 8.3 above, it is our view that **the Proposed Transaction is Reasonable to the Shareholders** as at the date of this Report.

We are of the view that the advantages of the Proposed Transaction outweigh the disadvantages of the Proposed Transaction.

## 9.0 Sources of Information

This Report is based on information from sources including the following:

- Citigold Consolidated Financial Statements for the year ended 30 June 2011, 30 June 2012, and 31 March 2013 management accounts;
- Citigold website ([www.citigold.com](http://www.citigold.com));
- Citigold ASX announcements;
- The Notice of General Meeting and Explanatory Statement;
- Meetings and correspondence with the management of Citigold;
- The Bond Subscription Agreement;
- Bloomberg; and
- Various other research publications and publicly available data.

## 10.0 Representations, Indemnities and Warranties

Citigold has agreed to our terms of engagement and the following indemnities and representations.

### 10.1 Representations

Citigold recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons have used and relied on publicly available information and on data, material and other information furnished to BDO Persons by Citigold, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and has not assumed any responsibility for independent verification of, such publicly available information and the other information so furnished.

Citigold has acknowledged that the engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

### 10.2 Indemnities and Warranties

In connection with BDO CFQ's engagement to prepare this Report, Citigold has agreed to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. Citigold will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

Citigold has agreed to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by Citigold (including but not limited to the directors and advisers of Citigold) as part of this engagement.

## 11.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds a Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Steven Sorbello has prepared this Report with the assistance of staff members. Mr Sorbello is a director of BDO CFQ and has extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

BDO CFQ has been engaged to provide an independent expert's report to the Shareholders in relation to the Proposed Transaction. This Report has been prepared to provide information to the Shareholders prior to voting in favour of or against the Proposed Transaction. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to any taxation implications of the Proposed Transaction, it is strongly recommended that Citigold shareholders obtain their own taxation advice, tailored to their own particular circumstances.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 30 May 2013.

**BDO Corporate Finance (QLD) Ltd**



**Steven Sorbello**  
Director

## Appendix A - Industry Information

This appendix sets out a summary of the gold mining industry in Australia.

### A.1 Gold Mining in Australia<sup>3</sup>

Through its interest in the Charters Towers Project, Citigold could be considered to operate in the Australian gold mining industry which comprises companies that explore, mine, extract, process and refine gold ore resources into a concentrate or bullion.

We have set out a summary of the Australian gold mining industry below. The information presented in this section has been compiled from a range of publicly available sources. This summary is not intended to be a comprehensive analysis of the Australian gold mining industry.

We recommend that Citigold shareholders refer to the original source of the information referred to in this section, and any other information they believe appropriate, for a more comprehensive analysis. This section should be referred to as a broad guide only.

#### A.1.1 Gold Production

In 2012, Australia mined approximately 250 tonnes of gold representing approximately 9.0% of the 2012 global gold production of 2,700 tonnes. Australia ranked second in the world behind China in terms of total gold produced in 2012. Western Australia is the largest state producer and exporter of gold in Australia, accounting for approximately 60% of total Australian production in 2012.

Table A.1 below sets out gold production by country for 2012.

**Table A.1: Production by Country in 2012**

Country	Production (tonnes)
China	370
Australia	250
United States	230
Russia	205
South Africa	170
Peru	165
Canada	102
Indonesia	95
Uzbekistan	90
Ghana	89
Mexico	87
Papua New Guinea	60
Brazil	56
Chile	45
Other countries	645
<b>World total (rounded)</b>	<b>2,659</b>

Source: U.S. Geological Survey Mineral Commodity Summaries - January 2013

<sup>3</sup> Information in this section is sourced from the Australian Bureau of Statistics, U.S. Geological Survey Mineral Commodity Summaries - January 2013, Bloomberg and other publicly available information.

### A.1.2 Global Demand

Gold is both a commodity and an international store of monetary value. Once mined, gold continues to exist indefinitely, often melted down and recycled to produce alternative or replacement products. This characteristic means that gold demand is supported by both mine production and gold recycling.

