



# Kingsgate

Consolidated Limited

**ASX APPENDIX 4D and  
HALF-YEAR FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

**Kingsgate Consolidated Limited**

ABN 42 000 837 472

Suite 801, Level 8  
14 Martin Place  
Sydney NSW 2000

Tel: +61 2 8256 4800  
Fax: +61 2 8256 4810  
Email: [info@kingsgate.com.au](mailto:info@kingsgate.com.au)  
Web: [www.kingsgate.com.au](http://www.kingsgate.com.au)

---

## CORPORATE INFORMATION

### Directors

|                 |                        |
|-----------------|------------------------|
| Ross Smyth-Kirk | Chairman               |
| Peter Alexander | Non-Executive Director |
| Peter Warren    | Non-Executive Director |
| Sharon Skeggs   | Non-Executive Director |

### Company Secretary

Ross Coyle

### Chief Executive Officer

Greg Foulis

### Stock Exchange Listing

Kingsgate Consolidated Limited is a Company limited by shares, listed on the Australian Securities Exchange (ASX) under the code KCN. The Company's shares also trade in the United States of America over-the-counter (OTC) as an American Depository Receipt (ADR) under the code OTC: KSKGY.

### Registered Office and Principal Business Address

#### Kingsgate Consolidated Limited

Suite 801, Level 8  
14 Martin Place  
Sydney NSW 2000  
Australia

**Tel:** +61 2 8256 4800  
**Fax:** +61 2 8256 4810  
**Email:** [info@kingsgate.com.au](mailto:info@kingsgate.com.au)  
**Web:** [www.kingsgate.com.au](http://www.kingsgate.com.au)

### Bangkok Office

#### Akara Resources Public Company Limited

19<sup>th</sup> Floor, Sathorn Thani Building 2  
No. 92/54-55 North Sathorn Road  
Kwaeng Silom, Khet Bangrak  
Bangkok 10500  
Thailand

**Tel:** +66 2 233 9469  
**Fax:** +66 2 236 5512

### Chile Office

#### Laguna Resources Chile Ltda

San Pio x 2460 oficina 1202  
Providencia, Santiago  
Chile

**Tel:** +56 2 2231 7565

### Share Registry

#### Link Market Services Limited

Level 12, 680 George Street  
Sydney NSW 2000  
Australia

#### Postal Address

Locked Bag A14  
Sydney South NSW 1235  
Australia

**Tel:** +61 1300 554 474  
**Fax:** +61 2 9287 0303  
**Email:** [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
**Web:** [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### ADR Depository

(American Depository Receipts)  
The Bank of New York Mellon  
ADR Division  
101 Barclay Street, 22<sup>nd</sup> Floor  
New York NY 10286  
USA

**Tel:** +1 212 815 2293

### Auditor

#### PricewaterhouseCoopers

One International Towers Sydney  
Watermans Quay  
Barangaroo NSW 2000  
Australia

**Tel:** +61 2 8266 0000  
**Fax:** +61 2 8266 9999

# Contents

|                                                                         |    |
|-------------------------------------------------------------------------|----|
| ASX Appendix 4D – Results for Announcement to the Market                | 1  |
| Directors' Report                                                       | 2  |
| Auditor's Independence Declaration                                      | 7  |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 8  |
| Consolidated Statement of Financial Position                            | 9  |
| Consolidated Statement of Changes in Equity                             | 10 |
| Consolidated Statement of Cash Flows                                    | 11 |
| Notes to the Consolidated Financial Statements                          | 12 |
| Directors' Declaration                                                  | 21 |
| Independent Auditor's Review Report                                     | 22 |

*This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2016 and any public announcements made by Kingsgate Consolidated Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.*

**Kingsgate Consolidated Limited (ASX Code: KCN)**  
**ASX APPENDIX 4D - RESULTS FOR ANNOUNCEMENT TO THE MARKET**  
**For the half-year ended 31 December 2016**

|                                                                          |                   |         | <b>6 months<br/>31 Dec 2016<br/>\$'000</b> | 6 months<br>31 Dec 2015<br>\$'000 |
|--------------------------------------------------------------------------|-------------------|---------|--------------------------------------------|-----------------------------------|
| Revenue from ordinary activities                                         | Revenue increased | 70%     | <b>158,216</b>                             | 93,128                            |
| Revenue from discontinued operation                                      | Revenue decreased | 100%    | -                                          | 57,377                            |
| Revenue from ordinary activities and discontinued operation              | Revenue increased | 5%      | <b>158,216</b>                             | 150,505                           |
| Profit/(loss) from ordinary activities after tax attributable to members | Profit increased  | 206%    | <b>21,118</b>                              | (19,911)                          |
| Net profit for the period attributable to members                        | Profit increased  | 31,419% | <b>21,118</b>                              | 67                                |

**Dividends**

No final dividend was paid in relation to the year ended 30 June 2016.

No interim dividend will be paid in relation to the half-year ended 31 December 2016.

**Net Tangible Assets**

|                                                             | <b>31 Dec<br/>2016</b> | 31 Dec<br>2015 |
|-------------------------------------------------------------|------------------------|----------------|
| Net tangible asset backing per ordinary share: \$ per share | <b>0.44</b>            | 1.35           |

**Review of Results**

Refer to Review of Operations and Results included in the Directors' Report.



## DIRECTORS' REPORT

Your Directors' present their report on the Group consisting of Kingsgate Consolidated Limited and the entities it controlled at the end of, or during the half-year ended 31 December 2016.

### DIRECTORS

The following persons were directors of Kingsgate Consolidated Limited during the half-year ended 31 December 2016 and up to the date of this report, except where noted otherwise:

- Ross Smyth-Kirk Chairman
- Peter Alexander Non-Executive Director
- Peter McAleer \* Non-Executive Director
- Peter Warren Non-Executive Director
- Sharon Skeggs Non-Executive Director

*\* granted leave of absence from February 2016 due to ill health and resigned 24 November 2016.*

### REVIEW OF OPERATIONS AND RESULTS

#### Operational performance

Kingsgate is a gold and silver mining, development and exploration company based in Sydney, Australia. The Company owns the Chatree Gold Mine ("Chatree") in Thailand and an advanced development project; the Nueva Esperanza Gold/Silver Project, in the highly prospective Maricunga Gold/Silver Belt in Chile.

Group gold production for the half-year was 89,875 ounces from Chatree (Dec 2015: 50,746 ounces from Chatree and 39,573 ounces from Challenger).

After 15 years of production, with approximately 2 million ounces of gold produced and a stunning last half-year, Kingsgate finds it incredibly disappointing that Chatree prematurely ceased operations on 31 December 2016. This follows in the wake of a Thai Government announcement in May 2016 that all gold mining in Thailand is to cease by 31 December 2016, which includes Chatree.

