Kingsgate
Consolidated Limited

ABN 42 000 837 472

2016 ANNUAL REPORT

# 2016 Annual Report


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THAILAND
CHATREE
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CHILE


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**Photo:**
Some of the more than 4,000 local supporters that turned out in support of Akara Resources on 19 May 2016, after the Thai Government announced that it would prematurely close the Chatree Gold Mine on 31 December 2016

**Cover Photo:**
Field work at Nueva Esperanza by Haroldo Padilla Fuentes

# Chairman's Review

## The decision by the Thai Military Government in May to only extend the Metallurgical Licence of the Chatree Gold Mine until 31 December 2016, came as a major blow to your Company and has concentrated the efforts of both management and your Board ever since.

This unprecedented action, based as it is on a litany of lies and false representations, and fed by an unquestioning media, raises many questions that are likely to haunt the Thai economy for a long time to come.

I repeat here what I have stated many times before – there have been no environmental incidents from the Chatree Gold Mine since its inception; there has been no pollution and there has been no health effects on either our workforce or surrounding population that has ever been verified by supporting medical evidence. All such false claims have been proven over and over again by independent authorities to the satisfaction of courts, regulatory authorities and health authorities to be without foundation. The sad thing is that the various government departments know this but seem somewhat constrained in communicating it.

Despite some of the more ridiculous commentary that has emanated in the media, Chatree is one of the most regulated and highly scrutinised mining operations in the world. As an example, the Company has been accused of polluting local water supplies, yet the Department of Primary Industries and Mines (the main regulatory authority) has records going back 15 years since the start of mining operations clearly showing no such thing.

Kingsgate is proud of its record in Thailand with its accent always being on safety, health, the environment and working closely with the local population. We have always considered ourselves as guests in the country, and as being in partnership with the local people. This has been acknowledged over the years both locally and internationally, and by successive Thai Governments, with Kingsgate being the recipient of numerous awards covering all these aspects.

To see our legacy trashed by a small but vocal minority for reasons of personal, commercial, political and ideological positions, without any regard for the vast majority of the local population, who benefit immensely from our operation, is particularly sad.

However, if the mine is forced to close, apart from the profound effect on your Company and you as shareholders, probably the saddest aspect is the devastating effect it will have on our loyal workforce, many of whom we have helped to educate, promote, gain in confidence and to grow over the years. Despite claims by the Government, there is basically little or no chance of them achieving anything like comparable employment in the local area. Additionally, the standard of living of surrounding villages and towns (which has increased immensely over recent years and is a major reason for the Company receiving Thai Board of Investment incentives) will suffer severely as a consequence of the Government's ill thought through decision.

We stand by our proud record of operating an environmentally sustainable, best practice modern mining operation that has contributed significantly over the past 15 years to the Thai economy and the local community.

I do appreciate that some shareholders may feel some frustration over the voluntary suspension of trading of your shares, and that diplomatic and the investigation of potential legal and other remedies may sound a little vague, but I can assure you that everything possible is being done to recover the situation and seek compensation for shareholders.

I am sure that you would appreciate that these situations, by their very nature, are highly complex and they do take time to calmly and methodically work through and that is exactly what we are doing.

Given the circumstances, Kingsgate delivered a reasonable result, with group gold production for the year totalling 146,502 ounces, with Chatree contributing 97,510 ounces and Challenger, before being sold, delivering a solid 48,992 ounces.

Chatree did come in under the original guidance, as the cut-back of the A pit and issues surrounding equipment availability and maintenance, were contributing factors. But as the new year has progressed grade and production have increased significantly as we endeavour over the next few months to achieve maximum cash flow and thereby cover all of our debts and obligations in Thailand.

Since taking on the role of Chief Executive Officer last year, Greg Foulis, has provided a steady hand to the tiller as he has conscientiously worked to cut costs, streamline the management team and rationalise non-core assets so that Kingsgate has emerged even leaner than in previous years and is poised to take advantage of an improved gold market.

Both the Challenger Gold Mine and the Bowdens Silver Project have been sold, with the need to focus on our most advanced asset, the Nueva Esperanza Silver/Gold Project in Chile.

Nueva Esperanza continues to delight with the release of a Pre-Feasibility Study in April, 2016 that confirmed just how good that project is starting to look, with notable highlights including an NPV5%[1] of US$168 million, an IRR of 25% and the first 5 years of production having the potential to average 135,000 ounces (AuEQ60)[2] per annum at US$633 per ounce cash costs.

As exploration continues at Nueva Esperanza and more positive results are realised, we will be looking for ways to capitalise and grow this project, and there are a number of proposals being looked at currently.

As Kingsgate continues to navigate the uncertainty of Thailand, the Board remains more committed than ever to ensure your Company not only survives but repositions itself to thrive as we look towards optimising the Nueva Esperanza Project, our people and our structure to rebuild shareholder wealth. As has always been the case with Kingsgate, shareholder returns will be at the forefront of everything we do over the coming weeks and months.

I would once again like to thank all the management and personnel of Kingsgate, Akara, Challenger and the project teams for their efforts in delivering the operational performance in an otherwise difficult year. I firmly believe we are taking the right steps in the right direction and we hope to be able to be in a position to update shareholders further in the near future.

**Ross Smyth-Kirk**
Director

Notes:

1. NPV5% = Net Present Value at a 5% discount rate.
2. Gold Equivalent: AuEq (g/t) = Au (g/t) + (Ag (g/t) ÷ 60). Calculated from long term historical prices of US$1,200/ounce for gold and US$19.00 for silver and combined life of mine average metallurgical recoveries of 80% Au and 84% Ag estimated from test work by Kingsgate. It is Kingsgate's opinion that all elements included in the metal equivalents calculation have a reasonable potential to be recovered and sold. Although gold is not the dominant metal, gold equivalent values are reported to allow comparison with Kingsgate's other projects. Nueva Esperanza silver equivalent: AgEq (g/t) = Ag (g/t) + Au (g/t) x 60.

# CEO's Review

Dear Shareholders,

Since assuming the role of CEO in June 2015, I can say the last 12 months for Kingsgate has been nothing short of a challenging and difficult journey. The business faced the depths of a 10-year low gold price in late 2015, and our operating difficulties reached a crescendo in Thailand in May 2016, with the Thai Military Government announcing they will prematurely close the Chatree Gold Mine.

Kingsgate is bitterly disappointed about the destructive impact of the Thai Government actions on our employees and our business, and we are now left in the unenviable position of having to deal with the fallout.

It has also become clear that the events of the past year have heralded dramatic change for Kingsgate. Thailand aside, I want to emphasise the point that the decision to sell the Challenger Gold Mine and the Bowdens Silver Project were to ensure that Kingsgate successfully navigated the volatility in the precious metals market, and that's exactly what we have done.

So now let me break down the year for you in to our key achievements, and our key challenges that will ultimately shape our strategy and work flow for the year ahead.

## Achievements

We delivered on both portfolio and management rationalisation, with a strong focus on continuing debt reduction. We also clearly defined the Nueva Esperanza Project potential and way forward. We are addressing the challenges in Thailand.

## Portfolio Rationalisation

We started the year with two operations and two development projects and the choice was clear to rationalise and divest non-core Australian assets and focus on Chile. Based on financial constraints and project factors, Kingsgate chose to back the more advanced Nueva Esperanza Project over Bowdens, from which the sale funds of A$25M will be used to advance Nueva Esperanza towards a development decision.

## Nueva Esperanza Development

At Nueva Esperanza, we took a fresh look at the Project, firstly rolling all new and historic information into an optimisation study which was completed to a Pre-Feasibility Study level. The study, published in April 2016, demonstrates the sound economic potential and way forward. The current project aims to deliver 1.1 million ounces of gold equivalent over a 11.6 year life at a life of mine cash cost of US$706/ounce gold equivalent. However, we are most excited about the ability to enhance economics by bringing forward higher production in the first five years. Beyond the existing Ore Reserves, there is significant potential to increase the life and size of the Project.

In FY17, we are building momentum on exploration, feasibility and permitting in Chile, and we have a well-defined strategy. A new exploration team, led by Vice President Exploration, Alistair Waddell, has developed new high priority targets based on synthesising of a large volume of previously disparate geological information.

Kingsgate is in the process of appointing another set of fresh eyes to the team in Chile in the form of a Vice President - Projects, who will be delivering outcomes on the permitting and feasibility in calendar 2017.

## Operating Performance

Setting aside the premature closure announcement for a moment, the Chatree Gold Mine performance in FY16 was constrained by operating and permitting issues. The Thai mining contractor had significant productivity and availability issues, which significantly impacted mining rates and gold production. Following the closure notice, an asset review team tasked with reinvesting in a new mining fleet and contract was disbanded in May 2016.

For the period to December 2016, the Thai business is focused on a production outcome that should generate sufficient cash to satisfy the repayment of outstanding debt and employee obligations. Navigating stakeholder issues associated with closure is difficult. Kingsgate is pursuing many options with respect to controlling risks and pursuing avenues to recover value.

The Challenger Gold Mine made a useful financial contribution to Kingsgate prior to sale in March 2016, producing 48,992 ounces at a total cash cost of US$763/ounce. Challenger was however, very dependent on exploration success and had become a volatile hand-to-mouth operation.

## Challenges and Opportunities

Since peaking at US$1,893/oz in September 2011, the gold price steadily fell over the following years until it hit a low of US$1,054/oz in December 2015, a 44% drop over this period. While improvements in productivity and planning helped to ease production costs, the impact lead to a significant reduction in operating margins.

Pleasingly, since December 2015, the gold price has recovered, with the range of US$1,275–US$1,300/oz.

The silver price has also seen a similar profile, with prices above US$35/oz in late 2011, decreasing down to US$13.72/oz in late 2015 before recovering back to around US$18/oz.

These price fluctuations resulted in widely varying operating margins for our operations throughout the reporting period. The recent improvement in the gold and silver price has positively impacted Chatree's cashflow generating potential, whilst the economics for Nueva Esperanza are enhanced at these spot prices.

However, the fluctuations in the gold and silver price are no match when it comes to the impact on the business compared to the decision by the Thai Military Government to close Chatree by the end of 2016.

The early closure decision, which was made based on unfounded allegations and a complete lack of supporting evidence, has had and will continue to have a significant impact upon Kingsgate, its shareholders, employees, contractors and local communities.

The closure will see the loss of 1,000 direct jobs in the local community, which will be hard to replace based on the skills that have been acquired. A non-cash impairment charge of $227.6 million against the carrying value of Chatree in our view is a partial reflection of the incredible financial impact and loss of value that the closure will have on your Company.

## The Way Forward...

We appreciate shareholder understanding and patience as legal, financial, operating and diplomatic matters relating to Thailand remain uncertain and highly sensitive.

Over the past year, management and the Board have delivered on reshaping and repositioning the portfolio.

Our immediate focus for FY17 is to weather the challenges and come out the other side, both protecting and enhancing shareholder value.

The reality is that we have a great project and team in Chile plus a considered approach to dealing with issues in Thailand.

We will also be considering the best corporate structure to maximise value and move forward.

I am confident we will successfully address and deal with the key issues facing Kingsgate, and I look forward to updating you on our progress.

**Greg Foulis**
Chief Executive Officer

# Five Year Summary

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **PRODUCTION – Chatree** | | | | | |
| Ore mined ('000 bank cubic metres) | 1,947 | 2,709 | 2,378 | 1,831 | **1,208** |
| Waste mined ('000 bank cubic metres) | 6,259 | 3,521 | 2,193 | 1,133 | **2,965** |
| Waste to ore ratio | 3.2 | 1.3 | 0.9 | 0.6 | **2.5** |
| Ore mined ('000 tonnes) | 4,986 | 7,051 | 6,176 | 4,768 | **3,168** |
| Ore treated ('000 tonnes) | 5,116 | 5,699 | 6,235 | 5,283 | **5,515** |
| Head grade – Gold grams/tonne | 0.9 | 0.9 | 0.9 | 0.9 | **0.7** |
| Head grade – Silver grams/tonne | 11.6 | 11.9 | 12.9 | 13.1 | **11.5** |
| Gold recovery (%) | 84.4 | 79.9 | 79.4 | 79.3 | **79.8** |
| Gold poured (ounces) | 121,372 | 133,681 | 134,546 | 125,094 | **97,510** |
| Silver poured (ounces) | 918,314 | 1,000,569 | 992,255 | 850,003 | **675,579** |
| **PRODUCTION – Challenger** | (12 months) | (12 months) | (12 months) | (12 months) | **(*8.5 months)** |
| Ore mined ('000 tonnes) | 607 | 502 | 500 | 509 | **518** |
| Ore treated ('000 tonnes) | 645 | 557 | 506 | 515 | **386** |
| Head grade – Gold grams/tonne | 4.6 | 3.9 | 4.8 | 5.0 | **4.0** |
| Gold recovery (%) | 92.4 | 94.5 | 96.1 | 96.7 | **96.0** |
| Gold poured (ounces) | 87,388 | 66,216 | 74,954 | 80,151 | **48,992** |
| **PROFIT & LOSS** (A$'000) | | | | | |
| Sales revenue | 357,372 | 329,282 | 328,326 | 313,162 | **253,328** |
| Operating expenses | (171,505) | (192,538) | (244,366) | (225,175) | **(196,244)** |
| Administration expenses | (12,737) | (15,516) | (15,304) | (13,825) | **(14,372)** |
| Other (expenses)/income | (6,398) | (24,804) | (4,449) | (4,704) | **(2,848)** |
| EBITDA | 166,732 | 96,424 | 64,207 | 69,458 | **39,864** |
| Impairment losses | – | (332,808) | (86,698) | (148,181) | **(210,969)** |
| Depreciation & amortisation | (67,553) | (90,965) | (58,986) | (53,950) | **(46,177)** |
| EBIT | 99,179 | (327,349) | (81,477) | (132,673) | **(217,282)** |
| Net finance (costs)/income | (7,902) | (16,222) | (13,250) | (14,319) | **(12,129)** |
| Profit/(loss) before income tax | 91,277 | (343,571) | (94,727) | (146,992) | **(229,411)** |
| Income tax (expense)/benefit | (16,271) | 16,504 | (2,886) | (651) | **(40)** |
| Net profit/(loss) after income tax | 75,006 | (327,067) | (97,613) | (147,643) | **(229,451)** |
| Non-controlling interests | 153 | – | – | – | **–** |
| Net profit/(loss) attributable to owners of Kingsgate Consolidated Limited | 75,159 | (327,067) | (97,613) | (147,643) | **(229,451)** |
| **BALANCE SHEET** (A$'000) | | | | | |
| Current assets – cash and cash equivalent | 87,031 | 30,494 | 53,632 | 55,472 | **36,314** |
| Current assets – other | 97,817 | 99,087 | 82,170 | 75,905 | **56,796** |
| Non-current assets | 856,313 | 628,870 | 505,293 | 413,633 | **159,395** |
| Total assets | 1,041,161 | 758,451 | 641,095 | 545,010 | **252,505** |
| Liabilities – borrowings | 157,544 | 199,758 | 153,632 | 142,623 | **98,097** |
| Liabilities – other | 115,102 | 95,594 | 76,790 | 77,754 | **62,044** |
| Total liabilities | 272,646 | 295,352 | 230,422 | 220,377 | **160,141** |
| Shareholders' equity | 768,515 | 463,099 | 410,673 | 324,633 | **92,364** |
| **OTHER INFORMATION** | | | | | |
| Average gold price received (US$/ounce) | 1,663 | 1,588 | 1,291 | 1,208 | **1,135** |
| Cash cost (US$/ounce) | 721 | 869 | 936 | 833 | **851** |
| Total cost (US$/ounce) | 1,028 | 1,311 | 1,167 | 1,023 | **1,085** |
| Operating cashflow (A$'000) | 165,247 | 92,734 | 38,608 | 76,646 | **46,493** |
| Dividends paid (Cash & DRP) (A$'000) | 22,025 | 22,738 | – | – | **–** |
| Number of ordinary shares ('000) | 151,264 | 152,192 | 223,585 | 223,585 | **223,585** |
| Basic earnings per share (A$ Cents) | 52.5 | (215.0) | (56.7) | (66.0) | **(102.6)** |
| Dividends per share declared for the year (A$ Cents) | 20.0 | 5.0 | – | – | **–** |

* *On 30 October 2015, Kingsgate announced an Option Agreement was reached with a 50/50 Joint Venture between Diversified Minerals Pty Ltd and WPG Resources Limited ("Purchasers"), whereby the Purchasers would acquire 100% of the Challenger Gold Mine and certain exploration licences for consideration of $1,000,000 and a $25 per ounce revenue royalty on future production in excess of 30,000 ounces from the Challenger SSW Zone. The Option Agreement was exercised on 11 December 2015. A Share Purchase Agreement was executed on 19 February 2016 and the sale was completed on 15 March 2016.*

# Finance Report

## Summary

- Revenue of $253.3 million;
- EBITDA (before significant items) of $39.9 million;
- Loss before tax and significant items of $18.4 million;
- Non-cash asset impairment of $227.6 million relating to Chatree Gold Mine;
- Non-cash asset impairment reversal of $16.6 million relating to the Bowdens Silver Project;
- Challenger Gold Mine sold for $1 million plus royalty;
- Bowdens Silver Project sold for total consideration of $25 million;
- No dividends have been declared.