World demand for gold has two key drivers, consumption and investment. Gold consumption relates to the use of gold in the manufacturing of jewellery, electronics, dentistry, coins and other industrial applications. Gold investment relates to gold purchases for financial purposes (usually in the form of gold bullion). Consumption demand for gold accounts for approximately three-quarters of total global demand.

Factors which influence the demand for gold consumption and investment differ. Gold consumption demand is influenced by changes at the household level, including household income, changes in consumer appetite/taste for jewellery and gold dentistry, and demand for electronics.

Gold investment demand is influenced by broader economic factors, including developments in the outlook for global economies, shifts in the value of major currencies and changes in the riskiness of other assets.

### A.1.3 Reserves

In 2012, Australia's economic gold reserves were approximately 7,400 tonnes. Table A.2 below sets out gold reserves by country for 2012.

**Table A.2: Reserves by Country**

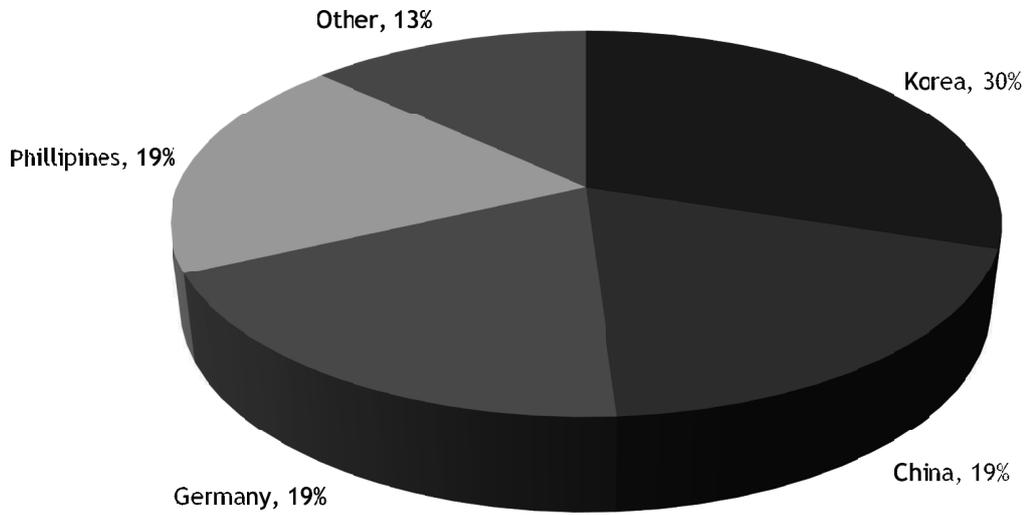
Country	Reserves (tonnes)
Australia	7,400
South Africa	6,000
Russia	5,000
Chile	3,900
United States	3,000
Indonesia	3,000
Brazil	2,600
Peru	2,200
China	1,900
Uzbekistan	1,700
Ghana	1,600
Mexico	1,400
Papua New Guinea	1,200
Canada	920
Other countries	10,000
<b>World total (rounded)</b>	<b>52,000</b>

Source: U.S. Geological Survey Mineral Commodity Summaries - January 2013

### A.1.4 Australian Gold Exports

Demand for Australian gold in 2012 was largely dominated by Korea, China, Germany and the Philippines. Figure A.1 below sets out Australian gold exports by destination in 2012.

Figure A.1: Australian Gold Exports by Destination - 2012



Source: Australian Bureau of Statistics

### A.1.5 Spot Price of Gold

Figure A.2 below sets out the spot gold price for the period from 2001 to 2013.