In addition, the Prime Minister of Thailand issued a Section 44 Order under the Thai Constitution in December 2016 that ordered all gold mining generally to cease by 31 December 2016.

Kingsgate and its Thai subsidiary Akara Resources Public Company Limited ("Akara") have complied with the Thai Government's position and Chatree was placed on Care and Maintenance effective 1 January 2017.

As a result of the early closure of Chatree, management will finalise and implement a rehabilitation plan which will be a revision from the initial plan submitted to the Thai Authorities in 2007. It had been assumed in calculating the rehabilitation costs under the 2007 plan that progressive rehabilitation of available mine landforms will occur during the operational life of the Project, which at May 2016, was expected to be at least an additional 7 years.

Management believes the revised plan will be commercially viable, cost effective and will meet all obligations in the context of the early mine closure that has been imposed on the Group. The overall objective is to leave the site in a safe and stable condition that is consistent with the surrounding physical environment, be of benefit to the local community, and not require significant ongoing maintenance.

Key impacts of the premature closure of Chatree has seen the loss of several thousand direct and indirect regional jobs, royalties to the Thai Government (with approximately US\$11 million paid in royalties in the last six months), and the loss of many community based health, education and infrastructure programs funded by Akara.

The closure of Chatree remains in effect for the time being, despite repeated commentary from the Thai Government in which they have publicly stated that the Health and Environment Committees established in October 2015 to investigate the operations of Chatree have found no evidence of any negative impacts on the surrounding communities. These comments were most recently repeated by the Thai Department of Industries and Mines in January 2017.



It has also been reported that despite this favourable outcome, including seventeen months of Committee investigations and the mine closure, that the Health and Environment Committees will not submit their final reports until April 2017, at which time they will be referred to the newly established National Mineral Management Committee.

Akara will continue with rehabilitation activities in 2017, and Kingsgate will continue to focus on ways to rectify the situation through various legal, diplomatic and other remedies.

### **Funding of Future Operations**

Based on cash flow forecasts, the directors believe the Group has sufficient cash resources to settle its liabilities and commitments and ongoing activities for at least 12 months from date of this report.

Group cash and bullion/dore at the end of December, following repayment of the Akara bank debt, was \$50.7 million. This comprised cash of \$33.0 million and \$17.7 million of bullion/dore that was brought to account as revenue in January 2017. In addition to the bullion and dore there is approximately 4,700 ounces of gold sludge stored in the Chatree Gold Mine vault which, currently under the Thai authorities' instructions, is not able to be processed into dore.

In the longer term, funds will be required for the Group to:

- Fund the net rehabilitation obligations of the Chatree Gold Mine after taking into account the already established cash backed rehabilitation fund. Management will finalise and implement a rehabilitation plan for the Chatree Gold Mine that it believes is commercially viable, cost effective and will meet all obligations in the context of the early mine closure that has been imposed on the Group.
- Continue to progress development of the Nueva Esperanza Gold/Silver Project.

The Group will utilise current cash reserves to fund these activities and in addition is confident further funds can be initiated by any or all of the following:

- realising the value of assets including reviewing the possibility of the sale of Chatree Gold Mine infrastructure assets which include plant and equipment and non-strategic land and property;
- realising value from the sale of the stored gold sludge;
- pursuing available legal and other avenues for compensation including action for damages against the Thai Government;
- reducing, if necessary, the Group's currently planned ongoing expenditure;
- reviewing the potential for and timing of an equity raising; and/or
- considering options that might include the sale of assets, or entering into farm-in agreements with other parties.

The Directors believe that the Group will be successful in managing the above matters and on this basis the financial report has been prepared on a going concern basis.

### **Chatree**

Chatree's production for the half-year was an impressive 89,875 ounces of gold and 808,100 ounces of silver. Chatree benefited from consistent access to high grades and reduced strip ratios. Additionally, the actions of the Thai Government to halt operations at the end of 2016 have also seen the operation halt all meaningful capital investment. As a result, operational margins were significantly improved.

Total ore mined for the half-year was 992,136 tonnes @ 1.23 g/t. Overall strip ratios continued to decline as the operation worked to a revised plan to cease mining operations by 31 December 2016. The orebody performance with respect to grade delivered strong results especially towards the latter part of the half-year.

Mill throughput was positively impacted mainly by favourable ore characteristics during the half-year and overall gold recovery was 83.8%.

Total cash costs for the half-year were US\$500 per ounce (US\$398 per ounce exclusive of Thai royalties). The average royalty paid to the Thai Government was US\$102 per ounce of gold. Total production costs including depreciation and amortisation were US\$926 per ounce of gold produced.



Chatree was also able to retire A\$75 million in project level bank debt during the half-year, which highlights its stellar production performance.

### **Nueva Esperanza Gold/Silver Project**

Kingsgate's focus remained firmly on the development of the Nueva Esperanza Project throughout the half-year, which has the potential to provide Kingsgate with a solid platform for growth in Chile and other strategic areas of South America.

The spring field campaign commenced in September 2016 when the team was remobilised to the Nueva Esperanza camp and fieldwork initiated. The principal focus was a Reverse Circulation ("RC") drill program which tested a number of targets on the eastern side of the Nueva Esperanza district.

Twenty RC holes totalling 4,378 metres were completed during the half-year, with the principal focus being in the Chimberos district testing a number of silver-gold targets north and south of the Chimberos pit. In addition to the RC drilling, a 322-hole Rotary Air-Blast ("RAB") drill program totalling 3,908 metres was concluded during the half-year which followed-up on the initial campaign completed in March 2016. A further three diamond drill holes were also drilled under the Huantajaya hill in January 2017, approximately 200 metres apart, below several historical workings exploited for gold.

As at the end of this reporting period, there have been no material values received from the RC drill holes, and the remaining results will be reported when available. Approximately 40% of the RAB drill holes have been analysed to date, and there have been two notable anomalies reported. Assay results for the two diamond holes are currently awaited. (For more information on the drill hole results, including hole location and the RAB drill hole anomalies please see: ASX:KCN Quarterly Activities Report for the period ending 31 December 2016 at <http://www.kingsgate.com.au/quarterly-reports/>).

Ground-truthing of a number of concession applications located in the northern Maricunga Belt commenced, subsequent to December 2016. The northern part of the belt is emerging as a relatively under-explored area that contains a number of significant precious metal deposits including Kinross Gold Corporation's La Coipa Project and Gold Field's Salares Norte Project. The concession applications cover large areas of high-level epithermal alteration similar to that seen at Nueva Esperanza and La Coipa. Work will continue through the first quarter of 2017.

Feasibility work, including metallurgical, hydrological and dry stack tailings studies, is ongoing.

The technical base line studies for the environmental impact submission ("DIA"), which is essentially a process to amend the existing permit footprint and incorporate a dry-stacked tailing design, are continuing. Documentation is on track for submission in April 2017.