## Earnings

The Group recorded a 2% increase in total cash costs to US$851 per ounce (2015: US$833 per ounce), as well as lower gold sales of 151,313 ounces (2015: 202,489 ounces) and a lower realised gold price of US$1,135 per ounce (2015: US$1,208 per ounce).

The decrease in gold sales reflected a 20% decrease in production at Chatree compared to the prior year, due to mining fleet availability issues and delayed access to higher grade ore. Production at Challenger was 39% lower than the prior year, due to cessation of underground mining in December 2015 with remaining ore being sourced from the SEZ open pit before the sale of the mine to WPG Resources Limited/ Diversified Minerals Pty Ltd in March 2016.

The announcement by the Thai Government to not extend the metallurgical licence beyond 31 December 2016 resulted in an impairment to the carrying value of Chatree of $227.6 million pre-tax. This impairment was the major contributor to the after tax loss of $229.5 million for the year.

## Cost of sales

Cost of sales before depreciation decreased by 13% to $196.2 million compared to last year which largely reflects decreased mining production from the Chatree Mine, due primarily to mining fleet availability issues, and cessation of mining at Challenger. The total unit cash cost for Chatree for the year was US$895 per ounce (US$797 per ounce excluding royalties) (2015: US$690 per ounce and US$595 per ounce excluding royalties). The total unit cash cost for Challenger for the year was US$763 per ounce (2015: US$1,059 per ounce). On a unit cost basis total cash costs for the Group were US$851 per ounce (2015: US$833 per ounce).

## Depreciation and amortisation

Depreciation and amortisation included in the cost of sales was $46.0 million (2015: $53.7 million). The decrease was a result of lower production at Chatree and the impact of the 2015 asset impairment which resulted in a reduction of the carrying value of depreciable assets.

## Impairment

The Group recorded non-cash impairments against the carrying values of Chatree ($227.6 million) as a result of the forced closure of this mine at the end of 2016. In accordance with accounting standards, the Group is required to assess the carrying value of operating and development projects within a set valuation framework that reflected the mine closure. Non-cash asset impairment reversals were made in respect of Challenger ($0.4 million) and Bowdens ($16.6 million) to reflect the sale price being above the previously impaired carrying values.

## Finance costs

Finance costs were $12.6 million and mainly comprise interest on borrowings the Group has in place, unwinding of the discount on provisions as required by Accounting Standards, foreign currency movements on foreign currency denominated loans and amortisation of previously capitalised borrowing establishment fees.

## Income Tax

On 18 June 2010, Kingsgate's Thai subsidiary company, Akara Resources Public Company Limited (Akara), received approval from The Royal Thai Board of Investment (BOI), for a promotion in respect of the Chatree North gold processing plant. Based on an annual production limit from the new processing plant of 185,200 ounces of gold and 1,080,400 ounces of silver, Akara is entitled to:

a) An eight year tax holiday on income derived from the new processing plant with tax savings limited to the capital cost of the new treatment plant;

b) A 25% investment allowance on the capital cost of certain assets of the new processing plant; and

c) Other benefits.

The taxable losses from the Australian operations are only recognised to the extent of deferred tax liabilities. The balance of tax losses has been added to the Group's brought-forward tax losses, leaving a balance of $302 million of taxable losses (unrecognised tax asset of $91 million) to be carried forward to future years.

# Cash Flow

Net operating cash inflow was $46.5 million (2015: $76.6 million). The decrease of $30.1 million reflects a decrease in gold and silver sales offset by a decrease in mining costs and lower interest payments, due to the reduction in borrowings over the year. Net investing cash outflow was $17.1 million (2015: $40.3 million), down $23.2 million, representing continued project feasibility exploration work at the Nueva Esperanza Gold/Silver Project and completion of Tailings Storage Facility #2 – Stage 5 at Chatree, offset by proceeds of $20 million from the sale of the Bowdens Silver Project. Net cash outflow from financing activities was $48.6 million (2015: $37.7 million), including repayment of $47.5 million of the multi-currency loan facility and revolving credit facility.

# Financing Arrangements

## Revolving Credit Facility

Kingsgate has a Revolving Credit Facility ("RCF") with $10 million drawn against this facility at 30 June 2016. A debt repayment of $5 million was paid at the end of July 2016. The balance of the RCF of $5 million is due for repayment at the end of January 2017.

Kingsgate, in addition, has available over the tenure of the RCF an Equity-linked Loan Facility ("ELF") of $15 million. The ELF is currently undrawn.

## Multi-currency loan facility

Kingsgate's Thai operating subsidiary, Akara Resources PCL ("Akara"), has an amortising multi-currency loan facility which under the loan facility agreement has less than three years remaining following the commencement of quarterly repayments in November 2013.

Subsequent to the Thai Government decision on 10 May 2016 that the Chatree Gold Mine would only be able to continue to operate until 31 December 2016, a revised mine plan was implemented which from the planned production profile indicates the potential to generate sufficient cash flow to repay this debt in full by 31 December 2016. As a result the outstanding debt balance is classified as a current liability. In addition, due to these circumstances, covenants under the loan agreement were not met though no default notice has been received from the financiers.

As security against the facility the lender has a fixed and floating charge over the land, buildings, plant and equipment in Thailand owned by Akara and its material subsidiaries. In addition, Akara is required to maintain a debt service reserve account of US$5 million.

At 30 June 2016 the equivalent of $75.3 million was owed against this facility. A further equivalent $7.3 million was repaid on 15 August 2016.

# Financial Position

Shareholders' equity at 30 June 2016 was $92 million (2015: $325 million). The decrease of $233 million reflects the year's loss, including the impairment of Chatree for $228 million.

# Dividends

No dividends were declared for the year ended 30 June 2016 (2015: nil).

# Operations Report


## Chatree Gold Mine

### Thailand

### Summary

The Chatree Gold Mine continued as Kingsgate's primary production asset throughout the year, producing 97,510 ounces of gold and 675,579 ounces of silver. The main operational issues were the scheduled cut-back of the A Pit, ongoing maintenance and equipment availability, the effect of carbonaceous ore on recovery rates, ongoing delays in obtaining approvals for mining lease extensions, and the Thai Government's announcement on 10 May 2016 that Chatree is to prematurely cease operations by 31 December 2016. More detailed commentary on the premature closure of Chatree can be found in the Director's Report on page 24 of this Annual Report.

### Production and Costs

Production for the year was 97,510 ounces of gold and 675,579 ounces of silver.

Total mill throughput of 5.5 million tonnes which was slightly higher than 2015. The overall plant availability was 91.7%.

Total cash costs for the year were US$895 per ounce (US$797 per ounce exclusive of Thai royalties). The average royalty paid to the Thai Government was US$98 per ounce of gold. Total production costs after depreciation and amortisation were US$1,225 per ounce of gold produced.

At year end, 6.7 million tonnes of ore was stockpiled with an average contained gold grade of 0.44 grams per tonne ("g/t") representing 95,340 ounces of gold.

### Mining

During the year 3.2 million tonnes of ore was mined, with a waste-to-ore strip ratio of 2.5:1. The average grade of mined ore was 0.70g/t gold and 11.5g/t silver.

The main mining exercise was the scheduled cut-back of the A Pit, and in January 2016 the mine transitioned to 3 x 8 hour shifts to increase the operating hours per day. Mining was impacted at various times throughout the year by lower than planned excavator and truck availability. Measures have been introduced to address these issues, which included improvements to the parts procurement system, additional maintenance personnel, and the appointment of a new maintenance supervisor, however the age of the mining fleet remains a primary concern.

## Chatree Operational Performance 2015/16

### Production Summary

| | | |
|---|---|---|
| Ore Mined | bcm | 1,208,291 |
| Waste Mined | bcm | 2,965,381 |
| Waste to Ore Ratio | | 2.5:1 |
| Ore Mined | tonnes | 3,167,843 |
| Ore Treated | tonnes | 5,514,660 |
| Head Grade – Gold | Au g/t | 0.70 |
| Head Grade – Silver | Ag g/t | 11.5 |
| Gold Recovery | % | 79.8 |
| Silver Recovery | % | 33.3 |
| Gold Poured | ounces | 97,510 |
| Silver Poured | ounces | 675,579 |

### Financial Summary

#### Cost Summary

| | | |
|---|---|---|
| Mining Cost | US$/oz | 304 |
| Milling Cost | US$/oz | 453 |
| Administration & Other | US$/oz | 68 |
| Stockpile Adjustments | US$/oz | 69 |
| By Product Credit* | US$/oz | (97) |
| **Cash Operating Cost** | US$/oz | **797** |
| Gold Royalty | US$/oz | 98 |
| **Total Cash Cost** | US$/oz | **895** |
| Depreciation & Amortisation – Operating | US$/oz | 297 |
| Depreciation & Amortisation – Deferred Stripping | US$/oz | 33 |
| **Total Production Cost** | US$/oz | **1,225** |
| **Total Cash Cost per Tonne of Ore Treated** | US$/tonne | **15.83** |

### Revenue Summary

| | | |
|---|---|---|
| Gold Sold | ounces | 100,557 |
| Silver Sold | ounces | 690,818 |
| Average Gold Price Received | US$/oz | 1,140 |
| Average Silver Price Received | US$/oz | 15.2 |
| Revenue from Metal Production | US$m | 125.2 |

* *Net of Silver Royalties*


## Processing

Plant No. 1 and Plant No. 2 performed with the following availabilities 90.8% and 92.3% respectively throughout the year.

A number of processing improvement projects were completed and implemented throughout the year which included:

- improved automation in the milling circuit to help optimise control over throughput, grind size and reduce mill liner wear rates; and
- the acquisition of specialised equipment to separate grit from carbon which will improve gold and silver stripping efficiencies.

## Safety

There was one lost time injury recorded during the year. (The injury related to a minor back strain that occurred when an employee was moving a water pipe. The employee has since made a full recovery). Chatree has a 12 month rolling Lost Time Injury Frequency Rate of 0.40.

Management would once again like to commend employees and contractors for their attention to safety and care for each other.

## Chatree – Sustainability

Chatree adheres to Kingsgate's Sustainability Policy. The primary aim of the policy is to manage the Chatree asset ethically, so the people of Thailand and the Company prosper together, enjoying safe, fair and rewarding working relationships and a healthy living environment.

### Community

The Chatree Gold Mine is located 280 kilometres north of Bangkok on the provincial border of Phichit and Phetchabun Provinces. The villages around Chatree lead a predominantly agrarian lifestyle with rice growing as the main activity. It is important therefore, that Chatree is a good corporate citizen for our immediate neighbours and in Thailand generally. Chatree has as a primary goal, to minimise the negative impacts of mining operations on those living and working nearby. We seek to achieve this through funding of community infrastructure projects, donations, regular meetings and consultation with local government and village groups, and by assisting the community in times of need.

### Community Funds

Corporate Social Responsibility at Chatree is a continuing commitment to behave ethically and contribute to economic development in the local area, improving the quality of life of our workforce, their families and the local community. In order to facilitate this, we have established four funds. These are: an "EIA Fund" for mitigating any possible future environmental impact, an "Or Bor Tor Fund" (a sub-district fund), a "Village Fund" and an "Akara For Communities Fund". Committees comprising government officials, village leaders and employees from Chatree manage each fund, ensuring transparency with diligent fund disbursement and project management.

### Employees

The Chatree workforce totalled 1,036 at the end of the year, comprising 364 Akara Resources employees, 466 LotusHall persons with a further 206 employed as minor contractors. Turnover of Akara permanent employees during the financial year was 11.8% which comprised 7.4% voluntary and 4.4% involuntary. Chatree has also maintained its SA8000 certificate (Social Accountability Accreditation) since 2009.

Our business is focused on employee engagement and our objective is to ensure that our employees are appropriately placed in roles that are in line with our commercial goals. Akara offers comprehensive training in relevant safety and job-related areas to all staff and also assists employees to obtain tertiary education qualifications.

To date, 53 employees have been sponsored for higher education pursuits. One employee was sponsored for a doctoral degree, 35 for Masters level degrees, nine for Bachelor level degrees, eight for Diploma Certificates and one employee was sponsored for an MBA short course.

continued

## Water

While rainfall can occur year round, it is generally concentrated during the annual monsoon period (July to October). The responsible management of water is therefore of utmost importance to the Chatree mine and to the surrounding area. Chatree operates on a nil-release basis and all rain water on the mine lease is harvested, requiring continuous management of usage, quality and storage. Twenty seven surface-water and 88 groundwater quality test sites have been established, all of which are regularly monitored and sampled. To date, the sampling indicates that there is no impact on groundwater and no impacts on groundwater outside the Chatree lease boundary.

To gauge any potential drawdown impact on local groundwater, the mine regularly monitors 75 water table measuring stations, located on the mine site and in surrounding villages. Water levels rise and fall seasonally but no long-term adverse trends have been identified.

A total of 1,507,635 tonnes of make-up water (predominantly rainwater stored in pits) was used to process 5,514,660 tonnes of ore during the financial year. Water usage per tonne of ore is increased due to a higher stripping rate in the new Elution circuit.

## Environmental Audit

In April 2016, the fifteenth annual Tailings Storage Facility Audit was undertaken. Knight Piésold Consulting found that the tailings facility continues to be built and operated in accordance with best practice principles, and that the Chatree Processing Department demonstrates a good understanding of the facility.

In 2016, MWH Ltd undertook an audit of the Chatree Mine Environmental Management System. The audit is designed to assess compliance with conditions in the Mining Leases, corporate commitments made in the current Environmental Impact Assessment, adherence to Kingsgate's corporate environmental policy, and our environmental performance overall.

The audit concluded that the operations of the Chatree Gold Mine comply with all applicable statutory requirements, as well as voluntary environmental commitments made by Akara Resources Public Company Limited.

## Cyanide Management

Chatree continues to meet all requirements of The International Cyanide Management Code for gold mining operations. The Code mandates strict protocols for the manufacture, transport, storage and use of cyanide. The last cyanide code audit was carried out in 2014. The certification of Plant No. 2, the newer processing plant, and the re-certification of the old processing plant were announced on 25 June 2014 by the International Cyanide Management Institute.

Readings of discharge to the Tailings Storage Facility are taken every 60 minutes. Of the 8,784 readings taken during the reporting period, a total of 99.9% showed the discharge of cyanide did not exceed the 20mg/L $CN_{TOT}$ standard. The highest monthly reading obtained was 16.6mg/L $CN_{TOT}$ with an annual average of 12.6mg/L $CN_{TOT}$.

Birds continue to nest and breed near the Tailings Storage Facility, confirming that our cyanide discharge presents no environmental hazard. Ongoing cyanide destruction is also assisted by numerous introduced micro-organisms which are able to degrade free cyanide to carbon dioxide and ammonia.

## Incident Reporting

There were 154 environmental events during the year. All were minor, relating to hydrocarbon leaks and spills, and were contained except for one reportable incident that occurred when there was an uncontrolled release of natural surface runoff water through a bund intended to prevent runoff outside the mining release. This occurred in a non-active mining area and the water was slightly turbid. The bund was immediately repaired and the surface drainage improved so the water flowed to a sedimentation pond. Since the mine is supposed to be a zero-release site, the operation received a small fine from the Department of Primary Industry and Mines.

## Rehabilitation

No contaminated land issues arose during the period. The rehabilitation program is ongoing with areas contoured and planted as soon as practicable. Trials of various species are undertaken to ensure the optimal results for each location and many species of trees and grass have been sown successfully across the site. Some 2.34 hectares were rehabilitated last year and 9.36 hectares of rehabilitation are planned for the present year.

## Blast Vibration and Noise

Akara is mindful of the impacts that noise and vibration from blasting may have on surrounding residents of the mine. Blasting is restricted to certain times of the day and measures are taken with its blast design to minimize noise and vibration. Noise and vibration during each blast are monitored regularly and the data used as feedback in the blast design process. Three new blast vibration monitors were purchased during the year to monitor every blast in each of the surrounding communities. Effective noise barriers have been developed around operations, and in some circumstances operations have been restricted to daylight hours.

## Dust Management

Chatree's aim is to produce minimal dust and thereby reduce neighbouring concerns by maintaining all mine roadways in good order through regular gravel sheeting and watering. Dust monitoring stations have been established in nine surrounding villages. To further improve monitoring capabilities, three new continuous dust monitors were purchased and real time monitoring and alerts put in place to notify the operations team. All results from the regular monitoring and sampling program have been within required air quality standards.

# Operations Report


## Challenger Gold Mine

SA, Australia

### Overview

Challenger is a small scale underground gold mine located in central South Australia.