**Figure A.2: Gold Spot Price from 2001 to 2013**



Source: Bloomberg

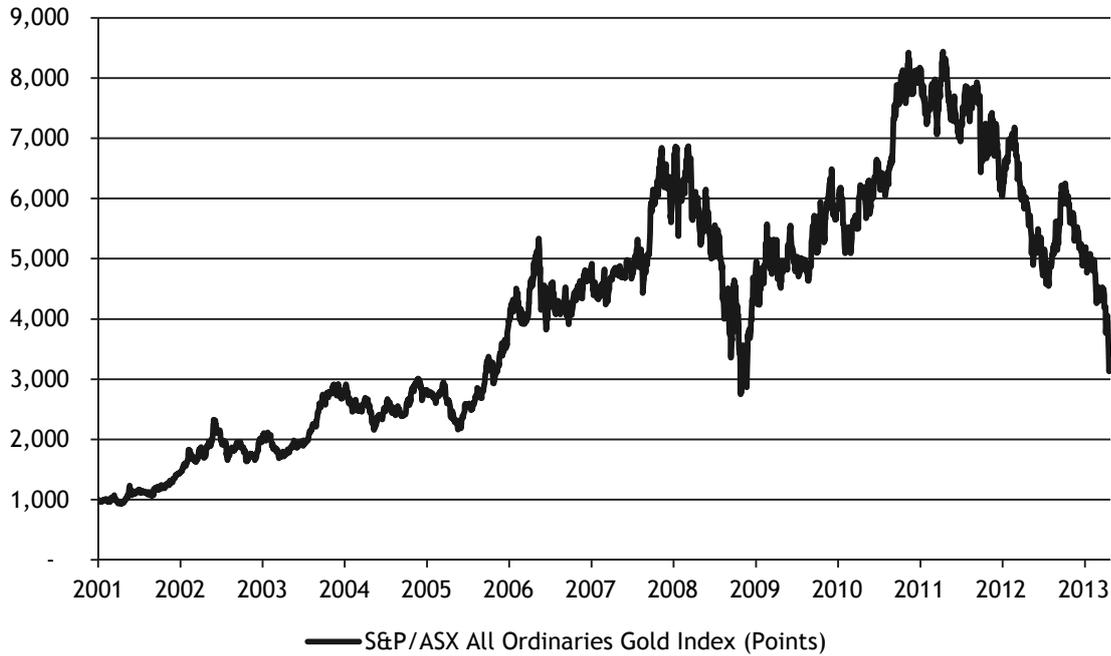
The price of gold fluctuates on a daily basis depending on global demand and supply factors. As seen in Figure A.2 above, the price trend of gold over the last two years is reflective of weak global economic conditions driving demand, from a high of \$1,900 per ounce on September 2011 down to \$1,424 in April 2013. The peak in September 2011 was largely caused by the recent debt market crisis in Europe, but it was also likely driven by the Standard and Poor’s downgrade of the US credit rating. This caused downward pressure on the global stock markets and directed investors toward safer investments such as gold. Based on consensus forecasts of 16 analysts, gold prices are forecast to rise in early 2014, and then fall to approximately US\$1,500 per ounce in 2016.

Nevertheless, growth in global money supply, U.S dollar depreciation and overall uncertainty in global financial markets may continue to drive investors toward using precious metals as a store of value.

### A.1.6 S&P/ASX All Ordinaries Gold Index

Figure A.3 below sets out the S&P/ASX All Ordinaries Gold Index for the period from 2001 to 2013.

Figure A.3: S&P/ASX All Ordinaries Gold Index from 2001 to 2013



Source: Bloomberg

The S&P/ASX All Ordinaries Gold Index includes companies in the Gold sub-industry of the All Ordinaries Index. The three largest companies, including Newcrest Mining Ltd, Regis Resources Ltd, and Evolution Mining Ltd, account for approximately 52.6% of the total S&P/ASX All Ordinaries Gold Index based on market capitalisation. The median company has a market capitalisation of \$179.4 million, which suggests that Citigold is positioned as a small-cap company relative to its peers.