### **Bowdens Silver Project**

Kingsgate entered into a Deed of Variation with Silver Mines Limited, for an additional payment of A\$5 million in return for the remaining 15% of the Bowdens Silver Project. During the period a A\$1 million initial payment was received on 30 September 2016. The terms of the Deed of Variation were subsequently satisfied and the final payment of A\$4.1 million (which includes an interest payment of 10% per annum calculated from 30 September 2016 until the date of final payment) was received from Silver Mines Limited (ASX:SVL) on 23 December 2016.



## FINANCIAL RESULTS

Kingsgate recorded an after tax profit of \$21.1 million for the half-year compared to an after tax profit of \$0.067 million for the previous corresponding period.

EBITDA before significant item was \$61.7 million, which increased from \$24.1 million in the previous period.

|                                                      | Half-Year     |                |
|------------------------------------------------------|---------------|----------------|
|                                                      | 2016          | 2015           |
|                                                      | \$'000        | \$'000         |
| Profit after income tax                              | 21,118        | 67             |
| Income tax expense                                   | 1,046         | 304            |
| Profit before income tax                             | 22,164        | 371            |
| <i>Significant item</i>                              |               |                |
| Impairment reversal of Challenger Mine               | -             | (7,806)        |
| <b>Profit/(loss) before tax and significant item</b> | <b>22,164</b> | <b>(7,435)</b> |
| Net finance costs                                    | 2,657         | 8,920          |
| Depreciation and amortisation                        | 36,921        | 22,653         |
| <b>EBITDA before significant item</b>                | <b>61,742</b> | <b>24,138</b>  |

EBITDA before significant item is a financial measure which is not prescribed by International Financial Reporting Standards ("IFRS") and represents the profit under IFRS adjusted for specific significant item. The table above summarises key items between statutory profit after tax and EBITDA before significant item. The EBITDA before significant item has not been subject to any specific review procedures by our auditor but has been extracted from the accompanying half-year report.

### Dividends

No dividend was declared with respect of the half-year ended 31 December 2016.

## FINANCE

### Revolving Credit Facility

Kingsgate has a Revolving Credit Facility with \$5 million drawn against this facility at 31 December 2016. The facility was fully repaid on 3 February 2017.

### Multi-currency loan facility

Kingsgate's Thai operating subsidiary, Akara Resources PCL, had an amortising multi-currency loan facility in place during the period. The balance of this loan at the beginning of the period was the equivalent of \$75.3 million. This loan was fully repaid during the period.



#### **MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD**

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect:

- the Group's operations in future financial periods;
- the results of those operations in future financial periods; or
- the Group's state of affairs in future financial periods.

#### **AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

#### **ROUNDING OF AMOUNTS**

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the Directors' Report and Financial Report are rounded to the nearest thousand dollars except where otherwise indicated.

This report is made in accordance with a resolution of Directors.

**Ross Smyth-Kirk**  
Director  
Sydney  
27 February 2017



## Auditor's Independence Declaration

As lead auditor for the review of Kingsgate Consolidated Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Kingsgate Consolidated Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'M Upcroft'.

Marc Upcroft  
Partner  
PricewaterhouseCoopers

Sydney  
27 February 2017



# **CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME** **For the half-year ended 31 December 2016**

|                                                                                             | Note | Half-Year      |                 |
|---------------------------------------------------------------------------------------------|------|----------------|-----------------|
|                                                                                             |      | 2016<br>\$'000 | 2015<br>\$'000  |
| <b>Continuing operations</b>                                                                |      |                |                 |
| Sales revenue                                                                               | 3a   | 158,216        | 93,128          |
| Costs of sales                                                                              | 3b   | (123,702)      | (99,626)        |
| <b>Gross profit/(loss)</b>                                                                  |      | <b>34,514</b>  | <b>(6,498)</b>  |
| Exploration administration expenses                                                         |      | (3,296)        | (360)           |
| Corporate and administration expenses                                                       | 3c   | (9,791)        | (9,378)         |
| Other income and expenses                                                                   | 3d   | 416            | 1,054           |
| Foreign exchange gain                                                                       |      | 2,978          | 4,321           |
| <b>Profit/(loss) before finance costs and income tax</b>                                    |      | <b>24,821</b>  | <b>(10,861)</b> |
| Finance income                                                                              |      | 265            | 215             |
| Finance costs                                                                               | 3e   | (2,922)        | (8,961)         |
| <b>Net finance costs</b>                                                                    |      | <b>(2,657)</b> | <b>(8,746)</b>  |
| Profit/(loss) before income tax                                                             |      | 22,164         | (19,607)        |
| Income tax expense                                                                          |      | (1,046)        | (304)           |
| <b>Profit/(loss) from continuing operations after income tax</b>                            |      | <b>21,118</b>  | <b>(19,911)</b> |
| <b>Discontinued operations</b>                                                              |      |                |                 |
| Profit from discontinued operations after income tax                                        |      | -              | 19,978          |
| <b>Profit for the half-year</b>                                                             |      | <b>21,118</b>  | <b>67</b>       |
| <b>Other comprehensive income</b>                                                           |      |                |                 |
| <i>Item that will never be reclassified to profit and loss</i>                              |      |                |                 |
| Change in fair value of employee provisions (net of tax)                                    |      | -              | 193             |
| <i>Item that may be reclassified to profit and loss</i>                                     |      |                |                 |
| Exchange differences on translation of foreign operations (net of tax)                      |      | 566            | (4,614)         |
| <b>Total other comprehensive income/(loss) for the half-year</b>                            |      | <b>566</b>     | <b>(4,421)</b>  |
| <b>Total comprehensive income/(loss) for the half-year</b>                                  |      | <b>21,684</b>  | <b>(4,354)</b>  |
| <b>Profit/(loss) attributable to:</b>                                                       |      |                |                 |
| Owners of Kingsgate Consolidated Limited                                                    |      |                |                 |
| - Continuing operations                                                                     |      | 21,118         | (19,911)        |
| - Discontinued operations                                                                   |      | -              | 19,978          |
| <b>Total comprehensive income/(loss) attributable to:</b>                                   |      |                |                 |
| Owners of Kingsgate Consolidated Limited                                                    |      |                |                 |
| - Continuing operations                                                                     |      | 21,684         | (24,332)        |
| - Discontinued operations                                                                   |      | -              | 19,978          |
| <b>Earnings per share</b>                                                                   |      | <b>Cents</b>   | <b>Cents</b>    |
| Basic and diluted earnings/(loss) per share from continuing operations                      | 11   | 9.45           | (8.91)          |
| Basic and diluted earnings per share from discontinued operations                           | 11   | -              | 8.94            |
| Basic and diluted earnings per share from continuing operations and discontinued operations |      | 9.45           | 0.03            |