In October 2015, Kingsgate announced that it had reached an agreement to sell the Challenger Gold Mine to a 50/50 Joint Venture between Diversified Minerals Pty Ltd (a 100% owned associate of the PYBAR Group) and WPG Resources Limited ("Purchasers"), at the completion of the current life-of-mine plan and exhaustion of reserves in February 2016.

Some of the key terms of sale include:

- Kingsgate will operate the mine up until completion of commercial production in February 2016, with the mine then placed on Care and Maintenance;
- The Purchasers will assume all ongoing closure liabilities;
- Kingsgate will receive a cash consideration of A$1 million to be paid in equal quarterly instalments from the commencement of mill operations by the Purchasers ; and
- Kingsgate will retain a A$25 per ounce revenue royalty on the Challenger SSW Zone that takes effect after the first 30,000 ounces of production.

The transaction was successfully completed on 15 March 2016.

This portfolio rationalisation, similarly with the sale of Bowdens Silver Project enables Kingsgate to focus activities around its core strategic asset – the prospective Nueva Esperanza development project in Chile.

### Production and Costs

Challenger maintained a solid performance with 48,992 ounces of gold produced up until completion of the sale.

A total of 518,183 tonnes of ore were mined and total cash costs were US$763 per ounce (including US$44 per ounce royalty).

### Mining and Processing

With underground mining ceasing in December 2015, production sources until completion of the sale were from the SEZ open pit. Mining up until March 2016 focused on completing the last high grade benches of the SEZ pit so that the ore would be processed prior to placing the site onto care and maintenance. Processing during that period focused on the highest value open pit ore. Processing was completed on 5 March 2016, and the site was placed on care and maintenance for the transition of ownership to WPG Resources.



continued

# Projects Report

## Nueva Esperanza

Chile


### Summary

Kingsgate's focus remains firmly on the development of the Nueva Esperanza Project which, subject to financing and approvals, provides Kingsgate with a solid platform for growth potential in Chile.

The Nueva Esperanza Project was acquired by Kingsgate in 2012 (100% owned) through the consolidation of tenements and resources in 2011. The Project is located in the Maricunga Gold Belt near Copiapó, a regional mining centre in Northern Chile. The gold and silver-rich mineralisation is hosted by the Esperanza high-sulphidation epithermal alteration system associated with the Cerros Bravos volcanic complex.

The highly prospective Maricunga Belt in Chile which has already delivered defined total resources of ~100 Moz is known for its historic bonanza silver and large scale gold production and is further characterised by epithermal gold styles in the north.

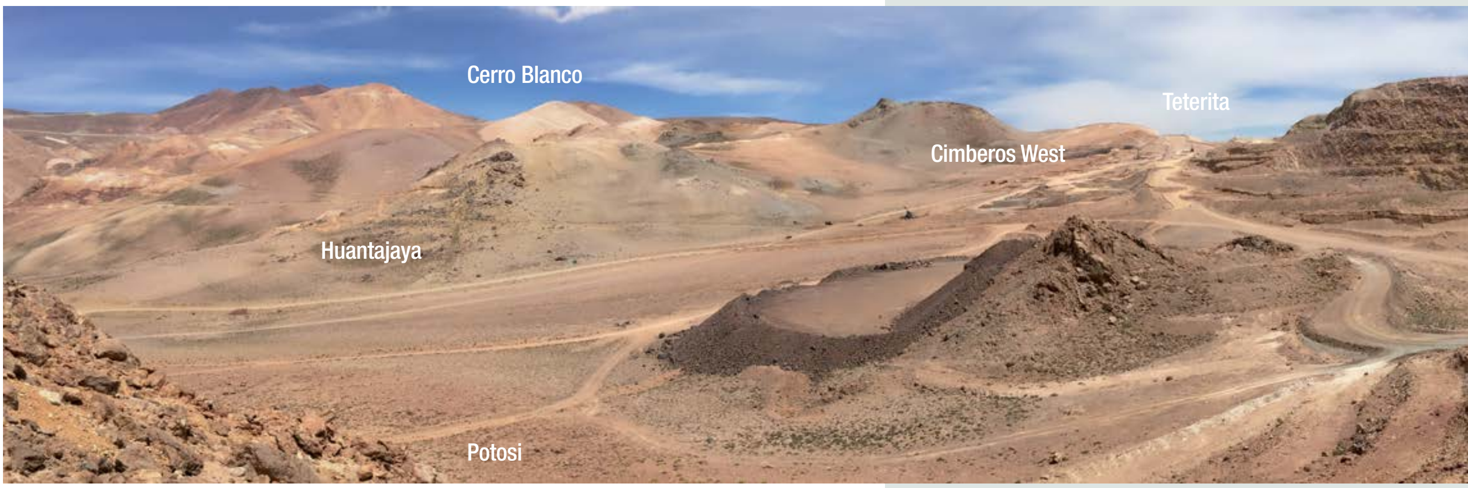
Kingsgate believes Nueva Esperanza is potentially a +5 Moz gold equivalent ounce (AuEq60)[1] system and that both Chile and the Maricunga Belt will continue to facilitate some outstanding discoveries and developments projects similar to those of the past 10–15 years.

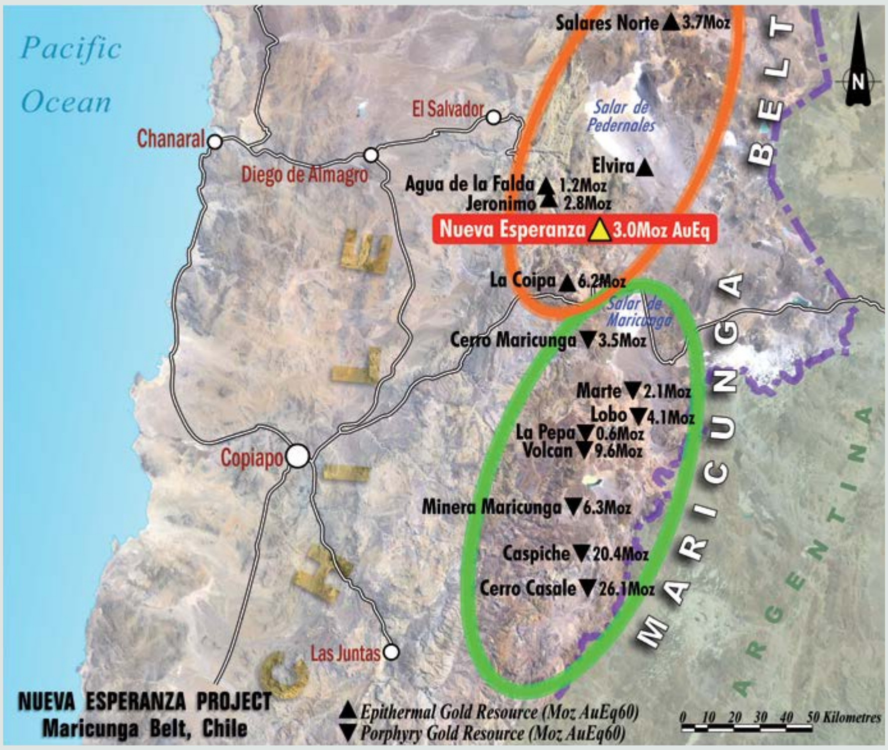
The Project consists of three well-defined mineralised deposits and a number of undeveloped exploration targets. The main deposits are Arqueros, Chimberos and Teterita. Arqueros was previously mined on a limited scale by underground methods and Chimberos was exploited as an open pit mine, delivering about 40 million ounces of silver in 1998/1999. All three deposits, together with mineralised stockpiles have a combined Mineral Resources of approximately 113 million ounces of silver equivalent or 1.9 million ounces of gold equivalent ounces (AuEq60).

Kingsgate has the skills to explore, build and operate the Project and a Pre-Feasibility Study based on optimisation of previous feasibility studies at Nueva Esperanza was announced in April 2016. This demonstrated that open cut mining at two million tonnes per year and processing by milling and agitation leaching with cyanide is technically feasible and economically viable at current metal prices.

Significant upsides to the Project have already been identified which include:

- Environmental permitting already in place for mining and processing Arqueros ore;
- Water supply is secured;
- Power options are available;
- Identified gold potential being developed through exploration on-site and regionally; and
- Feasibility study with updated costs remains the next step forward, together with modification of existing environmental approvals.



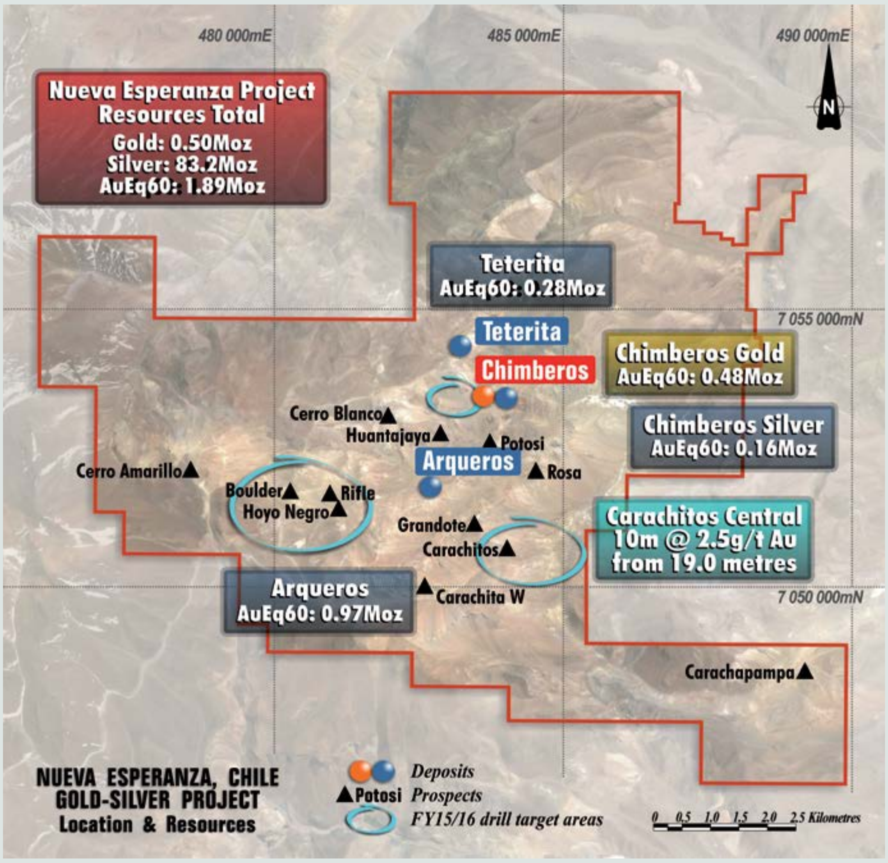



## Geology

The silver and gold mineralisation at Nueva Esperanza is hosted within Tertiary-aged flow-dome dacitic volcanic units at Arqueros and Teterita, and in Paleozoic sediments at Chimberos. The alteration and mineralisation are all Miocene in age and associated with hydrothermal acrivity on the Cerros Bravos paleovolcano.

Mineralisation comprises two main components; silver-rich horizontal units termed 'mantos' (Spanish for blanket) and a series of near-vertical, cross-cutting gold-rich structures. The mantos silver mineralisation is hosted by vuggy silica within dacitic autobreccias. The mantos occurs at Arqueros and Teterita where the mineralising process has replaced horizontal porous breccias. At Chimberos, silver and gold mineralisation is hosted in vuggy silica hydrothermal breccias superimposed on gently folded Paleozoic sediments. There is a close association with dacite domes.

The vertical gold-rich mineralisation, also characterised by vuggy silica, is well-developed at Arqueros and Chimberos. It has been interpreted as feeders for mineralising fluids. Nonetheless, this style of mineralisation has not yet been observed at Teterita.





Notes:

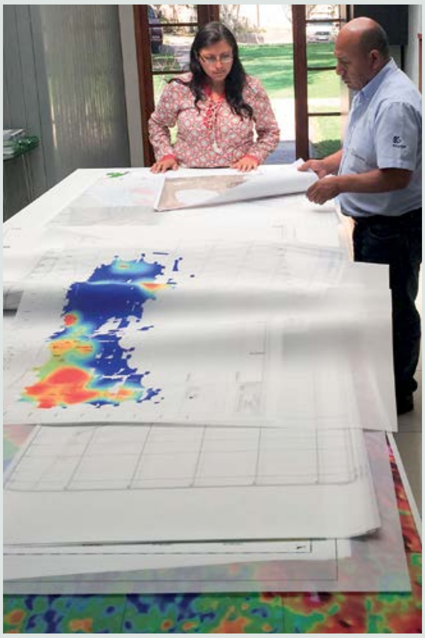
1. Gold Equivalent: AuEq (g/t) = Au (g/t) + (Ag (g/t) ÷ 60). Calculated from long term historical prices of US$1,200/ounce for gold and US$19.00 for silver and combined life of mine average metallurgical recoveries of 80% Au and 84% Ag estimated from test work by Kingsgate. It is Kingsgate's opinion that all elements included in the metal equivalents calculation have a reasonable potential to be recovered and sold. Although gold is not the dominant metal, gold equivalent values are reported to allow comparison with Kingsgate's other projects. Nueva Esperanza silver equivalent: AgEq (g/t) = Ag (g/t) + Au (g/t) x 60.

continued

## Resources

Upon completion of the 2015/16 exploration program, Kingsgate provided an updated Mineral Resource estimate for the Nueva Esperanza Project. This includes the three currently defined deposits and incorporates stockpiles from previous mining at Chimberos.

At 0.5g/t gold equivalent cut-off grade, the updated resource estimate represents a global volume of 39.4 million tonnes containing 0.49 million ounces of gold and 83.4 million ounces of silver, resulting in a combined gold and silver endowment of 1.88 million gold equivalent ounces.



### Nueva Esperanza – Updated Mineral Resources

| | | | Grade | | | Contained Metal | | | |
|---|---|---|---|---|---|---|---|---|---|
| Deposit | Category | Tonnes (Million) | Au (g/t) | Ag (g/t) | Au Eq60 (g/t) | Au (M oz) | Ag (M oz) | Au Eq60 (M oz) | Ag Eq60 (M oz) |
| **Arqueros** | Indicated | 14.7 | 0.32 | 76 | 1.59 | 0.15 | 35.9 | 0.75 | 45.0 |
| | Inferred | 3.3 | 0.3 | 42 | 1.0 | 0.03 | 4.5 | 0.11 | 6.4 |
| | **Subtotal** | **18.0** | **0.32** | **70** | **1.48** | **0.18** | **40.4** | **0.86** | **51.4** |
| **Teterita** | Measured | 1.6 | 0.01 | 93 | 1.56 | 0.0005 | 4.8 | 0.08 | 4.8 |
| | Indicated | 3.3 | 0.0 | 98 | 1.64 | 0.001 | 10.4 | 0.17 | 10.5 |
| | Inferred | 0.4 | 0.0 | 65 | 1.1 | 0.0001 | 0.8 | 0.01 | 0.8 |
| | **Subtotal** | **5.3** | **0.01** | **94** | **1.58** | **0.002** | **16.0** | **0.27** | **16.1** |
| **Chimberos Silver** | Indicated | 3.0 | 0.16 | 76 | 1.43 | 0.02 | 7.3 | 0.14 | 8.3 |
| | Inferred | 0.6 | 0.1 | 66 | 1.2 | 0.0 | 1.3 | 0.02 | 1.4 |
| | **Subtotal** | **3.6** | **0.15** | **74** | **1.39** | **0.02** | **8.6** | **0.16** | **9.6** |
| **Chimberos Gold** | Measured | – | – | – | – | – | – | – | – |
| | Indicated | 6.2 | 1.17 | 51 | 2.02 | 0.23 | 10.2 | 0.40 | 24.2 |
| | Inferred | 1.7 | 0.9 | 31 | 1.4 | 0.05 | 1.7 | 0.08 | 4.6 |
| | **Subtotal** | **7.9** | **1.11** | **47** | **1.89** | **0.28** | **11.9** | **0.48** | **28.8** |
| **Chimberos Total** | Measured | – | – | – | – | – | – | – | – |
| | Indicated | 9.2 | 0.84 | 59 | 1.83 | 0.25 | 17.5 | 0.54 | 32.4 |
| | Inferred | 2.3 | 0.7 | 40 | 1.4 | 0.05 | 3.0 | 0.10 | 6.0 |
| | **Subtotal** | **11.5** | **0.81** | **55** | **1.73** | **0.30** | **20.5** | **0.64** | **38.5** |
| **Chimberos Stockpile** | Measured | – | – | – | – | – | – | – | – |
| | Indicated | – | – | – | – | – | – | – | – |
| | Inferred | 4.6 | 0.03 | 44 | 0.8 | 0.004 | 6.5 | 0.11 | 6.8 |
| | **Subtotal** | **4.6** | **0.03** | **44** | **0.8** | **0.004** | **6.5** | **0.11** | **6.8** |
| **Total** | Measured | 1.6 | 0.01 | 93 | 1.56 | 0.0005 | 4.8 | 0.08 | 4.8 |
| | Indicated | 27.2 | 0.46 | 73 | 1.67 | 0.40 | 63.8 | 1.46 | 87.9 |
| | Inferred | 10.6 | 0.3 | 43 | 1.0 | 0.09 | 14.8 | 0.33 | 20.0 |
| | **Total** | **39.4** | **0.39** | **66** | **1.48** | **0.49** | **83.4** | **1.88** | **112.7** |

## Pre-Feasibility Study

Following the discovery and delineation of Chimberos Gold in 2015, and a substantial upgrade to the total Mineral Resources, Kingsgate undertook a project optimisation study in conjunction with Ausenco, which resulted in a Pre-Feasibility Study of the expanded project.