The S&P/ASX All Ordinaries Gold Index has been relatively volatile over the past five years, ranging from a high of 8,346 point in April 2011 to a low of 2,748 points in October 2008. Generally, movements in the S&P/ASX All Ordinaries Gold Index have resembled to the movements in gold spot prices, as shown by the peaks in early 2008 and early 2011 and the decreases in late 2008 and mid-2013.

## Appendix B - Capital Raisings Conducted by Gold Exploration Companies

In this appendix we have analysed a number of capital raisings completed by Australian gold exploration and mining companies which could be considered to be broadly comparable to Citigold. Our analysis includes the calculation of the premium/discount of each capital raising issue price to:

- The last trading price on the day before the announcement of the issue; and
- The VWAP for the 5 trading days (1 week) before the announcement of the issue.

Table B.1 sets out capital raisings conducted by companies in the gold exploration industry in the last 12 months as sourced from Bloomberg.

**Table B.1: Gold Exploration Companies Share Issues from 5 April 2012 to 5 April 2013**

Company Name	Announcement Date	Premium / (discount) to closing price 1 day prior to announcement	Premium / (discount) to 1 week VWAP prior to announcement	Share Raising % of Market Capitalisation prior to Announcement
Papillon Resources Ltd	20-Mar-13	(3.9%)	(1.9%)	12.8%
Kentor Gold Ltd	17-Jul-12	(20.0%)	(20.3%)	25.7%
Cleveland Mining Co Ltd	14-Feb-13	(19.4%)	(12.2%)	9.7%
Sihayo Gold Ltd	26-Apr-12	(16.7%)	(15.9%)	5.2%
Sihayo Gold Ltd	26-Apr-12	(16.7%)	(15.9%)	5.0%
Reed Resources Ltd	22-Nov-12	(12.2%)	(11.5%)	8.7%
Reed Resources Ltd	22-Oct-12	(5.3%)	(7.0%)	1.9%
Amex Resources Ltd	19-Jul-12	(5.0%)	0.3%	2.8%
MacPhersons Resources Ltd	01-Nov-12	(13.6%)	(11.8%)	2.6%
MacPhersons Resources Ltd	05-Sep-12	0.0%	(2.6%)	1.2%
Doray Minerals Ltd	01-Oct-12	(9.1%)	(12.2%)	13.7%
Doray Minerals Ltd	01-Oct-12	(9.1%)	(12.2%)	18.3%
Ausgold Ltd	06-Aug-12	(13.2%)	(14.3%)	3.7%
Golden Rim Resources Ltd	15-Feb-13	(11.1%)	(20.3%)	11.0%
Kalnorth Gold Mines Ltd	31-Aug-12	(14.8%)	(18.7%)	17.0%
Renaissance Minerals Ltd	15-Oct-12	(10.0%)	(9.6%)	22.5%
Phoenix Gold Ltd	29-Oct-12	(4.8%)	(5.4%)	21.2%
Gascoyne Resources Ltd	10-Dec-12	(9.1%)	(16.0%)	9.7%
Equator Resources Ltd	31-Oct-12	(31.5%)	(31.5%)	30.4%
Boss Resources Ltd	25-May-12	(9.1%)	(10.0%)	12.4%
International Goldfields Ltd	23-Oct-12	0.0%	3.6%	11.7%
Atlantic Gold NL	21-Sep-12	(14.3%)	(15.3%)	3.0%
Gold Anomaly Ltd	01-Oct-12	(37.5%)	(39.5%)	5.6%
Cullen Resources Ltd	05-Mar-13	(15.4%)	(20.7%)	11.8%