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### As at 31 December 2016

|                                         | Note | 31 Dec<br>2016<br>\$'000 | 30 Jun<br>2016<br>\$'000 |
|-----------------------------------------|------|--------------------------|--------------------------|
| <b>ASSETS</b>                           |      |                          |                          |
| <b>Current assets</b>                   |      |                          |                          |
| Cash and cash equivalents               |      | 33,042                   | 36,314                   |
| Restricted cash                         |      | -                        | 7,004                    |
| Receivables                             |      | 5,700                    | 12,273                   |
| Inventories                             |      | 9,887                    | 26,060                   |
| Available-for-sale financial assets     |      | -                        | 540                      |
| Other assets                            | 4    | 7,546                    | 10,919                   |
| <b>Total current assets</b>             |      | <b>56,175</b>            | <b>93,110</b>            |
| <b>Non-current assets</b>               |      |                          |                          |
| Receivables                             |      | 4,399                    | 4,015                    |
| Property, plant and equipment           |      | 2,952                    | 44,278                   |
| Exploration, evaluation and development |      | 89,186                   | 96,972                   |
| Other assets                            | 4    | 16,566                   | 14,130                   |
| <b>Total non-current assets</b>         |      | <b>113,103</b>           | <b>159,395</b>           |
| <b>TOTAL ASSETS</b>                     |      | <b>169,278</b>           | <b>252,505</b>           |
| <b>LIABILITIES</b>                      |      |                          |                          |
| <b>Current liabilities</b>              |      |                          |                          |
| Payables                                |      | 13,116                   | 21,313                   |
| Borrowings                              | 5    | 16,695                   | 98,097                   |
| Provisions                              |      | 6,952                    | 10,555                   |
| <b>Total current liabilities</b>        |      | <b>36,763</b>            | <b>129,965</b>           |
| <b>Non-current liabilities</b>          |      |                          |                          |
| Payables                                |      | 4,211                    | 4,074                    |
| Deferred tax liabilities                |      | 1,161                    | 119                      |
| Provisions                              |      | 13,027                   | 25,983                   |
| <b>Total non-current liabilities</b>    |      | <b>18,399</b>            | <b>30,176</b>            |
| <b>TOTAL LIABILITIES</b>                |      | <b>55,162</b>            | <b>160,141</b>           |
| <b>NET ASSETS</b>                       |      | <b>114,116</b>           | <b>92,364</b>            |
| <b>EQUITY</b>                           |      |                          |                          |
| Contributed equity                      | 6    | 677,015                  | 677,042                  |
| Reserves                                | 7    | 51,610                   | 50,949                   |
| Accumulated losses                      |      | (614,509)                | (635,627)                |
| <b>TOTAL EQUITY</b>                     |      | <b>114,116</b>           | <b>92,364</b>            |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the half-year ended 31 December 2016

|                                                      | Note | Contributed equity<br>\$'000 | Reserves<br>\$'000 | Accumulated losses<br>\$'000 | Total equity<br>\$'000 |
|------------------------------------------------------|------|------------------------------|--------------------|------------------------------|------------------------|
| Balance at 1 July 2015                               |      | 677,109                      | 53,700             | (406,176)                    | 324,633                |
| Profit after income tax                              |      | -                            | -                  | 67                           | 67                     |
| Total other comprehensive loss for the half-year     |      | -                            | (4,421)            | -                            | (4,421)                |
| Total comprehensive (loss)/income for the half-year  |      | -                            | (4,421)            | 67                           | (4,354)                |
| Transaction with owners in their capacity as owners: |      |                              |                    |                              |                        |
| Movement in contributed equity                       |      | (67)                         | -                  | -                            | (67)                   |
| Movement in share-based payment reserve              |      | -                            | (31)               | -                            | (31)                   |
| Total transaction with owners                        |      | (67)                         | (31)               | -                            | (98)                   |
| Balance at 31 December 2015                          |      | 677,042                      | 49,248             | (406,109)                    | 320,181                |

  

|                                                      | Note | Contributed equity<br>\$'000 | Reserves<br>\$'000 | Accumulated losses<br>\$'000 | Total equity<br>\$'000 |
|------------------------------------------------------|------|------------------------------|--------------------|------------------------------|------------------------|
| Balance at 1 July 2016                               |      | 677,042                      | 50,949             | (635,627)                    | 92,364                 |
| Profit after income tax                              |      | -                            | -                  | 21,118                       | 21,118                 |
| Total other comprehensive income for the half-year   |      | -                            | 566                | -                            | 566                    |
| Total comprehensive income for the half-year         |      | -                            | 566                | 21,118                       | 21,684                 |
| Transaction with owners in their capacity as owners: |      |                              |                    |                              |                        |
| Movement in contributed equity                       | 6    | (27)                         | -                  | -                            | (27)                   |
| Movement in share-based payment reserve              |      | -                            | 95                 | -                            | 95                     |
| Total transaction with owners                        |      | (27)                         | 95                 | -                            | 68                     |
| Balance at 31 December 2016                          |      | 677,015                      | 51,610             | (614,509)                    | 114,116                |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



## CONSOLIDATED STATEMENT OF CASH FLOWS

### For the half-year ended 31 December 2016

|                                                              | Half-Year       |                 |
|--------------------------------------------------------------|-----------------|-----------------|
|                                                              | 2016            | 2015            |
|                                                              | \$'000          | \$'000          |
| <b>Cash flows from operating activities</b>                  |                 |                 |
| Receipts from customers                                      | 158,216         | 150,607         |
| Payments to suppliers and employees                          | (86,272)        | (111,630)       |
| Interest received                                            | 264             | 215             |
| Finance costs paid                                           | (3,822)         | (6,471)         |
| <b>Net cash inflow from operating activities</b>             | <b>68,386</b>   | <b>32,721</b>   |
| <b>Cash flows from investing activities</b>                  |                 |                 |
| Payments for property, plant and equipment                   | (45)            | (427)           |
| Payments for exploration, evaluation and development         | (6,995)         | (25,142)        |
| Decrease/(increase) in deposits                              | 3,184           | (483)           |
| Decrease in restricted cash                                  | 7,004           | -               |
| Proceeds from sale of Bowdens                                | 5,000           | -               |
| Proceeds from sale of Challenger                             | 500             | -               |
| Proceeds from sale of available-for-sale financial assets    | 432             | -               |
| <b>Net cash inflow/(outflow) from investing activities</b>   | <b>9,080</b>    | <b>(26,052)</b> |
| <b>Cash flows from financing activities</b>                  |                 |                 |
| Proceeds from corporate borrowings, net of transaction costs | -               | 1,102           |
| Repayment of corporate borrowings                            | (6,137)         | (12,195)        |
| Repayment of subsidiary (Akara Resources PCL) borrowings     | (74,803)        | (16,638)        |
| Settlement of vested deferred rights                         | (27)            | (67)            |
| <b>Net cash outflow from financing activities</b>            | <b>(80,967)</b> | <b>(27,798)</b> |
| <b>Net decrease in cash held</b>                             | <b>(3,501)</b>  | <b>(21,129)</b> |
| Cash at the beginning of the half-year                       | 36,314          | 55,472          |
| Effects of exchange rate on cash and cash equivalents        | 229             | (147)           |
| <b>Cash at the end of the half-year</b>                      | <b>33,042</b>   | <b>34,196</b>   |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



## NOTES TO THE FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION OF THE HALF-YEAR REPORT

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Kingsgate Consolidated Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies applied are the same as those applied by Kingsgate in its annual financial report for the year ended 30 June 2016.