The Pre-Feasibility Study was published in April 2016 and has confirmed:

- Robust economics, with an NPV5%[2] of US$168m with an IRR of 25%;
- First 5 years production average of 135,000 ounces per annum at US$633/ounce cash costs (AuEq60);
- Initial 11.6 year Life; supported by an Ore Reserve of 1.1 million ounces AuEq60, at a grade of 2.0 grams per tonne AuEq60 of oxidised mineralisation contained in three open pits;
- Capital cost[3] estimate of US$206 million based on a fit-for purpose approach;
- Life of mine cash costs of US$706/ounce and All-in-costs US$913/ounce (AuEq60);
- A three-year payback period based on a US$1,200/ounce gold price and US$19/ ounce silver price; and
- Relevant information for amendments to existing permits, which is work in progress.

The next step is to complete the mine design with new parameters that will lead to a cost update which will deliver a bankable feasibility study in the near term.

### Other Key Pre-Feasibility Study Outcomes

| Macro Assumption | | First 5 Years | Life of Mine |
|---|---|---|---|
| Gold Price | US$/oz | 1,200 | 1,200 |
| Silver Price | US$/oz | 19 | 19 |
| **Project and Operating Parameters** | | **First 5 Years** | **Life of Mine** |
| Investment Capital (initial) | US$M | | 206 |
| Life of Project | Year | | 11.6 |
| Gold Produced | Moz | 0.206 | 0.275 |
| Silver Produced | Moz | 28 | 47 |
| Gold Equivalent Produced | AuEq60 Koz | 676 | 1,100 |
| Annual Process Rate | Mtpa | | 2 |
| Mining Stripping Ratio | (Waste to Ore) | 7.7 | 6.6 |
| Gold Recovery | Average % | | 80 |
| Silver Recovery | Average % | | 84 |
| Annual Production Average | AuEq60 Koz | 135 | 91 |
| Cash Costs incl. Royalties | AuEq60 US$/oz | 633 | 706 |
| All-in-Costs (AIC) | AuEq60 US$/oz | 840 | 913 |
| **Financial Outcomes** | | | **Life of Mine** |
| Free Cash Flow – Pre-Tax | US$M | | 249 |
| Free Cash Flow – Post Tax | US$M | | 190 |
| NPV @ 5% Real | Pre-tax basis US$M | | 168 |
| Internal Rate of Return % | Pre-tax basis % | | 25 |
| Investment Payback Period | Years | | 3 |

Notes (continued from page 13):
2. NPV5% = Net Present Value at a 5% discount rate.
3. Capital cost estimate as at September Quarter 2015, accuracy level is -25% to +25%.

continued

Projects Report

Emplacing water monitoring wells

Late season drilling at Chimberos West

Drilling for gold at Chimberos West

# Projects Report


## Bowdens Silver Project

NSW, Australia

### Summary

The Bowdens Silver Project is located in the Lue/Rylstone area of central western NSW. Kingsgate acquired the project from Silver Standard Resources in 2011.

Silver mineralisation was discovered at Bowdens in the mid 1980's, and both local and regionally focused geophysical and geochemical exploration has been undertaken in various forms since that time.

While Kingsgate has made significant progress towards the completion of a Definitive Feasibility Study and the Environmental Impact Statement for Bowdens, the decision was taken in February 2016 to sell the project to Silver Investment Holdings Australia, which in turn became Silver Mines Limited.

The rationale to sell Bowdens was simple, as it is a key plank in the strategy to reposition Kingsgate by reinvesting these proceeds into the more advanced 100% owned Nueva Esperanza Project in Chile to help realise its future potential.

The details of the sale of Bowdens to Silver Mines Limited are as follows:

Kingsgate has received a total payment of A$20 million cash for an initial 85% interest in the project.

The $20 million was paid in three instalments:

- A$200,000 was paid by way of a non-refundable deposit in February 2016;
- a further A$1.8 million was paid in March 2016 at the successful completion of the due diligence period; and
- the remaining A$18 million was paid in June 2016, which successfully completed the deal.

Following the sale of the 85% interest, Kingsgate was then able to negotiate an agreement for Silver Mines Limited to purchase the remaining 15% interest in the Bowdens Silver Project.

As a result Kingsgate entered into a Deed of Variation with Silver Mines Limited whereby:

- the acquisition price for the 100% purchase of the Bowdens Silver Project was varied to A$25 million;
- Silver Mines Limited now owns 100% of the Bowdens Silver Project;
- Silver Mines Limited was to pay the balance of A$5 million by 30 September 2016, or such other date as may be agreed; and
- should Silver Mines Limited not pay the final balance of A$5 million by 30 September 2016, the parties would form an unincorporated Joint Venture as originally contemplated under the Agreement.

Subsequent to year-end, by way of an amendment to the Deed of Variation, both Kingsgate and Silver Mines Limited have now agreed to the following terms:

- Kingsgate received a non-refundable payment of A$1 million on 30 September 2016. The residual amount of $4 million plus interest calculated at 10% per annum is to be paid on or prior to 30 December 2016; and
- should Silver Mines Limited not pay the final amount of A$4 million by 30 December 2016, the parties will form an unincorporated 85% – 15% Joint Venture with Kingsgate retaining 15% as contemplated under the original Agreement.

# Exploration Report

## Overview

Given the current situation in Thailand, and the sale of both the Challenger Gold Mine and Bowdens Silver Project, Kingsgate has effectively suspended any further 'greenfields' exploration in Australia and South East Asia. There is a strong focus instead on 'brownfields' exploration in and around the exciting Nueva Esperanza Project in Chile. Kingsgate intends to conduct business development opportunities in Chile and South America more broadly to opportunistically build our portfolio.

## Brownfields Exploration Nueva Esperanza

The FY16 exploration strategy was to step back and evaluate the Nueva Esperanza district with a systematic approach. This approach involved compiling various datasets and building detailed layers of geological information to generate new drill targets.

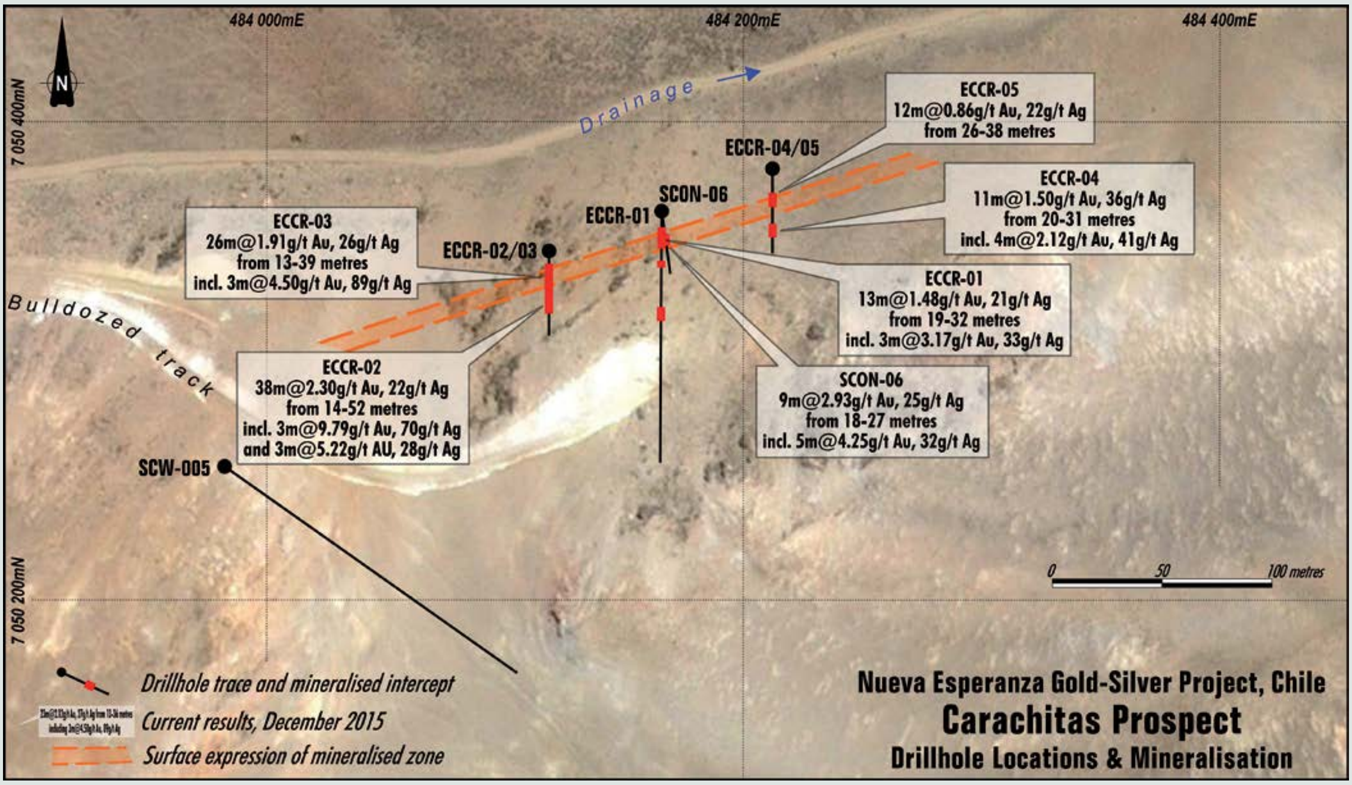
### Blast Hole Drill Program

A district scale shallow drill program was completed with two blast hole rigs. A total of 3,332m was drilled across 485 drill holes with a total of 527 samples (including control samples) collected. Drilling was completed in 18 consecutive days from the end of February through until mid-March.

The drill program was designed to explore for new targets under post-mineral cover comprising of scree and colluvium. The targets are based on multi-element geochemical and geological vectors in combination with surface lithological and structural mapping.

The approximate grid spacing for this program was 250 x 250m, however this was tightened in areas near the boundaries of known deposits, in intradome areas, and other areas considered prospective.

Numerous gold and silver anomalies were generated by the program including the Carachitas valley, Carachapampa; and the area influenced by the Grandote fault (Arqueros – Chimberos – Huantajaya). All targets will be systematically followed up and explored in FY17.



**Carachitas Prospect – 2015 RC Drilling Intersection Summary** (>0.5g/t Au)

| | | Collar Co-ordinates (PSAD 56 19S) | | | Interval | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Drill Hole | Depth (m) | East (m) | North (m) | Elevation (m) | From (m) | To (m) | Width (m) | Au g/t) | Ag (g/t) | Observation |
| ECCR-01 | 76.00 | 484,166 | 7,050,363 | 4,017 | 19 | 32 | 13 | 1.48 | 21 | Including 3m@3.17g/t Au, 33g/t Ag from 20m. |
| ECCR-02 | 67.00 | 484,119 | 7,050,346 | 4,024 | 14 | 52 | 38 | 2.3 | 22 | Including 3m@9.79g/t Au, 70g/t Ag from 14m and 3m@5.22 Au, 28g/t Ag from 19m. |
| ECCR-03 | 67.00 | 484,119 | 7,050,346 | 4,024 | 13 | 39 | 26 | 1.91 | 26 | Including 3m@4.50g/t Au, 89g/t Ag from 14m. |
| ECCR-04 | 67.00 | 484,213 | 7,050,380 | 4,008 | 20 | 31 | 11 | 1.5 | 36 | Including 4m@2.12g/t Au, 41g/t Ag from 22m. |
| | | | | | 44 | 48 | 4 | 1.24 | 28 | |
| | | | | | 52 | 58 | 6 | 1.38 | 30 | |
| ECCR-05 | 57.00 | 484,213 | 7,050,380 | 4,008 | 26 | 38 | 12 | 0.86 | 22 | |
| SCON-06 | 200.00 | 484,166 | 7,050,363 | 4,017 | 18 | 27 | 9 | 2.93 | 25 | Including 5m@4.25g/t Au, 32g/t Ag from 20m. |

## Drilling

### Carachitas:

Strong assay results were received from a reverse circulation drill program on the Carachitas target. Significant gold intersections were received from the target which is approximately two kilometres of the proposed plant site.

A total of six holes were drilled on three section lines at 50 metre intervals following up from a single hole drilled previously which also intersected gold mineralisation.

The best of the Carachitas drill intercepts was: **11 metres at 4.90g/t gold** from 14 metres in ECCR-02.

All six holes returned significant gold intersections from shallow depths less than 20 metres below surface and are summarised in the table above.

Encouraging assay results for holes ECCR-02, 03 and 04 show that the Carachitas mineralisation remains open at depth and has not been closed off laterally to the east or west. Further exploration of the Carachitas target will continue in FY17.

### Targets 69 & 70:

Field mapping identified two new anomalies occurring at dome margins in favourable geological settings analogous with other discoveries in the district such as Kinross's Pompeya deposit and Goldfield's Salares Norte.

Four reverse circulation holes were drilled on geological targets 69 and 70 west of the Chimberos Gold Zone prior to the winter shutdown in May.

The four holes totalled 945 metres and tested zones of vuggy quartz outcropping adjacent to dacitic domes. Excessive groundwater prevented the holes from reaching the target depths however, Hole T70-003 did intercept a zone of silicification at the very bottom of the hole. The bottom of the hole returned 5 metres grading 2.14g/t AuEq(1) from 250 to 255 metres.

Kingsgate is encouraged that the zone was intercepted at the top of the target zone as modelled which confirms "proof of concept" and it is planned to re-enter and extend the hole with a diamond drill rig in the Chilean springtime (September–November).

## Surface Sampling

A campaign of surface sampling followed-up several new target areas in the vicinity of dacitic dome-like bodies.

One of the target areas East of Cerro Gaston returned several highly anomalous boulder float samples. The float samples returned maximum values of 366 and 251g/t silver from samples of vuggy quartz located in a small drainage below the new target area. The target will be investigated as a priority in the Chilean springtime.

Work continues on project-wide baseline geochemistry and geological mapping. An additional development is the recognition of high sulphidation epithermal alteration west of Carachitas which was previously designated as a gold-copper porphyry zone.

Notes:
1. Gold Equivalent: AuEq(g/t) = Au(g/t) + (Ag(g/t) ÷ 60).

## Baseline Data

A new topographic base map and high resolution satellite image were commissioned for the Nueva Esperanza Project. The map and image will be used for general development and exploration activities to help build layers of geological information at a district level to unlock the prospective 50 km$^2$ alteration footprint.

## Regional Exploration, Chile

A desktop review of concession-free areas in the Maricunga belt was initiated. The northern part of the belt is emerging as a relatively underexplored area that contains a number of significant precious metal deposits including Gold Field's Salares Norte Project.

The area was investigated by compiling various geological data in conjunction with updated claim information. Areas of high-level epithermal alteration were investigated and applications were made for numerous concessions which are being processed by the Chilean authorities. Ground truthing of these new projects will be initiated in the spring field season.

## Forward Program, Chile

Kingsgate remains committed to progressing exploration, feasibility studies and permitting aspects into FY17.

Follow up will continue on the various targets already identified and focus on building a target pipeline at Nueva Esperanza and elsewhere in Chile. A highly experienced technical team has been put in place to commence work in the Chilean springtime.