Company Name	Announcement Date	Premium / (discount) to closing price 1 day prior to announcement	Premium / (discount) to 1 week VWAP prior to announcement	Share Raising % of Market Capitalisation prior to Announcement
Mount Magnet South NL	02-Jul-12	(6.3%)	(10.6%)	31.3%
Hill End Gold Ltd	16-May-12	4.2%	6.3%	13.8%
Southern Cross Goldfields Ltd	24-Aug-12	(34.8%)	(26.0%)	26.1%
BBX Minerals Ltd	03-Apr-13	0.0%	0.0%	14.9%
Birimian Gold Ltd	10-Oct-12	(50.0%)	(49.8%)	150.2%
Volta Mining Ltd	23-May-12	(3.8%)	(1.7%)	19.6%
Blackham Resources Ltd	26-Apr-12	(26.4%)	(26.2%)	0.7%
Niuminco Group Ltd	10-Aug-12	(6.7%)	(13.3%)	46.7%
Helix Resources Ltd	02-Oct-12	(40.5%)	(40.2%)	19.8%
GBM Gold Ltd	29-Oct-12	(7.7%)	(7.7%)	1.2%
Riedel Resources Ltd	10-May-12	4.5%	(0.4%)	8.6%
Riedel Resources Ltd	24-Apr-12	(23.3%)	(23.3%)	0.9%
Red Mountain Mining Ltd	13-Dec-12	(16.7%)	(17.0%)	3.9%
Gateway Mining Ltd	24-Oct-12	(49.0%)	(45.9%)	29.7%
Orion Gold NL	08-Mar-13	0.0%	(1.5%)	19.5%
Orion Gold NL	26-Feb-13	11.1%	15.9%	2.3%
Bulletin Resources Ltd	19-Feb-13	1.9%	(9.2%)	10.0%
Bulletin Resources Ltd	23-Oct-12	(19.0%)	(18.3%)	5.3%
Goldsearch Ltd	20-Jul-12	0.0%	(1.9%)	13.9%
Metaliko Resources Ltd	01-May-12	(20.0%)	(24.2%)	12.0%
Laconia Resources Ltd	03-Sep-12	(33.3%)	(31.4%)	38.3%
Exterra Resources Ltd	29-Nov-12	12.0%	1.4%	70.0%
Exterra Resources Ltd	18-Oct-12	(30.0%)	(30.0%)	56.0%
Nagambie Mining Ltd	17-Aug-12	(9.1%)	(9.1%)	30.3%
Naracoota Resources Ltd	31-Aug-12	(12.5%)	0.0%	87.6%
Naracoota Resources Ltd	03-Aug-12	(12.5%)	(35.5%)	84.1%
Alloy Resources Ltd	29-Nov-12	0.0%	(10.0%)	30.3%
Alloy Resources Ltd	29-Aug-12	(9.1%)	(16.5%)	9.8%
Navaho Gold Ltd	28-Sep-12	(59.4%)	(59.6%)	40.6%
Mining Projects Group Ltd	21-Jun-12	(28.6%)	(33.3%)	57.0%
Paradigm Metals Ltd	17-Oct-12	(20.0%)	(25.1%)	80.0%
Paradigm Metals Ltd	03-Sep-12	14.3%	6.3%	17.1%
Integrated Resources Group Ltd	18-Jul-12	0.0%	(0.0%)	100.0%

Company Name	Announcement Date	Premium / (discount) to closing price 1 day prior to announcement	Premium / (discount) to 1 week VWAP prior to announcement	Share Raising % of Market Capitalisation prior to Announcement
Gondwana Resources Ltd	02-Jul-12	0.0%	(0.0%)	13.5%
Invictus Gold Ltd	01-Oct-12	(27.3%)	(27.3%)	4.2%
Commissioners Gold Ltd	21-Feb-13	(6.3%)	(5.8%)	23.0%
Bora Bora Resources Ltd	28-Nov-12	16.3%	16.3%	13.9%
	<b>Max</b>	<b>16.3%</b>	<b>16.3%</b>	<b>150.2%</b>
	<b>Min</b>	<b>(59.4%)</b>	<b>(59.6%)</b>	<b>0.7%</b>
	<b>Median</b>	<b>(10.0%)</b>	<b>(12.2%)</b>	<b>13.8%</b>
	<b>Average</b>	<b>(12.9%)</b>	<b>(14.4%)</b>	<b>23.8%</b>

Source: Bloomberg

With reference to Table B.1 above, the median observed capital raising discount from gold exploration companies is approximately 10.0% relative to the closing price 1 day prior to announcement. We also note that the median percentage of shares issued relative to the market capitalisation prior to the announcement day is approximately 13.8%.