#### **New or Revised Standards and Interpretations that are First Effective in the Current Reporting Period**

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current reporting period. None of the new and revised standards and interpretations adopted during the period had a material impact nor did they result in any changes to the Group's presentation of, or disclosure in, its half-year financial statements.

#### **New Accounting Standards for Application in Future Periods**

There are no new and revised Standards and amendments thereof and Interpretations effective for future reporting periods issued during the current reporting period that are relevant to the Group.

#### **Note 1 (a) Critical accounting estimates and judgements**

##### **(i) Funding of future operations**

The consolidated half-year financial statements of the Group have been prepared on a going concern basis. Based on cash flow forecasts, the directors believe the Group has sufficient cash resources to settle its liabilities and commitments and ongoing activities for at least 12 months from date of this report.

Directors have also considered the funds that will be required in the longer term including the funding of the rehabilitation obligations of the Chatree Gold Mine and the funding of the Nueva Esperanza Gold/Silver Project. In addition to the current cash reserves, further funds can be generated through various options that are available to the Group including:

- realising the value of assets including reviewing the possibility of the sale of Chatree Gold Mine infrastructure assets which include plant and equipment and non-strategic land and property;
- realising value from the sale of the stored gold sludge;
- pursuing available legal and other avenues for compensation including action for damages against the Thai Government;
- reviewing the potential for and timing of an equity raising; and/or
- considering options that might include the sale of assets, or entering into farm-in agreements with other parties.

The Group, if necessary, can also reduce its current planned ongoing expenditure to suit available cash resources and the timing of cash flows.



***(ii) Uncertainty in relation to Chatree Gold Mine assets and liabilities***

As noted in the Directors' Report, the Chatree Gold Mine prematurely ceased operations on 31 December 2016 following a Thai Government announcement in May 2016 that all gold mining in Thailand is to cease by 31 December 2016 and a subsequent Section 44 Order issued by the Prime Minister of Thailand under the Thai Constitution in December 2016 that ordered all gold mining generally to cease by 31 December 2016. Kingsgate Consolidated Limited and its Thai subsidiary Akara Resources Public Company Limited have complied with the Thai Government's position and the Chatree Gold Mine was placed on Care and Maintenance effective 1 January 2017.

In preparing the consolidated half-year financial statements of the Group, with the exceptions of certain assets which are available for sale in their current conditions and current receivables which are expected to be received in the short-term, all assets of the Chatree Gold Mine have been written down to nil value. In respect of rehabilitation liabilities, management has revised its previous estimates and has reduced its total rehabilitation liability to approximately \$16 million. This is based on management's rehabilitation plan which will be a revision from the initial plan submitted to the Thai Authorities in 2007. Management believes the revised plan will be commercially viable, cost effective and will meet all obligations in the context of the early mine closure that has been imposed on the Group with the overall objective to leave the site in a safe and stable condition that is consistent with the surrounding physical environment, be of benefit to the local community, and not require significant ongoing maintenance.

The future of the Chatree Gold Mine remains unclear and there is a significant uncertainty around the carrying values of assets and liabilities. The ultimate impact on the Group's financial position will depend on the sale of plant and equipment and non-strategic land and property and outcomes from discussions with the Thai Government, including:

- agreeing a rehabilitation plan, costing and timing;
- potential re-opening of the mine if permitted by the Thai Government; and
- pursuing available legal and other avenues for compensation including action for damages against the Thai Government.

***(iii) Nueva Esperanza Gold/Silver Project impairment assessment***

Management has determined the fair value of Nueva Esperanza as at 31 December 2016 is above its carrying value of \$105,232,000 resulting in no impairment. Refer note 12.

## **2. SEGMENT INFORMATION**

The Group's operating segments are based on the internal management reports that are reviewed and used by the Board of Directors (chief operating decision maker). The operating segments represent the Group's operating mines and projects and include the following:

- Chatree Gold Mine, Thailand; and
- Nueva Esperanza Gold/Silver Project, Chile.



## 2. SEGMENT INFORMATION (Continued)

Information regarding the results of each reportable segment is included as follows:

| 2016                                   | Operation      | Development    | Corporate            | Continuing     | Discontinued | Total          |
|----------------------------------------|----------------|----------------|----------------------|----------------|--------------|----------------|
|                                        | Chatree        | Nueva          |                      | operations     | operations   |                |
|                                        | \$'000         | Esperanza      | \$'000               | \$'000         | \$'000       | \$'000         |
| External sales revenue                 | 158,216        | -              | -                    | 158,216        | -            | 158,216        |
| Other income                           | 532            | -              | -                    | 532            | -            | 532            |
| <b>Total segment revenue</b>           | <b>158,748</b> | <b>-</b>       | <b>-</b>             | <b>158,748</b> | <b>-</b>     | <b>158,748</b> |
| Segment EBITDA                         | 70,392         | (3,728)        | (4,922) <sup>1</sup> | 61,742         | -            | 61,742         |
| Depreciation and amortisation          | (36,872)       | -              | (49)                 | (36,921)       | -            | (36,921)       |
| <b>Segment result (Operating EBIT)</b> | <b>33,520</b>  | <b>(3,728)</b> | <b>(4,971)</b>       | <b>24,821</b>  | <b>-</b>     | <b>24,821</b>  |
| Finance income                         | -              | -              | -                    | 265            | -            | 265            |
| Finance costs                          | -              | -              | -                    | (2,922)        | -            | (2,922)        |
| <b>Net finance costs</b>               | <b>-</b>       | <b>-</b>       | <b>-</b>             | <b>(2,657)</b> | <b>-</b>     | <b>(2,657)</b> |
| <b>Profit/(loss) before tax</b>        | <b>33,520</b>  | <b>(3,728)</b> | <b>(4,971)</b>       | <b>22,164</b>  | <b>-</b>     | <b>22,164</b>  |
| <b>Other segment information</b>       |                |                |                      |                |              |                |
| Segment assets                         | 38,825         | 110,256        | 20,197               | 169,278        | -            | 169,278        |
| Segment liabilities                    | (33,611)       | (5,331)        | (16,220)             | (55,162)       | -            | (55,162)       |

<sup>1</sup> includes foreign exchange gain of \$2,978,000 for the Group.