# Ore Reserves and Mineral Resources

as at 30 June 2016

## Chatree and Nueva Esperanza Ore Reserves

| | | | Grade | | | | Contained Metal | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Source** | **Category** | **Tonnes** (Million) | **Gold** (g/t) | **Silver** (g/t) | **Au Equiv** (g/t) | **Ag Equiv** (g/t) | **Gold** (M oz) | **Silver** (M oz) | **Au Equiv** (M oz) | **Ag Equiv** (M oz) |
| Chatree | Proved | 2.1 | 1.15 | 17.7 | 1.28 | 174 | 0.08 | 1.20 | 0.09 | 11.8 |
| | Probable | 0.4 | 1.07 | 17.2 | 1.20 | 163 | 0.01 | 0.22 | 0.02 | 2.1 |
| | **Total** | **2.5** | **1.14** | **17.6** | **1.27** | **172** | **0.09** | **1.42** | **0.10** | **13.8** |
| Nueva Esperanza | Proved | – | – | – | – | – | – | – | – | – |
| | Probable | 17.1 | 0.5 | 87 | 2.0 | 117 | 0.30 | 47.8 | 1.10 | 64.3 |
| | **Total** | **17.1** | **0.5** | **87** | **2.0** | **117** | **0.30** | **47.8** | **1.10** | **64.3** |
| **Total** | Proved | 2.1 | 1.15 | 17.7 | 1.28 | 174 | 0.08 | 1.20 | 0.09 | 11.8 |
| | Probable | 17.5 | 0.5 | 85 | 1.9 | 118 | 0.31 | 48.1 | 1.12 | 66.4 |
| | **Total** | **19.6** | **0.6** | **78** | **1.9** | **124** | **0.39** | **49.2** | **1.20** | **78.2** |

## Chatree and Nueva Esperanza Mineral Resources (inclusive of Ore Reserves)

| | | | Grade | | | | Contained Metal | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Source** | **Category** | **Tonnes** (Million) | **Gold** (g/t) | **Silver** (g/t) | **Au Equiv** (g/t) | **Ag Equiv** (g/t) | **Gold** (M oz) | **Silver** (M oz) | **Au Equiv** (M oz) | **Ag Equiv** (M oz) |
| Chatree | Measured | 75.8 | 0.71 | 6.77 | 0.76 | 103 | 1.73 | 16.5 | 1.85 | 252 |
| | Indicated | 49.8 | 0.64 | 5.58 | 0.68 | 93 | 1.02 | 8.9 | 1.09 | 148 |
| | Inferred | 40.6 | 0.59 | 4.50 | 0.62 | 85 | 0.77 | 5.9 | 0.81 | 111 |
| | **Total** | **166.2** | **0.66** | **5.86** | **0.70** | **96** | **3.53** | **31.3** | **3.76** | **511** |
| Nueva Esperanza | Measured | 1.6 | 0.01 | 93 | 1.56 | 94 | 0.0005 | 4.8 | 0.08 | 4.8 |
| | Indicated | 27.2 | 0.46 | 73 | 1.67 | 100 | 0.40 | 63.8 | 1.46 | 87.9 |
| | Inferred | 10.6 | 0.3 | 43 | 1.0 | 60 | 0.09 | 14.8 | 0.33 | 20.0 |
| | **Total** | **39.4** | **0.39** | **66** | **1.48** | **89** | **0.49** | **83.4** | **1.88** | **112.7** |
| **Total** | Measured | 77.4 | 0.70 | 8.55 | 0.78 | 103 | 1.73 | 21.3 | 1.93 | 257 |
| | Indicated | 77.0 | 0.58 | 29.4 | 1.03 | 95 | 1.42 | 72.7 | 2.55 | 236 |
| | Inferred | 51.2 | 0.53 | 12.5 | 0.70 | 80 | 0.86 | 20.7 | 1.14 | 131 |
| | **Total** | **205.6** | **0.61** | **17.3** | **0.85** | **94** | **4.02** | **114.7** | **5.63** | **623** |

***Notes to the Ore Reserves and Mineral Resources Tables on page 20:***

(1) *Rounding of figures causes some numbers to not add correctly.*

(2) *Nueva Esperanza Equivalent factors:*
*Silver Equivalent: AgEq (g/t) = Ag (g/t) + Au (g/t) x 60.*
*Gold Equivalent: AuEq (g/t) = Au (g/t) + Ag (g/t) / 60.*
*Calculated from prices of US$1200/oz Au and US$19.00/oz Ag, and metallurgical recoveries of 80% Au and 84% Ag estimated from test work by Kingsgate.*

(3) *Chatree Equivalent factors:*
*Gold Equivalent: AuEq/t = Au (g/t) + Ag (g/t) /136.*
*Silver Equivalent: AgEq g/t = Au (g/t) x 136 + Ag g/t.*
*Calculated from prices of US$1200/oz Au and US$19.00/oz Ag and metallurgical recoveries of 83.3% Au and 38.7% Ag based on metallurgical testwork and plant performance.*

(4) *Cut-off grades for Resources are:*
*Chatree 0.30 g/t Au, Nueva Esperanza 0.5g/t AuEq.*

(5) *Nueva Esperanza Reserves are based on a floating cut-off grade method. In this method each Resource block is subjected to a series of calculations to generate revenue and cost fields that are used to determine a breakeven cut-off grade.*

(6) *Cut-off grades for Chatree Reserves are 0.35 g/t Au.*

(7) *It is in the Company's opinion that all the elements included in the metal equivalent calculations have a reasonable potential to be recovered.*

(8) *As at the date of reporting - 7 October 2016, the Bowdens Silver Project is 100% owned by Silver Mines Limited (ASX:SVL). Please refer to the ASX:KCN release titled "Update on the sale of the Bowdens Silver Project" dated 30 September 2016, for more information.*

## Chatree Ore Reserves (with a Metallurgical Licence beyond 31 December 2016)

The table below shows what the Chatree Reserve would be if the Metallurgical Licence was granted in the future.

| | | | Grade | | | | Contained Metal | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Source** | **Category** | **Tonnes** (Million) | **Gold** (g/t) | **Silver** (g/t) | **Au Equiv** (g/t) | **Ag Equiv** (g/t) | **Gold** (M oz) | **Silver** (M oz) | **Au Equiv** (M oz) | **Ag Equiv** (M oz) |
| Chatree | Proved | 28.7 | 0.81 | 8.76 | 0.87 | 119 | 0.75 | 8.1 | 0.81 | 110 |
| | Probable | 9.3 | 0.80 | 7.04 | 0.85 | 116 | 0.24 | 2.1 | 0.25 | 34.6 |
| | **Total** | **38.0** | **0.81** | **8.34** | **0.87** | **118** | **0.99** | **10.2** | **1.06** | **144.0** |

***Notes to the Ore Reserves and Mineral Resources Table above:***

(1) *For the material in the table above to become a JORC 2012 Reserve, the Thai Department of Primary Industries and Mines would need to grant the Chatree Metallurgical Licence for a 5 year period.*

(2) *The information in the table above is not currently a reserve.*

# Competent Persons Statement

The information relating to Nueva Esperanza Ore Reserves is extracted from an ASX announcement by Kingsgate titled "Nueva Esperanza Pre-Feasibility Study" dated 14 April 2016. The information relating to Nueva Esperanza Mineral Resources is extracted from an ASX announcement by Kingsgate titled "Nueva Esperanza Mineral Resource Update" dated 14 April 2016.

Previous announcements referred to in this report are available to view on Kingsgate's public website (www.kingsgate.com.au). The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement, and in the case of estimates of Mineral Resources or Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially altered from the original announcements.

The information in this report that relates to Chatree Exploration Results and Mineral Resources is based on information compiled by Ron James and Maria Munoz, who were previously employees of the Kingsgate Group. Both Ron James and Maria Munoz who are now consultant geologists, are members of The Australasian Institute of Mining and Metallurgy and qualify as Competent Persons. Mr James and Ms Munoz have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr James and Ms Munoz have consented to the public reporting of these statements and the inclusion of the material in the form and context in which it appears.

The information in this report that relates to the Chatree Ore Reserve estimates is based on information compiled by Jennifer McNee who was formerly a full time employee and is now a consultant geologist to Akara Resources, and who is under the supervision of Rob Kinnaird, who is a member of the Australasian Institute of Mining and Metallurgy. Mr Kinnaird is a full time employee of the Kingsgate Group and has sufficient relevant experience in the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Kinnaird has consented to the public reporting of these statements and the inclusion of the material in the form and context in which it appears.

# Senior Management

Kingsgate's executives have a comprehensive range of skills and experience including mine development and operations, exploration, finance and administration. They are supported by highly qualified specialists, whose backgrounds cover the full scope of mining resources activities.

Senior members of Kingsgate's management team as at the time of this report are:

## Greg Foulis
BAppSc (Hons), MComm, (Finance)

### Chief Executive Officer

Greg Foulis joined Kingsgate in June 2015 as Chief Executive Officer and has over 30 years of diverse international experience in mining and financial markets. Prior to Kingsgate, he was SVP Business Development for AngloGold Ashanti where he was involved in identifying and delivering opportunities for growth and improvement from both an organic and external perspective. Greg has spent over seventeen years in financial markets in various roles including mining equity research, mining and energy specialist sales and funds management, principally with Deutsche Bank. Greg is a qualified geologist with extensive experience in exploration, project evaluation and mining operations in Australasia and the Americas. This includes a career highlight with involvement in the exploration, drill-out and feasibility of the giant world class Lihir Gold Project in PNG.

## Ross Coyle
BA, FCPA, FGIA

### Chief Financial Officer and Company Secretary

Ross Coyle joined Kingsgate in March 2011 following the Company's acquisition of Dominion Mining Limited and was with the Dominion group for over 25 years. He is a qualified accountant and has over 33 years' experience in finance and accounting within the resource industry. He was Finance Director of Dominion from 1996. Ross was appointed Kingsgate's Chief Financial Officer in November 2014.

## Alistair Waddell
BSc (Hons), MAusIMM

### Vice-President Corporate Development & Exploration

Alistair Waddell joined Kingsgate in April 2016 as Vice-President Corporate Development & Exploration. He is a Geologist with over 20 years of diverse resource industry experience, including senior roles with both junior and senior mining companies providing a broad vision of many aspects of the business. He was a founder and former President & CEO of TSX-V listed GoldQuest Mining Corp. principally focused on exploration in the Dominican Republic. Most recently, he was Vice President - Greenfields Exploration for Kinross Gold Corp. responsible for all global Greenfields exploration.

Alistair brings with him excellent experience and a broad knowledge of Latin America and is a key driver of the Nueva Esperanza Project.

# Directors' Report

for the year ended 30 June 2016



## Corporate Governance Statement

Kingsgate Consolidated Limited is committed to ensuring that its policies and practices reflect the highest standard of corporate governance.

The Board has adopted a comprehensive framework of Corporate Governance Guidelines which can viewed at www.kingsgate.com.au/corporate-governance

# 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 year ended 30 June 2016.

## Directors

The following persons were directors of Kingsgate Consolidated Limited during the whole of the financial year and up to the date of this report.

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

* granted leave of absence from February 2016 due to ill health

## Principal activities

The principal activities of Kingsgate Consolidated Limited are mining and mineral exploration in Australia, South East Asia and South America.

## Dividends

- No final dividend was declared for the year ended 30 June 2015 (30 June 2014: nil).
- No interim dividend was declared for the year ended 30 June 2016 (30 June 2015: nil).

## Review of operations and results

### Operational performance

Kingsgate is a gold and silver mining, development and exploration company based in Sydney, Australia. Kingsgate owns and operates the Chatree Gold Mine in Thailand. In addition, the Company has 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 year was 146,502 ounces with Chatree contributing 97,510 ounces and Challenger 48,992 ounces.

Kingsgate suffered a major setback during the year when the Thai Government announced on 10 May 2016, that the Chatree Gold Mine must cease operations by 31 December 2016. In effect, the Thai Government's actions or lack of action over the past 12 months, and their inability to articulate a valid reason for the decision has now irrevocably damaged Kingsgate and its Thai subsidiary Akara Resources Public Company Limited's ("Akara"), business and reputations.

Since the initial closure announcement in May, the Thai Government has also rescinded the original Cabinet resolution to close the mine and via a new Cabinet resolution empowered the Thai Industry Minister and other key government officials to oversee the closure of the mine by the end of the year.

The Thai Government has expressed that the closure is in no way a reflection of the way the mine is operated which validates Kingsgate's view that the mine is and always has been a socially responsible, internationally accredited mining operation employing modern techniques. Chatree continues to comply with stringent health and environmental laws, and is one of the most heavily regulated mining operations in the world.

A great deal of uncertainty still remains in how Akara might continue to operate the mine until the end of the year, as the Thai Department of Primary Industries and Mines has issued various instructions in the wake of the 10 May decision only to revoke some less than a month later.

The Thai Industry Minister Atchaka Sibunruang, on 18 August 2016, once again told the media that governmental committees set up in October 2015 to investigate alleged health and environmental issues around the mine have found that there have been no problems caused by the mine. However, the Committee will not conclude its findings until the end of the year.

The Industry Ministry went on to say that the Cabinet's 10 May 2016 resolution to shut down Akara was cancelled because the resolution did not comply with Thai law, and was further explained by saying the 10 May resolution could put the Cabinet at risk of legal action by Akara as cancelling a concession that has already been approved and still remains valid does in fact break the law.

Akara has however, in light of this ongoing uncertainty, implemented a revised mine plan up until 31 December 2016 that is expected to generate sufficient cash flow to cover all of Akara's liabilities and obligations.

While Kingsgate is extremely disappointed with the situation it now finds itself in, the Company continues to vigorously pursue a range of potential remedies for the situation, which include both legal and diplomatic options.

Both the Kingsgate Board and Management are seeking compensation on behalf of shareholders for the material impact of the Thai Government's decision, and as noted previously, it is appropriate that Kingsgate's shares remain voluntarily suspended while these options are being pursued.

Kingsgate also appreciates that while the voluntary suspension may be frustrating for some shareholders, it is necessary to protect against volatility created by this uncertainty.

In other Thai specific matters, Kingsgate also sought clarification from the Thai Securities and Exchange Commission ("SEC"), with respect to the SEC's announcement on 2 October 2015, in relation to the status of the Initial Public

Offering ("IPO") of Akara. The SEC suggested that they had rejected the IPO application. As far as Kingsgate was aware, the IPO application was still under consideration by the SEC. The Board of Kingsgate was in any event, as a result of market conditions at the time, considering making an application to the SEC for deferral of the IPO. Akara submitted an application to the SEC to defer the IPO in October 2015.

Given the events of 10 May 2016, and the Thai Government's decision to close the Chatree Gold Mine prematurely, there will be no further consideration given to the IPO.

The National Anti-Corruption Commission ("NACC") of Thailand contacted Akara Resources in November 2015 to inquire into facts and gather evidence in respect of allegations made against a number of parties, including Kingsgate and Akara Resources.

Kingsgate and Akara Resources are unaware of the details of the allegations, nor are they aware of any matters that would justify such an inquiry. Kingsgate has not been formally contacted to date. The NACC Committee established to oversee the matter has been reconstituted and a new Chairperson has been appointed, but there has been no further activity to date.

Kingsgate's other operating asset, the Challenger Gold Mine, made a solid contribution to group production for the year before its sale to WPG/Diversified Minerals Pty Ltd in March 2016.

Challenger contributed 48,992 ounces at a total cash cost of US$763 per ounce, with underground mining ceasing in December 2015, and the remaining ore being sourced from the SEZ open pit.

Kingsgate's after tax loss of $229.5 million for the year is primarily due to a non-cash impairment charge of $227.6 million against the carrying value of the Chatree Gold Mine.

As at 30 June 2016, the Group's current liabilities exceeded its current assets by $36,855,000. This was largely a result of the reclassification of the external borrowings of Akara as current liabilities due to the Thai Government's decision that the Chatree Gold Mine must cease operation by 31 December 2016. As a result of this matter the independent auditor's report refers to a material uncertainty regarding continuation of the Group as a going concern. A plan has been implemented to enable the Group to continue as a going concern. For further information refer to the going concern disclosure in Note 1 of the financial statements together with the auditor's report.

## Chatree

Notwithstanding the current situation in Thailand with the Chatree Gold Mine, it remained Kingsgate's primary production asset for the year, producing 97,510 ounces of gold and 675,579 ounces of silver. The process plant treated 5.5 million tonnes at a head grade of 0.70 grams per tonne gold with a recovery of 79.8%.

The main operational and processing issues over the course of the year at Chatree resulted from a combination of harder than scheduled ore from the stockpiles, and extended periods of reduced truck and excavator availability.

Total cash costs for the year were US$895 per ounce (US$797 per ounce exclusive of Thai royalties). The average royalty paid to the Thai Government was US$98 per ounce of gold. Total production costs after depreciation and amortisation were US$1,225 per ounce of gold produced.

At year end, 6.74 million tonnes of ore was stockpiled with an average contained gold grade of 0.44g/t representing 95,340 ounces of gold.

## Nueva Esperanza Gold/Silver Project

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

The Optimisation Study blending historical elements of the project was completed to a Pre-Feasibility level in conjunction with Ausenco during the year and released in April 2016. The Pre-Feasibility Study has confirmed:

- First 5 years production average of 135 Koz/pa at US$633/oz cash costs (AuEq60[1]);
- Initial 11.6 year life; supported by an Ore Reserve of 1.1 million ounces AuEq60, at a grade of 2.0 grams per tonne AuEq60 of oxidised mineralisation contained in three open pits; and
- Life of mine cash costs of US$706/oz and All-in-costs US$913/oz (AuEq60).

Notably, the Pre-Feasibility Study was published using gold and silver prices lower than the current spot price, and the project continues to generate industry and market interest.