## Appendix C - Control Premium Research

A controlling interest in a company is usually regarded as being more valuable than a minority interest as it provides the owner with:

- control over the operating and financial decisions of the company;
- the right to set the strategic direction of the company;
- control over the buying, selling and use of the company's assets; and
- control over the appointment of staff and the setting of financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid, or some other mechanism for control, for another company. For the purposes of our research on control premiums set out below we have defined a controlling interest to be an interest where the acquirer has acquired a shareholding of greater than 50% in the target company.

To form our view of an appropriate range of control premiums applicable to Citigold, we have considered control premiums implied in merger and acquisition transactions of Gold exploration companies from 2010 to 2013.

In Table C.1 we have set out the observed control premiums based on an analysis of Bloomberg data on announced transactions from January 2010 to April 2013 within the Australian gold exploration sector.

**Table C.1: Australian Gold Exploration Sector Control Premium Research**

Announcement Date	Target Company	Bidder Company	Stake	Deal Value (Millions)	Announced Premium
28-Sep-12	Cortona Resources Ltd	Unity Mining Ltd	100.0%	22	2.8%
19-Sep-12	CGA Mining Ltd	B2Gold Corp	100.0%	936	23.0%
06-Aug-12	Integra Mining Ltd	Silver Lake Resources Ltd	100.0%	396	36.5%
29-Jun-12	Allied Gold Mining PLC	St Barbara Ltd	100.0%	533	78.9%
14-May-12	Westgold Resources Ltd	Metals X Ltd	73.0%	63	33.8%
16-Apr-12	Castlemaine Goldfields Ltd	LionGold Corp Ltd	88.6%	28	84.9%
03-Apr-12	Norton Gold Fields Ltd	Zijin Mining Group Co Ltd	72.2%	157	39.7%
23-Jan-12	Rift Valley Resources Ltd/WA	Rift Valley Resources Ltd/QL	100.0%	2	25.6%
22-Aug-11	Adamus Resources Ltd	Endeavour Mining Corp	100.0%	325	(1.1%)
20-Jun-11	Focus Minerals Laverton Ltd	Focus Minerals Ltd	61.7%	36	14.5%
15-Jun-11	Conquest Mining Ltd	Evolution Mining Ltd	100.0%	264	18.0%
14-Mar-11	Auzex Resources Ltd	Bullabulling Gold Ltd	91.6%	9	(17.7%)
07-Feb-11	Aragon Resources Ltd	Westgold Resources Ltd	79.9%	51	27.7%

Announcement Date	Target Company	Bidder Company	Stake	Deal Value (Millions)	Announced Premium
25-Oct-10	Laguna Resources NL	Kingsgate Consolidated Ltd	69.8%	15	81.6%
20-Oct-10	Dominion Mining Ltd	Kingsgate Consolidated Ltd	100.0%	365	38.2%
08-Sep-10	Avoca Resources Ltd	Alacer Gold Corp	100.0%	954	5.8%
03-Sep-10	Andean Resources Ltd	Goldcorp Inc	100.0%	3,452	55.5%
21-Jul-10	NGM Resources Ltd	Paladin Energy Ltd	77.5%	21	64.2%
30-Jun-10	Shield Mining Ltd	Gryphon Minerals Ltd	100.0%	20	35.9%
01-Apr-10	Lihir Gold Ltd	Newcrest Mining Ltd	100.0%	9,739	41.2%
10-Mar-10	Aurox Resources Ltd	Atlas Iron Ltd	100.0%	131	128.6%
08-Feb-10	Tusker Gold Ltd	African Barrick Gold PLC	100.0%	80	102.0%
06-Jan-10	Dioro Exploration NL	Avoca Resources Ltd	55.2%	50	8.2%
<b>Max</b>				<b>9739</b>	<b>128.6%</b>
<b>Min</b>				<b>2</b>	<b>(17.7%)</b>
<b>Median</b>				<b>80</b>	<b>35.9%</b>
<b>Average</b>				<b>767</b>	<b>40.3%</b>

Source: Bloomberg

With reference to Table C.1 above, the median observed control premium within the Australian gold exploration sector is approximately 35.9%. We note that ELM is potentially acquiring a stake in Citigold in excess of 50% of the equity value, and hence, a premium for a controlling interest of Citigold should be incorporated into the consideration.