  

| 2015                                   | Operation      | Development | Exploration | Corporate  | Continuing           | Discontinued  | Total          |
|----------------------------------------|----------------|-------------|-------------|------------|----------------------|---------------|----------------|
|                                        | Chatree        | Bowdens     | Nueva       |            | operations           | operations    |                |
|                                        | \$'000         | \$'000      | Esperanza   | South East | \$'000               | Challenger    | \$'000         |
|                                        | \$'000         | \$'000      | \$'000      | Asia       | \$'000               | \$'000        | \$'000         |
| External sales revenue                 | 93,128         | -           | -           | -          | 93,128               | 57,377        | 150,505        |
| Other income                           | 1,253          | 27          | -           | 377        | 225                  | 573           | 2,455          |
| <b>Total segment revenue</b>           | <b>94,381</b>  | <b>27</b>   | <b>-</b>    | <b>377</b> | <b>225</b>           | <b>57,950</b> | <b>152,960</b> |
| Segment EBITDA                         | 14,981         | 23          | (3)         | 20         | (4,815) <sup>1</sup> | 13,932        | 24,138         |
| impairment reversal                    | -              | -           | -           | -          | -                    | 7,806         | 7,806          |
| Depreciation and amortisation          | (20,926)       | -           | -           | -          | (141)                | (1,586)       | (22,653)       |
| <b>Segment result (Operating EBIT)</b> | <b>(5,945)</b> | <b>23</b>   | <b>(3)</b>  | <b>20</b>  | <b>(4,956)</b>       | <b>20,152</b> | <b>9,291</b>   |
| Finance income                         | -              | -           | -           | -          | 215                  | -             | 215            |
| Finance costs                          | -              | -           | -           | -          | (8,961)              | (174)         | (9,135)        |
| <b>Net finance costs</b>               | <b>-</b>       | <b>-</b>    | <b>-</b>    | <b>-</b>   | <b>(8,746)</b>       | <b>(174)</b>  | <b>(8,920)</b> |
| <b>Profit/(loss) before tax</b>        | <b>(5,945)</b> | <b>23</b>   | <b>(3)</b>  | <b>20</b>  | <b>(4,956)</b>       | <b>19,978</b> | <b>371</b>     |
| <b>Other segment information</b>       |                |             |             |            |                      |               |                |
| Segment assets                         | 355,397        | 7,934       | 101,969     | 1,379      | 24,721               | 20,970        | 512,370        |
| Segment liabilities                    | (141,213)      | (51)        | (4,452)     | (211)      | (29,470)             | (16,792)      | (192,189)      |

<sup>1</sup> Include foreign exchange gain of \$4,321,000 for the Group.



### 3. REVENUE AND EXPENSES

|                                                                         | Half-Year      |               |
|-------------------------------------------------------------------------|----------------|---------------|
|                                                                         | 2016           | 2015          |
|                                                                         | \$'000         | \$'000        |
| <b>a. Sales revenue</b>                                                 |                |               |
| Gold sales                                                              | 139,721        | 85,534        |
| Silver sales                                                            | 18,495         | 7,594         |
| <b>Sales revenue from continuing operations</b>                         | <b>158,216</b> | <b>93,128</b> |
| <b>Sales revenue from discontinued operations</b>                       | <b>-</b>       | <b>57,377</b> |
| <b>b. Cost of sales</b>                                                 |                |               |
| Direct costs of mining and processing                                   | 60,082         | 55,217        |
| Royalties                                                               | 14,199         | 7,680         |
| Inventory movements                                                     | 12,549         | 15,803        |
| Depreciation                                                            | 36,872         | 20,926        |
| <b>Cost of sales from continuing operations</b>                         | <b>123,702</b> | <b>99,626</b> |
| <b>Cost of sales from discontinued operations</b>                       | <b>-</b>       | <b>45,604</b> |
| <b>c. Corporate and administration expenses</b>                         |                |               |
| Administration                                                          | 5,840          | 7,256         |
| Technical support and business development                              | 531            | 734           |
| Statutory and professional fees                                         | 3,371          | 1,247         |
| Depreciation                                                            | 49             | 141           |
| <b>Corporate and administration expenses from continuing operations</b> | <b>9,791</b>   | <b>9,378</b>  |
| <b>d. Other income and expenses</b>                                     |                |               |
| Net (loss)/gain on sale of fixed assets                                 | (8)            | 377           |
| Realised gain on delivery against hedge contracts                       | -              | 999           |
| Change in fair value of available-for-sale assets                       | (108)          | (828)         |
| Other income                                                            | 532            | 506           |
| <b>Other income and expenses from continuing operations</b>             | <b>416</b>     | <b>1,054</b>  |
| <b>Other income and expenses from discontinued operations</b>           | <b>-</b>       | <b>573</b>    |
| <b>e. Finance costs</b>                                                 |                |               |
| Interest and finance charges                                            | 2,421          | 3,409         |
| Foreign exchange loss on loans                                          | 182            | 4,612         |
| Unwinding of discount                                                   | 246            | 412           |
| Amortisation of deferred borrowing costs                                | 73             | 528           |
| <b>Finance costs from continuing operations</b>                         | <b>2,922</b>   | <b>8,961</b>  |
| <b>Finance costs from discontinued operations</b>                       | <b>-</b>       | <b>174</b>    |
| <b>f. Depreciation and amortisation</b>                                 |                |               |
| Property, plant and equipment                                           | 22,683         | 8,026         |
| Mine properties                                                         | 14,238         | 14,627        |
| <b>Depreciation and amortisation expenses</b>                           | <b>36,921</b>  | <b>22,653</b> |
| <i>Included in:</i>                                                     |                |               |
| Costs of sales depreciation                                             | 36,872         | 22,512        |
| Corporate depreciation                                                  | 49             | 141           |
| <b>g. Employee benefits expenses</b>                                    |                |               |
| <i>Included in:</i>                                                     |                |               |
| Costs of sales                                                          | 3,177          | 10,559        |
| Corporate and administration expenses                                   | 2,291          | 3,956         |
| <b>Total employee benefits expenses</b>                                 | <b>5,468</b>   | <b>14,515</b> |



### 3. REVENUE AND EXPENSES (Continued)

|                                         | Half-Year      |                |
|-----------------------------------------|----------------|----------------|
|                                         | 2016<br>\$'000 | 2015<br>\$'000 |
| <b>h. Significant item</b>              |                |                |
| Impairment reversal of Challenger Mine  | -              | (7,806)        |
| <b>Total significant item (pre-tax)</b> | -              | (7,806)        |

### 4. OTHER ASSETS

|                                         | 31 Dec<br>2016<br>\$'000 | 30 Jun<br>2016<br>\$'000 |
|-----------------------------------------|--------------------------|--------------------------|
| <b>Current</b>                          |                          |                          |
| Prepayments                             | 2,215                    | 2,365                    |
| Other deposits                          | 5,331                    | 8,554                    |
| <b>Total other assets – current</b>     | <b>7,546</b>             | <b>10,919</b>            |
| <b>Non-current</b>                      |                          |                          |
| Prepayments                             | 16,496                   | 14,060                   |
| Other deposits                          | 70                       | 70                       |
| <b>Total other assets – non-current</b> | <b>16,566</b>            | <b>14,130</b>            |

#### Prepayments

Non-current prepayments include prepaid royalties and water rights in respect of the Nueva Esperanza Gold/Silver Project in Chile.