There was also a strong emphasis on developing a systematic regional approach to exploration at Nueva Esperanza during the year, with the aim of building detailed layers of geological information to generate new drill targets.

To that end, a regional drilling program to ascertain basement geochemistry was completed in March 2016, which saw a total of 3,332 metres drilled across 485 holes that generated 527 samples. Further RC drilling was undertaken in May, and US$3 million has been committed to further drilling of target areas commencing in the Chilean spring field season.

Notes:

1 Gold Equivalent:
AuEq (g/t) = Au (g/t) + Ag (g/t) ÷ 60.
Calculated from long term historical prices of US$1,200/oz for gold and US$19.00 for silver and combined life of mine average metallurgical recoveries of 80% Au and 84% Ag estimated from test work by Kingsgate. It is Kingsgate's opinion that all elements included in the metal equivalents calculation have a reasonable potential to be recovered and sold. Although gold is not the dominant metal, gold equivalent values are reported to allow comparison with Kingsgate's other projects. Nueva Esperanza silver equivalent:
AgEq (g/t) = Ag (g/t) + Au (g/t) x 60.

continued

### Challenger

On 30 October 2015, Kingsgate announced an Option Agreement was reached with a 50/50 Joint Venture between Diversified Minerals Pty Ltd and WPG Resources Limited ("Purchasers"), whereby the Purchasers would acquire 100% of the Challenger Gold Mine and certain exploration licences for a consideration of $1 million and a $25 per ounce revenue royalty on future production in excess of 30,000 ounces from the Challenger SSW Zone. The Option Agreement was exercised on 11 December 2015. A Share Purchase Agreement was executed on 19 February 2016, and the sale was completed on 15 March 2016.

### Bowdens Silver Project

On 25 February 2016, Kingsgate announced a Share Purchase Agreement was entered into to sell an 85% interest in the Bowdens Silver Project for a cash consideration of $20 million to Silver Investment Holdings Australia Limited ("SIHA"). This arrangement was subsequently varied with SIHA agreeing to purchase 100% of the project for a total consideration of $25 million. On 29 June 2016, the Company completed the sale of the project. At that date $5 million of the consideration was outstanding and is due to be paid by 30 September. If this is not paid by the due date the Company will retain 15% of the project and revert to an unincorporated Joint Venture.

## Financial results

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Net (loss)/profit after tax ($'000) | **(229,451)** | (147,643) | (97,613) | (327,067) | 75,006 |
| EBITDA ($'000) | **39,864** | 69,458 | 64,207 | 96,424 | 166,732 |
| Dividends paid (Cash & DRP) ($'000) | **–** | – | – | 22,739 | 22,026 |
| Share price 30 June ($) | ***0.41** | 0.70 | 0.86 | 1.27 | 4.85 |
| Basic (loss) earnings per share (Cents) | **(102.6)** | (66.0) | (56.7) | (215.0) | 52.5 |
| Diluted (loss) earnings per share (Cents) | **(102.6)** | (66.0) | (56.7) | (215.0) | 52.5 |

** Shares have been suspended since 13 May 2016.*

### EBITDA before significant items

The pre-tax loss for the Group before significant items was $18.4 million down from a profit of $1.2 million in the previous year.

EBITDA before significant items was $39.9 million (2015: $69.5 million).

Significant items are detailed below.

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Loss after income tax | **(229,451)** | (147,643) |
| Income tax expense | **40** | 651 |
| Loss before income tax | **(229,411)** | (146,992) |
| **Significant items** | | |
| Impairment of Chatree Gold Mine | **227,564** | 115,650 |
| Impairment reversal of Challenger Gold Mine | **(411)** | – |
| Impairment (reversal)/impairment of Bowdens Silver Project | **(16,645)** | 22,643 |
| Impairment of capitalised exploration | **461** | 9,888 |
| **Loss/profit before tax and significant items** | **(18,442)** | 1,189 |
| Net finance costs | **12,129** | 14,319 |
| Depreciation and amortisation | **46,177** | 53,950 |
| **EBITDA before significant items** | **39,864** | 69,458 |

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

### Revenue

Total sales revenue for the Group was $253.3 million for the year, down from $313.2 million in the previous year. Gold revenue decreased by 19% to $238.9 million and silver revenue decreased by 14% to $14.5 million.

The decrease in gold and silver revenue reflects mining fleet availability issues, delayed access to higher grade ore and lower gold and silver prices.

The average US dollar gold price received was US$1,135 per ounce (2015: US$1,208 per ounce). The average silver price received was US$15 per ounce (2015: US$17 per ounce).

### Costs

The overall decrease in cost of sales to $242.2 million (including royalties, depreciation and amortisation) reflects decreased mining production from the Chatree Mine, due primarily to mining fleet availability issues, and decreased depreciation due to lower gold production.

| Total cash costs per ounce | 2016 US$/oz | 2015 US$/oz | Movement in unit cost US$/oz |
|---|---|---|---|
| Group | 851 | 833 | 18 |
| Chatree | 895 | 690 | 205 |
| Challenger | 763 | 1,059 | (296) |

### Depreciation and amortisation

The decrease in depreciation and amortisation to $46.2 million is mainly a result of lower production at Chatree and the impact of the 2015 asset impairment against the project which resulted in a reduction in the carrying value of depreciable assets.

### Cash flow

Net operating cash inflow was $46.5 million (2015: $76.6 million). The decrease of $30.1 million reflects a decrease in gold and silver sales offset by a decrease in mining costs and lower interest payments, due to the reduction in borrowings over the year. Net investing cash outflow was $17.1 million (2015: $40.3 million), down $23.2 million, representing continued project feasibility exploration work at the Nueva Esperanza Gold/Silver Project and completion of Tailings Storage Facility #2 – Stage 5 at Chatree offset by proceeds of $20 million from the sale of the Bowdens Silver Project. Net cash outflow from financing activities was $48.6 million (2015: $37.7 million), including repayment of $47.5 million of the multi-currency loan facility and revolving credit facility.

## Material business risks

The Group uses a range of assumptions and forecasts in determining estimates of production and financial performance. There is uncertainty associated with these assumptions that could result in actual performance differing from expected outcomes.

The material business risks that may have an impact on the operating and financial prospects of the Group are:

### Revenue

Revenue, and hence operating margins, are exposed to fluctuations in the gold price and to a degree in the silver price including foreign currency rate movement affecting US dollar denominated metal prices. Management continually monitors operating margins and responds to changes to commodity prices as necessary to address this risk, including reviewing mine plans and entering into forward gold sale contracts.

Changes in the gold and silver price also impact assessments of the feasibility of exploration and the Group's development project, Nueva Esperanza.

### Mineral resources and ore reserves

Ore reserves and mineral resources are estimates. These estimates are substantially based on interpretations of geological data obtained from drill holes and other sampling techniques. Actual mineralisation or geological conditions may be different from those predicted and as a consequence there is a risk that any part, or all of the mineral resources, will not be converted into reserves.

Market price fluctuations of gold and silver as well as increased production and capital costs, may render ore reserves unprofitable to develop at a particular site for periods of time.

### Replacement of depleted reserves

The Group aims to continually replace reserves depleted by production to maintain production levels over the long term. Reserves can be replaced by expanding known ore bodies, locating new deposits or making acquisitions.

As a result, there is a risk that depletion of reserves will not be offset by discoveries or acquisitions. The mineral base may decline if reserves are mined without adequate replacement and, as a consequence, the Group may not be able to sustain production beyond the current mine lives based on current production rates.

continued

### Mining risks and insurance risks

The mining industry is subject to significant risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected geological conditions, unavailability of materials and unplanned equipment failures. These risks and hazards could result in significant costs or delays that could have a material adverse impact on the Group's financial performance and position.

The Group maintains insurance to cover some of these risks and hazards at levels that are believed to be appropriate for the circumstances surrounding each identified risk. However, there remains the possibility that the level of insurance may not provide sufficient coverage for losses related to specific loss events.

### Reliance on contractors

Some aspects of Kingsgate's production, development and exploration activities are conducted by contractors. As a result, the Group's business, operating and financial performance and results are impacted upon by the availability and performance of contractors and the associated risks.

### Production and cost estimates

The Group prepares estimates of future production, cash costs and capital costs of production for each operation, though there is a risk that such estimates will not be achieved. Failure to achieve production or cost estimates could have an adverse impact of future cash flows, profitability, results of operations and financial position.

### Refinancing risk

In addition to cash flows from operating activities, Kingsgate has debt facilities in place with external financiers. Although the Group currently generates sufficient funds to service its debt requirements, no assurance can be given that Kingsgate will be able to meet its financial covenants when required or be able to refinance the debt prior to its expiry on acceptable terms to the Company. If Kingsgate is unable to meet its financial covenants when required or refinance its external debt on acceptable terms to the Company, its financial condition and ability to continue operating may be adversely affected.

### Maintaining title

The Group's production, development and exploration activities are subject to obtaining and maintaining the necessary titles, authorisations, permits and licences, and associated land access arrangements with the local community, which authorise those activities under the relevant law ("Authorisations"). There can be no guarantee that the Group will be able to successfully obtain and maintain relevant Authorisations to support its activities, or that renewal of existing Authorisations will be granted in a timely manner or on terms acceptable to the Group.

Authorisations held by or granted to the Group may also be subject to challenge by third parties which, if successful, could impact on Kingsgate's exploration, development and/or mining activities.

### Political, economic, social and security risks

Kingsgate's production, development and exploration activities are subject to the political, economic, social and other risks and uncertainties in the jurisdictions in which those activities are undertaken. Such risks are unpredictable and have become more prevalent in recent years. In particular, in recent years there has been an increasing social and political focus on:

- the revenue derived by governments and other stakeholders from mining activities; and
- resource nationalism, greater limits on foreign ownership of mining or exploration interests and/or forced divestiture (with or without adequate compensation), and broad reform agenda in relation to mining legislation, environmental stewardship and local business opportunities and employment.

As evidenced by the decision by the Thai Government that the Chatree Gold Mine must cease operation by 31 December 2016 there can be no certainty as to what changes, if any, will be made to relevant laws in the jurisdictions where the Company has current interests, or other jurisdictions where the Company may have interest in the future, or the impact that relevant changes may have on Kingsgate's ability to own and operate its mining and related interests and to otherwise conduct its business in those jurisdictions.

### Environmental, health and safety regulations

The Group's mining and processing operations and exploration activities are subject to extensive laws and regulations. Delays in obtaining, or failure to obtain government permits and approvals may adversely affect operations, including the ability to continue operations.

### Community relations

The Group has established community relations functions that have developed a community engagement framework, including a set of principles, policies and procedures designed to provide a structured and consistent approach to community activities.

A failure to appropriately manage local community stakeholder expectations may lead to disruptions in production and exploration activities.

### Risk management

The Group manage the risks listed above, and other day-to-day risks through an established management framework. The Group has policies in place to manage risk in the areas of health and safety, environment and equal employment opportunity.

Management and the Board regularly review the risk portfolio of the business and the effectiveness of the Group's management of those risks.

## Finance

At the end of the year Kingsgate's drawn debt facilities consisted of:

### Revolving Credit Facility

Kingsgate has a Revolving Credit Facility ("RCF") with $10 million drawn against this facility at 30 June 2016. A debt repayment of $5 million was paid at the end of July 2016. The balance of the RCF of $5 million is due for repayment at the end of January 2017.

Kingsgate, in addition, has available over the tenure of the RCF an Equity-linked Loan Facility ("ELF") of $15 million. The ELF is currently undrawn.

### Multi-currency loan facility

Kingsgate's Thai operating subsidiary, Akara Resources PCL ("Akara"), has an amortising multi-currency loan facility which under the loan facility agreement has less than three years remaining following the commencement of quarterly repayments in November 2013. Subsequent to the Thai Government decision on 10 May 2016 that the Chatree Gold Mine would only be able to continue to operate until 31 December 2016, a revised mine plan was implemented which from the planned production profile indicates the potential to generate sufficient cash flow to repay this debt in full by 31 December 2016. The outstanding debt balance is classified as a current liability at year end as it is expected to be repaid by 31 December 2016, and covenants under the loan agreement were not met. No default notice has been received from the financiers. At year end the equivalent of $75.3 million was owed against this facility and a further equivalent $7.3 million has been repaid since year end. As security against the facility the lender has a fixed and floating charge over the land, buildings, plant and equipment in Thailand owned by Akara and its material subsidiaries. In addition, Akara is required to maintain a debt service reserve account of US$5 million.

### Significant change in the state of affairs

There were no significant changes in the state of affairs of the Group that occurred during the financial year not otherwise disclosed in this report or the consolidated financial statements.

## Matters subsequent to the end of the financial year

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

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

## Likely developments and expected results of operations

If the Thai Government's decision to close the Chatree Gold Mine is enforced, the fiscal year 2017 will see operations cease on 31 December 2016 with the plant then placed on care and maintenance. Gold production up until 31 December 2016 is expected to cover all remaining liabilities and obligations that sit against the Chatree Gold Mine.

Work will continue on the Nueva Esperanza Development Project in Chile, with further targeted exploration drilling undertaken in conjunction with advancement of feasibility works.

Kingsgate remains focused on ongoing cost saving initiatives. Further cost reductions will be implemented in FY17.

## Environmental regulation

The Group is subject to environmental regulations in respect to its gold mining operations and exploration activities in Australia, Thailand, Chile and Lao PDR. For the year ended 30 June 2016, the Group has operated within all environmental laws.

## Directors' meetings

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2016, and the number of meetings attended by each Director were:

| Directors | Board Meetings | | Meetings of Committees | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Audit | | Nomination | | Remuneration | |
| | A | B | A | B | A | B | A | B |
| Ross Smyth-Kirk | 12 | 12 | 3 | 3 | 1 | 1 | 1 | 1 |
| Peter Alexander | 11 | 12 | – | – | – | – | 1 | 1 |
| Peter McAleer[1] | 5 | 12 | 1 | 3 | – | 1 | – | 1 |
| Sharon Skeggs | 12 | 12 | 3 | 3 | 1 | 1 | 1 | 1 |
| Peter Warren | 12 | 12 | 3 | 3 | 1 | 1 | 1 | 1 |

*A Number of meetings attended*
*B Number of meetings held during the time the Director held office or was a member of the committee during the year*
*1 Granted leave of absence from February 2016 due to ill health*

continued

# Information on Directors and Company Secretary

## Ross Smyth-Kirk
B Com, CPA, F Fin

### Chairman

Ross Smyth-Kirk was a founding Director of the former leading investment management company, Clayton Robard Management Limited and has had extensive experience over a number of years in investment management including a close involvement with the minerals and mining sectors. He has been a Director of a number of companies over the past 36 years in Australia and the United Kingdom. Mr Smyth-Kirk was previously Chairman of the Australian Jockey Club Limited and retired in May 2013 as a Director of Argent Minerals Limited. Mr Smyth-Kirk is Chairman of Kingsgate's wholly owned subsidiary, Akara Resources Public Company Limited.

### Responsibilities

Chairman of the Board, member of the Audit Committee, Chairman of the Nomination and Remuneration Committees.

## Peter Alexander
Ass. Appl. Geol

### Non-Executive Director

Peter Alexander has had 43 years' experience in the Australian and offshore mining and exploration industry. He was Managing Director of Dominion Mining Limited for 10 years prior to his retirement in January 2008. Mr Alexander was appointed a Non-Executive Director of Dominion Mining Limited in February 2008 and resigned on 21 February 2011. Mr Alexander is a Non-Executive Director of the ASX listed companies Doray Minerals Limited and Caravel Minerals Limited. He was previously Chairman of Doray Minerals Limited and a Director of Fortunis Resources Limited.

### Responsibilities

Member of the Remuneration Committee.

## Peter McAleer
B Com (Hons), Barrister-at-Law (Kings Inns – Dublin Ireland)

### Non-Executive Director

Peter McAleer was until the end of May 2013, the Senior Independent Director and Chairman of the Audit Committee of Kenmare Resources PLC (Ireland). Previously, he was Chairman of Latin Gold Limited, Director and Chief Executive Officer of Equatorial Mining Limited and was a Director of Minera El Tesoro (Chile).

### Responsibilities

Member of the Audit, Remuneration and Nomination Committees.

## Sharon Skeggs

### Non-Executive Director

Sharon Skeggs has had a distinguished career in business management, in London and Australia, for over 36 years. She is an expert in business strategy and communications. She is currently a Director of ANZ Stadiums and was previously a Director of Saatchi & Saatchi (Australia) for 15 years and the Australian Jockey Club.

For the past six years Ms Skeggs has consulted to a number of major companies including Telstra, Westpac, News Limited, Visa (Australia & Asia) and Woolworths on a variety of corporate matters including business and marketing strategies, change management, communication programs and cost reduction initiatives.

### Responsibilities

Member of the Audit, Remuneration and Nomination Committees.