Generally, control premiums may be impacted by a range of factors including the following:

- Specific acquirer premium and/or special value that may be applicable to the acquirer;
- Level of ownership in the target company already held by the acquirer;
- Market speculation about any impending transactions involving the target and/or the sector that the target belongs to;
- The presence of competing bids; and
- General market sentiment and economic factors.

Having regard to the above information, it is our view that it is appropriate to consider control premiums within the range of 30% to 40% for the purposes of assessing the Proposed Transaction within the context of this Report.

## Appendix D - Estimate of Future Cash Flow from Convertible Bonds

### D.1 Drawdown of Principal on Convertible Bonds

The terms of the Convertible Bonds are set out in Section 3.0 of this Report. Table D.1 below sets out the estimated future drawdown of principal on the Convertible Bonds in accordance with the terms of the Convertible Bonds.

Table D.1: Drawdown of Principal on Convertible Bonds

Month	First Tranche Cash Drawdown	Second Tranche Cash Drawdown	Subsequent Tranches Cash Drawdown	Total Principal Cash Drawdown	Shares held by ELM (if all Convertible Bonds are converted immediately)	Shareholding of ELM (if all Convertible Bonds are converted immediately)
	(\$)	(\$)	(\$)	(\$)	(#)	(%)
0	3,000,000			3,000,000	42,857,143	3.1%
3		7,000,000		7,000,000	142,857,143	9.6%
6			15,000,000	15,000,000	357,142,857	20.9%
9			15,000,000	15,000,000	571,428,571	29.7%
12			15,000,000	15,000,000	785,714,286	36.7%
15			15,000,000	15,000,000	1,000,000,000	42.5%
18			15,000,000	15,000,000	1,214,285,714	47.3%
21			15,000,000	15,000,000	1,428,571,429	51.4%
<b>Total</b>	<b>3,000,000</b>	<b>7,000,000</b>	<b>90,000,000</b>	<b>100,000,000</b>	<b>1,428,571,429</b>	<b>51.4%</b>

Source: BSA and Citigold Management

### D.2 Estimate of Principal and Interest Payments on Convertible Bonds

Table D.2 below sets out our estimate of future cash flows on the Convertible Bonds, based on the drawdown of principal set out in Section D.1 above.

We note that the first 'cash flow' assumes that the value of the options inherent in the Convertible Bonds (calculated in Section 7.1) is received at the inception of the agreement.

The ultimate timing of the drawdown and interest received may not match the profile set out in Table D.2, but variances which could reasonably be expected based on the terms of the BSA are not likely to be material.

Table D.2: Estimated Interest and Principal Repayments on Convertible Bonds

Month	Drawdown of Convertible Bonds Principal	Interest Payments	Principal Repayments	Total Cash Flows	Present Value of Cash Flows <sup>(a)</sup>
	(\$)	(\$)	(\$)	(\$)	(\$)
0	(3,000,000)	-	-	20,632,369	20,632,369
3	(7,000,000)	-	-	(7,000,000)	(6,601,595)
6	(15,000,000)	75,000	-	(14,925,000)	(13,274,433)
9	(15,000,000)	175,000	-	(14,825,000)	(12,435,039)
12	(15,000,000)	450,000	-	(14,550,000)	(11,509,760)
15	(15,000,000)	550,000	-	(14,450,000)	(10,780,079)
18	(15,000,000)	825,000	-	(14,175,000)	(9,973,050)