#### Other deposits

Other deposits current includes \$4,896,000 of security deposits in Thailand.

### 5. BORROWINGS

|                                        | 31 Dec<br>2016<br>\$'000 | 30 Jun<br>2016<br>\$'000 |
|----------------------------------------|--------------------------|--------------------------|
| Secured bank loan                      | 4,992                    | 85,240                   |
| Preference shares in controlled entity | 10,334                   | 10,171                   |
| Finance lease liabilities              | 1,369                    | 1,549                    |
| Other loan                             | -                        | 1,137                    |
| <b>Total borrowings</b>                | <b>16,695</b>            | <b>98,097</b>            |

#### Secured bank loans

Terms and conditions of outstanding loan were as follows:

|                                  | Currency | Nominal interest           | Financial<br>year of<br>maturity | Face<br>value<br>\$'000 | Carrying<br>amount<br>\$'000 |
|----------------------------------|----------|----------------------------|----------------------------------|-------------------------|------------------------------|
| Revolving Credit Facility        | AUD      | BBSY <sup>1</sup> + margin | 2017                             | 5,000                   | 5,000                        |
| Less capitalised borrowing costs |          |                            |                                  |                         | (8)                          |
| <b>Total</b>                     |          |                            |                                  |                         | <b>4,992</b>                 |

<sup>1</sup>BBSY means bank bill swap bid rate

The Revolving Credit Facility was fully repaid on 3 February 2017.



## 5. BORROWINGS (Continued)

### Preference shares in controlled entity

Terms and conditions of outstanding preference shares in controlled entity were as follows:

|                                        | Currency  | Interest rate | Financial year of maturity | Face value \$'000 | Carrying amount \$'000 |
|----------------------------------------|-----------|---------------|----------------------------|-------------------|------------------------|
| Preference shares in controlled entity | Thai Baht | 12%           | n/a                        | 10,401            | 10,334                 |

These shares may be put to Kingsgate after 180 days' notice at par value.

### Finance lease liabilities

The Group has various items of plant and equipment with a carrying amount of \$1,369,000 under finance leases.

## 6. CONTRIBUTED EQUITY

|                                                                | 31 Dec 2016<br>Shares | 30 Jun 2016<br>Shares | 31 Dec 2016<br>\$'000 | 30 Jun 2016<br>\$'000 |
|----------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Opening balance                                                | 223,584,937           | 223,584,937           | 677,042               | 677,109               |
| Share acquisition for the settlement of vested deferred rights | -                     | -                     | (27)                  | (67)                  |
| <b>Closing balance</b>                                         | <b>223,584,937</b>    | <b>223,584,937</b>    | <b>677,015</b>        | <b>677,042</b>        |

## 7. RESERVES

|                                      | 31 Dec<br>2016<br>\$'000 | 30 Jun<br>2016<br>\$'000 |
|--------------------------------------|--------------------------|--------------------------|
| Foreign currency translation reserve | 45,800                   | 45,234                   |
| Share-based payment reserve          | 9,151                    | 9,056                    |
| General reserve                      | (3,341)                  | (3,341)                  |
| <b>Total reserves</b>                | <b>51,610</b>            | <b>50,949</b>            |

## 8. EVENTS OCCURRING AFTER REPORTING DATE

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect:

- the Group's operations in future financial periods;
- the results of those operations in future financial periods; or
- the Group's state of affairs in future financial periods.

## 9. CONTINGENT LIABILITIES

The Group had contingent liabilities at 31 December 2016 in respect of guarantees. Bank guarantees have been given by Kingsgate's controlled entities to participating banks in the corporate loan facility. The corporate loan guarantee may give rise to liabilities in the parent entity if the controlled entities do not meet their obligations under the terms of the loans subject to guarantees. The corporate loan facility was repaid after period end, following which the guarantees were extinguished (see Note 5).



## 10. FINANCIAL RISK MANAGEMENT AND INSTRUMENTS

### Fair value measurements

The carrying value of financial assets and liabilities of the Group approximate their fair values. Fair values of financial assets and liabilities have been determined for measurement and/or disclosure purposes.

### Fair value hierarchy

The Group classifies assets and liabilities carried at fair value using a fair value hierarchy that reflects the significance of the inputs used in determining that value. The table following analyses financial instruments carried at fair value, by the valuation method. The different levels in the hierarchy have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as process) or indirectly (derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

|                                     | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|-------------------------------------|-------------------|-------------------|-------------------|-----------------|
| <b>31 December 2016</b>             |                   |                   |                   |                 |
| Available-for-sale financial assets | -                 | -                 | -                 | -               |
| <b>30 June 2016</b>                 |                   |                   |                   |                 |
| Available-for-sale financial assets | 540               | -                 | -                 | 540             |
| Receivable                          | -                 | -                 | 5,000             | 5,000           |

## 11. EARNINGS PER SHARE

|                                                                                                    | Half-Year          |                    |
|----------------------------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                                    | 2016<br>Cents      | 2015<br>Cents      |
| Basic and diluted earnings/(loss) per share from continuing operations                             | 9.45               | (8.91)             |
| Basic and diluted earnings per share from discontinued operations                                  | -                  | 8.94               |
| <b>Basic and diluted earnings per share from continuing operations and discontinued operations</b> | <b>9.45</b>        | <b>0.03</b>        |
|                                                                                                    | <b>\$'000</b>      | <b>\$'000</b>      |
| Net profit/(loss) used to calculate basic and diluted earnings per share                           |                    |                    |
| - Continuing operations                                                                            | 21,118             | (19,911)           |
| - Discontinued operations                                                                          | -                  | 19,978             |
|                                                                                                    | <b>Number</b>      | <b>Number</b>      |
| Weighted average number of ordinary shares used as the denominator: basic                          | 223,578,889        | 223,584,937        |
| Adjustment for dilutive effect                                                                     | -                  | 151,186            |
| <b>Weighted average number of ordinary shares used as the denominator: diluted</b>                 | <b>223,578,889</b> | <b>223,736,123</b> |



## 12. IMPAIRMENT ASSESSMENT

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units “CGUs”).