## Peter Warren
B Com, CPA

### Non-Executive Director

Peter Warren was Chief Financial Officer and Company Secretary of Kingsgate Consolidated Limited for six years up until his retirement in 2011. He is a CPA of over 40 years standing, with an extensive involvement in the resources industry. He was Company Secretary and Chief Financial Officer for Equatorial Mining Limited and of the Australian subsidiaries of the Swiss based Alusuisse Group and has held various financial and accounting positions for Peabody Resources and Hamersley Iron. Mr Warren is a Director of Kingsgate's wholly owned subsidiary, Akara Resources Public Company Limited.

### Responsibilities

Chairman of the Audit Committee and member of the Nomination and Remuneration Committees.

## Ross Coyle
BA, FCPA, FGIA

### Company Secretary

Ross Coyle was reappointed Company Secretary on 7 December 2015, having previously served in this office from September 2011 to November 2014. He is Kingsgate's Chief Financial Officer and was previously General Manager Finance and Administration.

# Remuneration Report

Dear Shareholder

I am pleased to present our Remuneration Report for 2016.

During the 2016 financial year, the Company's remuneration practices have reflected the market conditions in which we operate.

We are confident our remuneration practices are sound, market competitive and demonstrate a clear link between executive's performance and shareholder returns. Benchmarking of salaries for all roles is routinely undertaken to ensure that we remain a competitive employer in the market while continuing to meet all legislative and regulatory requirements.

Our discipline in this area has been combined with significant change to management initiatives to ensure that cost reductions within our business have been in line with market conditions. As a result certain senior executives have taken a 10% reduction in remuneration effective from 1 October 2015.

The Group's framework for awarding long term incentives ("LTI") was subject to a comprehensive review by the Board during the 2016 financial year with the decision made to reintroduce the previously implemented Employee Share Option Plan ("ESOP"). Other than the issue of options to the new General Manager of Corporate Development who was appointed in April 2016 no other LTI awards were granted during the year. In addition no Short Term Incentives were awarded during the year.

We will continue to consider your feedback as shareholders and review our remuneration and incentive policies and framework to meet future market changes.

Thank you for your interest in this report.

**Ross Smyth-Kirk**
Chairman
Remuneration Committee

continued

## Introduction

This Remuneration Report forms part of the Directors' Report. It outlines the Remuneration Policy and framework applied by the Company as well as details of the remuneration paid to Key Management Personnel ("KMP"). KMP are defined as those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including Directors and members of Executive Management.

The information provided in this report has been prepared in accordance with s300A and audited as required by section 308 (3c) of the *Corporations Act 2001*.

The objective of the Company's remuneration philosophy is to ensure that Directors and Executives are remunerated fairly and responsibly at a level that is competitive, reasonable and appropriate, in order to attract and retain suitably skilled and experienced people.

## Remuneration Policy

The Remuneration Policy other than the termination of the Executive Rights Plan and the reintroduction of the Kingsgate Employee Share Option Plan remains unchanged from last financial year. The Remuneration Policy has been designed to align the interests of shareholders, Directors, and employees. This is achieved by setting a framework to:

- help ensure an applicable balance of fixed and at-risk remuneration, with the at-risk component linking incentive and performance measures to both Group and individual performance;
- provide an appropriate reward for Directors and Executive Management to manage and lead the business successfully and to drive strong, long-term growth in line with the Company's strategy and business objectives;
- encourage executives to strive for superior performance;
- facilitate transparency and fairness in executive remuneration policy and practices;
- be competitive and cost effective in the current employment market; and
- contribute to appropriate attraction and retention strategies for Directors and executives.

In consultation with external remuneration consultants, the Group has structured an executive remuneration framework that is market competitive and aligned with to the business strategy of the organisation.

The framework is intended to provide a mix of fixed and variable remuneration, with a blend of short and long-term incentives as appropriate. As executives gain seniority within the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards (refer to chart – Reward Mix on page 33).

## Remuneration Governance

### Role of the Remuneration Committee

The Remuneration Committee is a committee of the Board and has responsibility for setting policy for determining the nature and amount of emoluments of Board members and Executives. The Committee makes recommendations to the Board concerning:

- Non-Executive Director fees;
- remuneration level of Executive Directors and other KMP;
- the executive remuneration framework and operation of the incentive plan;
- key performance indicators and performance hurdles for the executive team; and
- the engagement of specialist external consultants to design or validate methodology used by the Company to remunerate Directors and employees.

In forming its recommendations the Committee takes into consideration the Group's stage of development, remuneration in the industry and performance. The Corporate Governance Statement provides further information on the role of this committee.

### Remuneration consultants

The Group engages the services of independent and specialist remuneration consultants from time to time. Under the *Corporations Act 2001*, remuneration consultants must be engaged by the Non-Executive Directors and reporting of any remuneration recommendations must be made directly to the Remuneration Committee.

The Remuneration Committee engaged the services of Godfrey Remuneration Group Pty Ltd in the 2013/2014 financial year to review its remuneration practice revisions and to provide further validation in respect of both the executive short-term and long-term incentive plan design methodology and standards. These recommendations covered the remuneration of the Group's Non-Executive Directors and KMP.

The Godfrey Remuneration Group Pty Ltd confirmed that the recommendations from that review were made free from undue influence by members of the Group's KMP.

The following arrangements were implemented by the Remuneration Committee to ensure that the remuneration recommendations were free from undue influence:

- the Godfrey Remuneration Pty Ltd was engaged by, and reported directly to, the Chair of the Remuneration Committee. The agreement for the provision of remuneration consulting services was executed by the Chair of the Remuneration Committee under delegated authority on behalf of the Board; and
- any remuneration recommendations by the Godfrey Remuneration Group Pty Ltd were made directly to the Chair of the Remuneration Committee.

As a consequence, the Board is satisfied that the recommendations contained in the report were made free from undue influence from any members of the Group's KMP.

## Executive Director and Key Management Personnel Remuneration

The executive pay and reward framework is comprised of three components:

- fixed remuneration including superannuation;
- short-term performance incentives; and
- long-term incentives through participation in the Executive Rights Plan and Options.

## Reward mix

The chart opposite represents the remuneration reward mix for the various KMP based on achievement of all stretch targets.

## Fixed remuneration

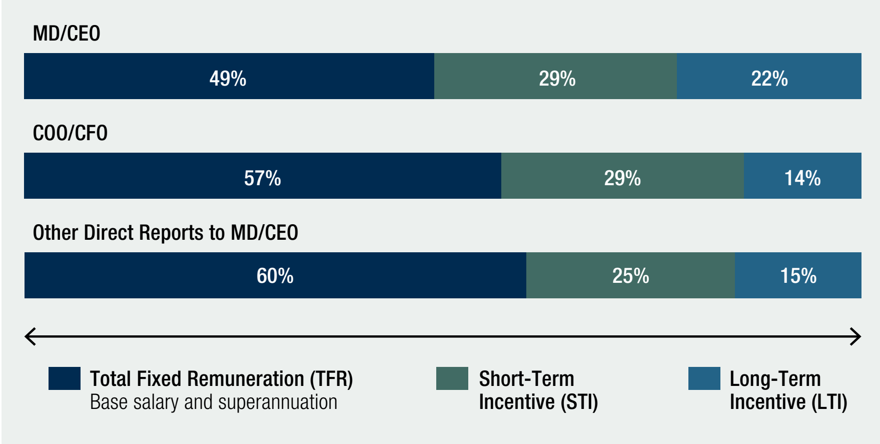
Total fixed remuneration ("TFR") is structured as a total employment cost package, including base pay and superannuation. Base pay may be delivered as a mix of cash, statutory and salary sacrificed superannuation, and prescribed non-financial benefits at the Executive's discretion.

Executives are offered a competitive base pay. Base pay for executives is reviewed annually to ensure their pay is competitive with the market. An executive's pay is also reviewed on promotion.

The Board annually reviews and determines the fixed remuneration for the CEO. The CEO does the same for his direct reports. The Executive Management group reviews and recommends fixed remuneration for other senior management, for the CEO's approval. There are no guaranteed increases to fixed remuneration incorporated into any senior executives' agreements. The base pay of a number of Executives was reduced by 10%, effective from October, 2015.

The following summarises the performance of the Group over the last five years.

Remuneration **Reward Mix** (based on the achievement of all stretch targets)




** The above reward mix remains unchanged from financial year 2013/2014 and LTI relate to deferred and performance rights.*

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Revenue ('000s) | **253,328** | 313,162 | 328,326 | 329,282 | 357,372 |
| Net profit/(loss) after income tax ('000s) | **(229,451)** | (147,643) | (97,613) | (327,067) | 75,006 |
| EBITDA ('000s) | **39,864** | 69,458 | 64,207 | 96,424 | 166,732 |
| Share price at year end ($/share) | **0.41** | 0.70 | 0.86 | 1.27 | 4.85 |
| Dividends paid (cent/share) | **Nil** | Nil | Nil | 5.0 | 20.0 |
| KMP short term employee benefits ('000s) | ***2,358** | 3,425 | 4,471 | 4,671 | 4,456 |

** see page 41 for table outlining the short term employee benefits*

## Short-Term Incentives

Linking current financial year earnings of executives to their performance and the performance of the Group is the key objective of our Short-Term Incentive ("STI") Plan. The Remuneration Committee set key performance measures and indicators for the individual executives on an annual basis that reinforce the Group's business plan and targets for the year. No short-term incentives were awarded during the financial year.

The Board has discretion to issue cash bonuses to employees for individual performance outside the STI Plan.

The structure of the STI Plan remains unchanged from financial year 2014/2015 and its key features are outlined in the table below:

### Overview of the STI Plan

| | |
|---|---|
| **What is the STI plan and who participates?** | The STI Plan is a potential annual reward for eligible Executive Key Management Personnel for achievement of predetermined individual Key Performance Indicators (KPIs) aligned to the achievement of business objectives for the assessment period (financial year commencing 1 July). |
| **How much can the executives earn under the STI Plan?** | **Threshold** – Represents the minimum acceptable level of performance that needs to be achieved before any Individual Award would be payable in relation to that Performance Measure.<br>Managing Director/CEO – up to 15% of TFR. COO & CFO – up to 12.5% of TFR. Other KMP – up to 10% of TFR.<br>**Target** – Represents a challenging but achievable level of performance relative to past and otherwise expected achievements. It will normally be the budget level for financial and other quantitative performance objectives.<br>Managing Director/CEO – up to 30% of TFR. COO & CFO – up to 25% of TFR. Other KMP – up to 20% of TFR.<br>**Stretch (Maximum)** – Represents a clearly outstanding level of performance which is evident to all as a very high level of achievement.<br>Managing Director/CEO – up to 60% of TFR. COO & CFO – up to 50% of TFR. Other KMP – up to 40% of TFR.<br>*(TFR – Total Fixed Remuneration)* |
| **Is there Board discretion in the payment of an STI benefit?** | Yes, the plan provides for Board discretion in the approval of STI outcomes. |
| **What are the performance conditions?** | For KMP between 70% – 80% of potential STI weighting (dependent upon role) is assessed against specific predetermined KPIs by role with 20% – 30% being based on company performance indicators. |
| **How are performance targets set and assessed?** | Individual performance targets are set by the identification of key achievements required by role in order to meet business objectives determined for the upcoming assessment period in advance. The criteria for KMP are recommended by the Managing Director/CEO for sign off by the Remuneration Committee and in the case of the Managing Director/CEO, are recommended by the Chairman by sign off by the Remuneration Committee.<br>The relative achievement at the end of the financial period is determined by the above authorities with final sign off by the Remuneration Committee after confirmation of financial results and individual/company performance against established criteria.<br>The Remuneration Committee is responsible for assessing whether the KPIs are met. To assist in this assessment, the Committee receives detailed reports on performance from management which are verified by independent remuneration consultants if required. The Committee has the discretion to adjust STIs in light of unexpected or unintended circumstances. |
| **How is the STI delivered?** | STIs are paid in cash after the conclusion of the assessment period and confirmation of financial results/individual performance and subject to tax in accordance with prevailing Australian tax laws. The STIs are then in effect paid and expensed in the financial year subsequent to the measurement year. |
| **What happens in the event of cessation of employment?** | Executives are required to be employed for the full 12 months of the assessment period before they are eligible to be considered to receive benefits from the STI plan. |

## Long-Term Incentives

The objectives of the LTI Plan are to retain key executives and to align an at-risk component of certain executives' remuneration with shareholder returns. The previously operating Kingsgate Long-Term Incentive ("LTI") plan, also referred to as the Executive Rights Plan, has been terminated and replaced by the Kingsgate Employee Share Option Plan ("ESOP"). The rules and terms and conditions of the ESOP have been independently reviewed.

Under the terms of the ESOP long-term incentives can be provided to certain employees through the issue of options to acquire Kingsgate shares. Options are issued to employees to provide incentives for employees to deliver long-term shareholder returns.

At the date of this report other than 1,500,000 options granted to Alistair Waddell General Manager of Corporate Development no other executive was the recipient of options during the year.

Key features of the ESOP LTI Plan are outlined in the following table:

### Overview of the ESOP LTI Plan

| | |
|---|---|
| **What is the LTI Plan and who participates?** | Kingsgate executives and other eligible employees can be granted options to acquire Kingsgate Consolidated Limited fully paid shares. In granting the options the Board takes into account such matters as the position of the eligible person, the role they play in the Company, their current level of fixed remuneration, the nature of the terms of employment and the contribution they make to the Group. |
| **What are the performance and vesting conditions?** | The period over which the options vest is at the discretion of the Board though in general it is 1-3 years. The executive and eligible employee must still be employed by the Company at vesting date. |
| **Is there a cost to participate?** | The options may at the discretion of the Board be issued for nil consideration and are granted in accordance with performance guidelines established by the Remuneration Committee and approved by the Board. |
| **What happens in the event of bonus shares, rights issues or other capital reconstructions?** | If between the grant date and the date of conversion of options into shares there are bonus shares, rights issues or other capital reconstructions that affect the value of Kingsgate Consolidated shares, the Board may, subject to the ASX Listing Rules make adjustments to the number of rights and/or the vesting entitlements to ensure that holders of rights are neither advantaged or disadvantaged by those changes. |

Key features of the previous Executive Rights Plan are outlined in the following table:

All outstanding Performance Rights and Deferred Rights vested on 1 July 2016 with the Performance Rights subsequently lapsed.

### Overview of the LTI Plan

| | |
|---|---|
| **What is the LTI Plan and who participates?** | Kingsgate executives can be granted Kingsgate Consolidated Limited rights each year, although an award of rights does not confer any entitlement to receive any subsequent awards. In awarding rights the Board takes into account such matters as the position of the eligible person, the role they play in the Company, their current level of fixed remuneration, the nature of the terms of employment and the contribution they make to the Group. Currently only members of the Executive Management group and key site based operational senior management are eligible to participate in the LTI plan. |
| **What is awarded under the LTI Plan?** | Two types of rights are offered under the LTI Plan: Deferred Rights and Performance Rights. |
| **How much can the executives earn under the LTI Plan?** | Managing Director/CEO – up to 45% of TFR as Performance Rights only.<br>COO/CFO/Executive Management – up to 12.5% of TFR as Deferred Rights and additionally, up to 12.5% of TFR as Performance Rights. |
| **What are the performance and vesting conditions?** | Deferred Rights – vesting is time based (three years after the granting of the Deferred Right).<br>Performance Rights – refer to Vesting Schedule for Performance Rights later in this report. |
| **Is there a cost to participate?** | The rights are issued for nil consideration and are granted in accordance with performance guidelines established by the Remuneration Committee and approved by the Board. |

continued

| | |
|---|---|
| **What are the specific performance / vesting criteria?** | Deferred Rights are subject to three year vesting periods. There are no performance conditions attached to the Deferred Rights. Performance Rights are subject to a three year performance measurement period from 1 July in the year when the grant occurs. |
| **How does the LTI vest?** | Performance Rights vest subject to the achievement of a hurdle based on total shareholder return. Further information on the vesting scale is below. |
| **Is the LTI subject to retesting?** | There is no retesting of either the Deferred Rights or Performance Rights. |
| **What criteria are used for assessment and who assesses performance?** | Performance is assessed against a TSR Alpha™ measure for financial years 12/13 and 13/14 executive performance rights. For financial year 14/15 and going forward, performance rights are measured against the S&P/ASX All Ordinaries Gold (AUD) index (gold production only and to include dividends paid). The Remuneration Committee signs off performance assessment based on recommendations by the Managing Director/CEO with advice from Godfrey Remuneration Group Pty Ltd in terms of relative performance. |
| **How is the LTI delivered?** | On vesting the first $1,000 value of each of the deferred rights and performance rights awards is paid in cash, e.g. if both deferred and Performance Rights vested at the same time then the participant would receive two x $1,000 with the remaining value of the award received as shares in the Company as per below.<br>Number of shares = (number of vested rights x share price on vesting date – $2,000) ÷ share price on vesting date. |
| **What happens in the event of bonus shares, rights issues or other capital reconstructions?** | If between the grant date and the date of conversion of vested rights into cash and restricted shares there are bonus shares, rights issues or other capital reconstructions that affect the value of Kingsgate Consolidated shares, the Board may, subject to the ASX Listing Rules make adjustments to the number of rights and/or the vesting entitlements to ensure that holders of rights are neither advantaged or disadvantaged by those changes. |
| **Takeover or Scheme of Arrangement?** | Unvested rights vest in the proportion that the share price has increased since the beginning of the vesting period. All vested rights need to be exercised within three months of the takeover. |
| **What happens in the event of cessation of employment?** | Unvested rights are forfeited on dismissal for cause. In all other termination circumstances any unvested rights granted in the year of the cessation of employment are forfeited in the proportion that the remainder of the year bears to a full year. Unvested rights that are not forfeited are retained by the participant and are subsequently tested for vesting at the end of the vesting period. |

### Vesting schedule for Performance Rights issued after financial year 2013/2014

Following a review by the Remuneration Committee of recommendations by the Godfrey Remuneration Group in financial year 2013/2014, the Board approved the assessment of relative Total Shareholder Return "TSR" of Kingsgate against S&P/ASX All Ordinaries Gold (AUD) index of companies, as represented in Diagram 1. The Board chose to replace the TSR Alpha™ measurement with this new measure to:

- provide a genuine measure of performance by executives against companies operating in the same market segment;
- retain the key values of the previous TSR Alpha™ measure which is to only reward executives for over performance;
- retain a focus on performance from an investors perspective albeit within a defined market segment; and
- create a simple and easy system to interpret for management and shareholders alike.