Month	Drawdown of Convertible Bonds Principal	Interest Payments	Principal Repayments	Total Cash Flows	Present Value of Cash Flows <sup>(a)</sup>
	(\$)	(\$)	(\$)	(\$)	(\$)
21	(15,000,000)	925,000	-	(14,075,000)	(9,339,081)
24	-	1,200,000	-	1,200,000	750,910
27	-	1,300,000	-	1,300,000	767,186
30	-	1,200,000	-	1,200,000	667,866
33	-	1,300,000	-	1,300,000	682,342
36	-	1,842,072	100,000,000	101,842,072	50,412,363
<b>Total</b>	<b>(100,000,000)</b>	<b>9,842,072</b>	<b>100,000,000</b>	<b>33,474,441</b>	<b>-</b>

Source: BDO CFQ

a) Cash flows are discounted at the rate that calculates the present value of cash flows to equal zero (26.4% annualised).

The cash flows estimated above may change in certain circumstances, for example if:

- ELM elects to convert the outstanding value of the Convertible Bonds to shares in Citigold prior to the maturity date of the Convertible Bonds; or
- A default event occurs.

**Citigold Corporation Limited**  
**Proxy Form – 8 July 2013**  
**Extraordinary General Meeting**



I/we: \_\_\_\_\_

Company Name (if applicable) \_\_\_\_\_

Address: \_\_\_\_\_

Suburb: \_\_\_\_\_ State: \_\_\_\_\_ Post Code: \_\_\_\_\_ HIN/SRN: \_\_\_\_\_

being a shareholder/s of Citigold Corporation Limited and entitled to attend and vote hereby appoint:

The Chairman of the Meeting (mark with an 'X') **OR**

**Name of proxy** – If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of individual or body corporate (excluding the registered Security holder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the meeting, as my/our proxy to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the Extraordinary General Meeting of the Company to be held on Monday 8 July, 2013 commencing at 10:00am and at any adjournment of the meeting. The chairperson intends to vote undirected proxies in favour of the resolution.

**Voting directions to your proxy – please mark X to indicate your directions**

**ORDINARY RESOLUTIONS**

	For	Against	Abstain*
1. <b>Approval of the issue of Convertible Bonds and Shares upon Conversion of the Converting Bonds, to Express-Link Management Limited</b>	( )	( )	( )

*\* If you mark the abstain box for a particular item you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to be counted in computing the required majority on a poll.*

**PLEASE SIGN HERE** This section **must** be signed in accordance with the instructions below to enable your directions to be implemented

Individual or Security holder 1	Security Holder 2	Security Holder 3
<input type="text"/>	<input type="text"/>	<input type="text"/>

Individual/Sole Director & Sole Company Secretary      Director      Director/Company Secretary

Contact Name: \_\_\_\_\_ Contact Ph (daytime): \_\_\_\_\_

**PROXY INSTRUCTIONS**

- Any appointed proxy must be a natural person.
- A shareholder who is entitled to cast 2 or more votes may appoint 1 or 2 proxies to attend and vote at a meeting. If you appoint another proxy you should insert the proportion or number of your voting rights given to the proxy named in this form. If you do not insert this proportion or number then each proxy may exercise half of your votes. An additional proxy form for the other proxy will be supplied on request.
- Joint holders should all sign this form. Companies should execute this form under common seal or by an officer or attorney duly authorised. If this form is executed under Power of Attorney, a certificate of non-revocation of Power of Attorney should be completed. The Power of Attorney should be sent with this form if it has not already been noted by the Company.
- To be effective the proxy form must be received by the Company no later than 12 noon (AEST) on Friday 5 July 2013. The proxy form will be received by the Company if received at **Citigold Corporation Limited, Level 13, 500 Queen St, Brisbane QLD 4000 or faxed to: Attention: Company Secretary, Citigold Corporation Limited, Fax: (07) 3834 0011 from outside Australia fax +61 7 3834 0011 or email to proxy@citigold.com.**