### Methodology

An impairment is recognised when the carrying amount exceeds the recoverable amount.

The recoverable amount of the Nueva Esperanza Gold/Silver Project has been estimated using a fair value less costs of disposal basis. The costs of disposal have been estimated by management based on prevailing market conditions.

The recoverable amounts of the CGUs has been estimated based on discounted cash flows using market based commodity price and exchange rate assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements, based on latest life of mine plans.

The recoverable amount estimate for Nueva Esperanza Gold/Silver Project is considered to be level 3 fair value measurement (as defined by accounting standards) as it is derived from valuation techniques that include inputs that are not based on observable market data. The Group considers the inputs and the valuation approach to be consistent with the approach taken by market participants.

Significant judgements and assumptions are required in making estimates of the recoverable amounts. This is particularly so in the assessment of long life assets. It should be noted that the CGU recoverable amounts are subject to variability in key assumptions including, but not limited to, gold and silver prices, currency exchange rates, discount rates, production profiles and operating and capital costs. A change in one or more of the assumptions used to estimate the recoverable amounts would result in a change in the CGU’s recoverable amounts.

### Key assumptions

In determining each key assumption, management has used external sources of information and utilised experts within the Group to validate entity specific assumptions such as reserves and resources. Production and capital costs are based on the Group’s estimate of forecast geological conditions, capacity of existing plant and equipment and future production levels. This information is obtained from external experts where applicable, internally maintained budgets, mine models and project evaluations performed by the Group in its ordinary course of business.

The table below summarises the key assumptions used in the carrying value assessments.

|                         |           |
|-------------------------|-----------|
|                         | +FY 2017  |
|                         | long term |
|                         | average   |
| Gold (US\$ per ounce)   | US\$1,250 |
| Silver (US\$ per ounce) | US\$20    |

The Group receives long term forecast price data from multiple externally verifiable sources when determining its pricing forecasts. For the Nueva Esperanza Project, gold and silver prices forecast that result in the recoverable amount exceeding the book value are generally achieved when the high end of the range is adopted.

The foreign exchange rates used in the models are AUD/USD of 0.72 based on exchange rates current at period end.

|                                     |               |
|-------------------------------------|---------------|
|                                     | Discount rate |
| Nueva Esperanza Gold/Silver Project | 8.5%          |



## 12. IMPAIRMENT ASSESSMENT (Continued)

The Group has applied post-tax real discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax real discount rates applied to the Nueva Esperanza Gold/Silver Project is 10.9%. The post-tax discount rate applied to the future cash flow forecasts represent an estimate of the rate the market would apply having regard to the time value of money and the risks specified to the asset for which the future cash flow estimate have not been adjusted.

The recoverable amount of Nueva Esperanza at 31 December 2016 was determined based on a fair value less costs of disposal model. Based on the assumption noted above, the fair value of Nueva Esperanza as at 31 December 2016 is assessed as being above its carrying value of \$105,232,000 resulting in no impairment.

In reaching the conclusions regarding the carrying value of the Nueva Esperanza Project, the Directors consider that the Nueva Esperanza concession offers additional value from:

- identified resources for Aqueros, Chimberos and Teterita not currently included in the life of mine plan; and
- exploration potential from the area immediately surrounding these three established projects.

In assessing additional value, the Directors note that In the Independent Expert's report dated 13 October 2016 contained in the Target's Statement released on 17 October 2016 it was stated that the value a willing and knowledgeable buyer would place on both of these options would be between \$16.3 million to \$22.2 million.

The analysis undertaken by management on Nueva Esperanza does not currently include the potential reduction in capital expenditure of US\$13 million by using certain plant and equipment from the Chatree Gold Mine that was applied in the Independent Expert's Report. Management is continuing its assessment of the viability of this option.

The key assumptions to which the model is most sensitive includes:

- gold and silver prices;
- production and capital costs;
- discount rate; and
- reserves and resources.

### ***Sensitivity analysis***

Any variation in the key assumptions used to determine the recoverable amount would result in a change of the estimated recoverable amount. If the variation in assumption had a negative impact on the recoverable amount it could indicate a requirement for an impairment of non-current assets.

It is estimated that the following reasonably possible changes in the key assumptions would have the following approximate post-tax impact on the recoverable amount of the CGU as at 31 December 2016:

|                                             | Nueva Esperanza<br>Gold/Silver Project<br>\$'000 |
|---------------------------------------------|--------------------------------------------------|
| US\$100/oz increase/decrease in gold price  | 15,949                                           |
| US\$1/oz increase/decrease in silver price  | 26,246                                           |
| 5% increase/decrease in operating costs     | 26,493                                           |
| 5% increase/decrease in capital expenditure | 12,513                                           |

In respect of Nueva Esperanza, although the recoverable amount exceeds the carrying amount, applying any negative sensitivity to the cash flow forecasts would result in a material decrease in the recoverable amount.

It must be noted that each of the sensitivities above assumes that the specific assumption moves in isolation, whilst all other assumptions are held constant. In reality, a change in one of the aforementioned assumptions may accompany a change in another assumption which may have an offsetting impact. Action is also usually taken to respond to adverse changes in economic assumptions that may mitigate the impact of any such change.



## DIRECTORS' DECLARATION

In the Directors' opinion:

- a) The financial statements and notes set out on pages 8 to 20 are in accordance with the *Corporations Act 2001*, including:
  - i. comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - ii. give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) There are reasonable grounds to believe that Kingsgate will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Ross Smyth-Kirk  
Director

Dated at Sydney on 27 February 2017  
On behalf of the Board



## **Independent auditor's review report to the members of Kingsgate Consolidated Limited**

### ***Report on the Financial Report***

We have reviewed the accompanying financial report of Kingsgate Consolidated Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, selected explanatory notes and the directors' declaration for Kingsgate Consolidated Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that year.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kingsgate Consolidated Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

**PricewaterhouseCoopers, ABN 52 780 433 757**

One International Towers Sydney, Watermans Quay, Barangaroo, GPO Box 2650, Sydney, NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

**Liability limited by a scheme approved under Professional Standards Legislation.**



### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Kingsgate Consolidated Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### *Emphasis of Matter – Significant Uncertainty*

We draw attention to note 1 (a) (ii) to the financial statements which describes the significant uncertainty in relation to the carrying amount of assets and liabilities associated with the Chatree Gold Mine. Our review conclusion is not modified in respect of this matter.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written over the printed name.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Marc Upcroft', written over the printed name.

Marc Upcroft  
Partner

Sydney  
27 February 2017