These Performance Rights will be subject to a three year vesting period.

### Vesting schedule for Performance Rights issued for financial year 2012/2013 and financial year 2013/2014

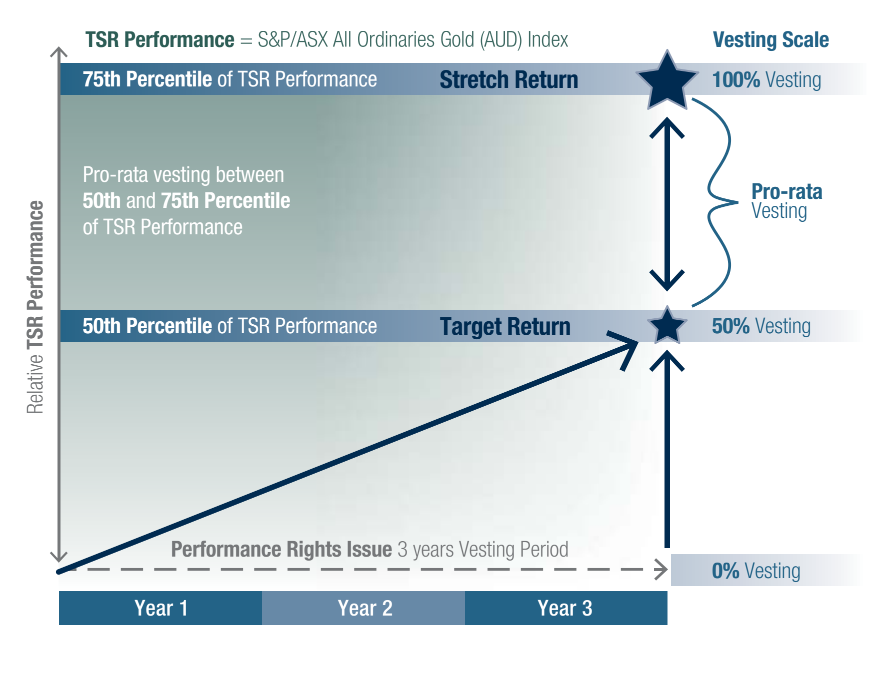
These Performance Rights continue to be subject to a hurdle that is derived for the three year vesting period using the external performance measuring metric, TSR Alpha™.

Total Shareholder Return measures the percentage return received by a shareholder from investing in a company's shares over a period of time. Broadly, it is share price growth plus dividends over the period. TSR Alpha™ takes into account market movement over the vesting period and the additional return (risk premium) that shareholders expect from the share market performance over the vesting period. In essence it measures whether shareholders have received a return over the period that is consistent with their expectations (TSR Alpha™ of zero) or more or less.

### Executive Performance Rights Vesting Scale

The diagram below provides an overview of the Performance Rights Vesting Scale to be applied to performance rights issued after financial year 2013/2014.

**Diagram 1:** Overview of Performance Rights Vesting Scale




## Options

Options are issued to executive to provide long-term incentives for executives to deliver long-term shareholder returns. Details of options issued as remuneration to the Key Management Personnel (Alistair Waddell, General Manager Corporate Development) during the year are set out below.

| Grant date | Exercise period | Exercise price ($) | Number of options granted during the year | Value of option at grant date ($) | Number of options vested during the year |
|---|---|---|---|---|---|
| 29 Apr 2016 | 1 July 2017 – 30 June 2019 | 0.40 | 500,000 | 0.23 | – |
| 29 Apr 2016 | 1 July 2018 – 30 June 2020 | 0.50 | 500,000 | 0.24 | – |
| 29 Apr 2016 | 1 July 2019 – 30 June 2021 | 0.60 | 500,000 | 0.22 | – |

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. Further information on the options is set out in Note 24 to the financial statements.

continued

## Directors and Key Management Personnel

Except where noted, the named persons held their current positions for the whole of the year and up to the date of this report.

### Chairman

| | |
|---|---|
| Ross Smyth-Kirk | Non-Executive Chairman |

### Non-Executive Directors

| | |
|---|---|
| Peter Alexander | Non-Executive Director |
| Peter McAleer | Non-Executive Director* |
| Sharon Skeggs | Non-Executive Director |
| Peter Warren | Non-Executive Director |

### Senior Executives

| | |
|---|---|
| Greg Foulis | Chief Executive Officer |
| Ross Coyle | Chief Financial Officer and Company Secretary – appointed Company Secretary 7 December 2015 |
| Tim Benfield | Chief Operating Officer – ceased employment 9 August 2016 |
| Alistair Waddell | General Manager Corporate Development – commenced 1 April 2016 |
| Ron James | General Manager Exploration – ceased employment 31 May 2016 |
| Paul Mason | Company Secretary – resigned Company Secretary 7 December 2015 |
| Joel Forwood | General Manager Corporate and Markets – ceased employment 30 September 2015 |

* *granted leave of absence from February 2016 due to ill health*

## Changes since the end of the reporting period

Except where noted, there have been no changes to Directors and Key Management Personnel since the end of the reporting period.

## Contract terms of the Executive Directors and Key Management Personnel

Remuneration and other key terms of employment for the Senior Executives are summarised in the following table.

| Name | Term of agreement | Fixed annual remuneration including superannuation | | Notice period by Executive | Notice period by the Company[9] |
|---|---|---|---|---|---|
| | | FY 2016[1] | FY 2015[1] | | |
| Ross Smyth-Kirk | Open | – | [2]$157,680 | N/A | [8]N/A |
| Greg Foulis | Open | $600,000 | $600,000 | 3 months | 12 months |
| Ross Coyle | Open | [4]$405,000 | $450,000 | 3 months | 6 months |
| Tim Benfield | Open | [3]$450,504 | $500,504 | 3 months | 6 months |
| Alistair Waddell | Open | [10]C$370,000 | n/a | 3 months | 6 months |
| Ron James | Open | [5]$400,000 | $400,000 | 3 months | 6 months |
| Paul Mason | Open | [7]$210,000 | $210,000 | 1 month | 1 month |
| Joel Forwood | Open | [6]$330,504 | $330,504 | 3 months | 6 months |

1 *Amount shown are annual salaries as at year end or date ceased employment with the Group.*
2 *Amount shown includes a voluntary 10% reduction in fixed remuneration from 1 October 2013. Role reverted to Non-Executive Chairman effective 1 July 2015.*
3 *A voluntary 10% reduction in fixed remuneration effective from 1 October 2015.*
4 *A voluntary 10% reduction in fixed remuneration effective from 1 October 2015.*
5 *Ceased employment 31 May 2016. A voluntary 10% reduction in fixed remuneration effective from 1 October 2015 to 30 April 2016.*
6 *Ceased employment 30 September 2015.*
7 *Resigned as Company Secretary 7 December 2015.*
8 *Temporary role as Executive Chairman. Role reverted to Non-Executive Chairman effective 1 July 2015.*
9 *Notice Period by the Company in respect of benefits payable in the event of an early termination only.*
10 *Canadian dollars. Commenced 1 April 2016.*

Fixed annual remuneration, inclusive of the required superannuation contribution amount is reviewed annually by the Board following the end of the financial year.

In the event of the completion of a takeover (relevant interest exceeds 50%) certain executives will receive a lump sum gross payment equal to between six to 12 months of the Total Remuneration Package. If within six months after the completion of the takeover the executive elects to terminate his employment or his employment is terminated by the Company the executive will not be entitled to any notice of termination or payment in lieu of notice.

continued

## Non-Executive Directors fees

Non-Executive Directors are paid fixed fees for their services to the Company plus statutory superannuation contributions the Company is required by law to make on their behalf. Those fees are inclusive of any salary-sacrificed contribution to superannuation that a Non-Executive Director wishes to make.

The level of Non-Executive Directors fees is set so as to attract the best candidates for the Board while maintaining a level commensurate with boards of similar size and type. The Board may also seek the advice of independent remuneration consultants, including survey data, to ensure Non-Executive Directors' fees and payments are consistent with the current market.

Non-Executive Directors' base fees inclusive of committee membership but not including statutory superannuation are outlined as follows. Note that from the period 1 October 2013, all Non-Executive Directors fees were voluntarily reduced by 10% and this reduction is still in place as at the date of this report.

| | Financial year ended 30 June 2016 [1] $ | Financial year ended 30 June 2015 [1] $ |
|---|---|---|
| Chairman | **144,000**[3] | 41,819[2] |
| Directors | **360,000** | 360,000 |
| | **504,000** | 401,819 |

1 *On an annualised basis for all Directors and excludes Director fees paid by subsidiary.*

2 *Amount shown is for the period up to 16 October 2014, being the date the Chairman's role changed from Non-Executive to Executive.*

3 *Role reverted to Non-Executive Chairman effective 1 July 2015.*

The aggregate remuneration of Non-Executive Directors is set by shareholders in general meeting in accordance with the Constitution of the Company, with individual Non-Executive Directors remuneration determined by the Board within the aggregate total. The aggregate amount of Non-Executive Directors' fees approved by shareholders on 13 November 2008 is $1,000,000.

Non-Executive Directors do not receive any additional fees for serving on committees of the Company. Where applicable Non-Executive Directors may receive director fees if served as directors in operating subsidiaries (see page 41 for details).

There are no retirement allowances for Non-Executive Directors.

# Additional statutory disclosures

## Details of remuneration

Details of the nature and amount of each major element of the remuneration of the Directors and the Group Key Management Personnel are set out in the following tables:

| Year ended 30 June 2016 | Short-term benefits | | | | Long-term benefits | Post-employment benefits | | Share-based payment | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Cash bonus $ | Other benefits[2] $ | Non-monetary benefits[1] $ | Other benefits[2] $ | Superannuation $ | Termination benefits[3] $ | Amortised value of rights[4] (accounting expense) $ | Options $ | Total $ |
| **Non-Executive Chairman** | | | | | | | | | | |
| **Ross Smyth-Kirk** | | | | | | | | | | |
| Paid by Company | 144,000 | – | – | 2,617 | – | 13,680 | – | – | – | 160,297 |
| Paid by subsidiary[5] | 25,414 | – | – | – | – | – | – | – | – | 25,414 |
| **Non-Executive Directors** | | | | | | | | | | |
| **Peter Alexander** | 90,000 | – | – | – | – | 8,550 | – | – | – | 98,550 |
| **Peter McAleer[6]** | 90,000 | – | – | – | – | – | – | – | – | 90,000 |
| **Sharon Skeggs** | 90,000 | – | – | – | – | 8,550 | – | – | – | 98,550 |
| **Peter Warren** | | | | | | | | | | |
| Paid by Company | 90,000 | – | – | – | – | 8,550 | – | [12] (35,910) | – | 62,640 |
| Paid by subsidiary[5] | 18,125 | – | – | – | – | – | – | – | – | 18,125 |
| **Sub-total Non-Executive Directors Compensation** | **547,539** | **–** | **–** | **2,617** | **–** | **39,330** | **–** | **(35,910)** | **–** | **553,576** |
| **Other KMPs** | | | | | | | | | | |
| **Greg Foulis** | 565,000 | – | 26,792 | – | 1,499 | 35,000 | – | – | – | 628,291 |
| **Ross Coyle[7]** | | | – | | – | | | | | |
| Paid by Company | 381,250 | – | (24,906) | – | 6,940 | 35,000 | – | 58,539 | – | 456,823 |
| Paid by subsidiary[5] | 3,940 | – | – | – | – | – | – | – | – | 3,940 |
| **Tim Benfield[8]** | 443,696 | – | (15,173) | – | 5,967 | 19,308 | 254,102 | 75,049 | – | 782,949 |
| **Alistair Waddell** | 95,950 | – | 9,219 | – | 137 | – | – | – | 31,636 | 136,942 |
| **Ron James[9]** | 317,083 | – | (86,782) | – | 87,169 | 35,000 | – | [12] (53,682) | – | 298,788 |
| **Joel Forwood[10]** | 53,877 | – | 3,959 | – | (10,324) | 28,750 | 216,099 | [12] (46,337) | – | 246,024 |
| **Paul Mason[11]** | 35,000 | – | (1,003) | – | (3,675) | 35,000 | – | – | – | 65,322 |
| **Sub-total other KMP Compensation** | **1,895,796** | **–** | **(87,894)** | **–** | **87,713** | **188,058** | **470,201** | **33,569** | **31,636** | **2,619,079** |
| **TOTAL** | **2,443,335** | **–** | **(87,894)** | **2,617** | **87,713** | **227,388** | **470,201** | **(2,341)** | **31,636** | **3,172,655** |

1 *Non-monetary benefits relate primarily to car parking.*

2 *Represents annual leave (short term) and long service leave (long term) entitlements, measured on an accrual basis, and reflects the movement in the entitlements over the 12 month period.*

3 *Benefits paid were in accordance with employment contract.*

4 *Amortised value of rights comprises the fair value of performance and deferred rights expensed during the year. This is an accounting expense and does not reflect the value to the executive of rights that vested in the financial year. Refer to the table on page 45 for the value of rights that have vested.*

5 *Fees paid by subsidiary relate to director fees paid by Akara Resources PCL. The payment of these fees ceased in November 2015.*

6 *Consulting Fees of $90,000 were paid or payable to Norwest Mining Consultants Ltd, of which Peter McAleer is an officer and director.*

7 *Appointed Company Secretary 7 December 2015.*

8 *Ceased employment 9 August 2016.*

9 *Ceased employment 31 May 2016.*

10 *Ceased employment 30 September 2015.*

11 *Resigned Company Secretary 7 December 2015.*

12 *Amortised value is net of write-back of expense incurred in prior periods relating to unvested rights that were forfeited during the year.*

continued

| Year ended 30 June 2015 | Short-term benefits | | | | Long-term benefits | Post-employment benefits | | Share-based payment | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Cash bonus $ | Other benefits[2] $ | Non-monetary benefits[1] $ | Other benefits[2] $ | Superannuation $ | Termination benefits[3] $ | Amortised value of rights[4] (accounting expense) $ | Total $ |
| **Non-Executive Directors** | | | | | | | | | |
| **Ross Smyth-Kirk** | | | | | | | | | |
| Paid by Company[5] | 41,819 | – | – | 917 | – | 3,973 | – | – | 46,709 |
| Paid by subsidiary[5,6] | 70,945 | – | – | – | – | – | – | – | 70,945 |
| **Peter Alexander** | 90,000 | – | – | – | – | 8,550 | – | – | 98,550 |
| **Craig Carracher** | | | | | | | | | |
| Paid by Company | 36,775 | – | – | – | – | 12,500 | – | – | 49,275 |
| Paid by subsidiary[6] | 14,666 | – | – | – | – | – | – | – | 14,666 |
| **Peter McAleer**[7] | 90,000 | – | – | – | – | – | – | – | 90,000 |
| **Sharon Skeggs**[8] | 45,000 | – | – | – | – | 4,275 | – | – | 49,275 |
| **Peter Warren**[9] | | | | | | | | | |
| Paid by Company | 90,000 | – | – | – | – | 8,550 | – | – | 98,550 |
| Paid by subsidiary[6] | 51,696 | – | – | – | – | – | – | – | 51,696 |
| **Sub-total Non-Executive Directors Compensation** | **530,901** | **–** | **–** | **917** | **–** | **37,848** | **–** | **–** | **569,666** |
| **Executive Chairman** | | | | | | | | | |
| **Ross Smyth-Kirk** | | | | | | | | | |
| Paid by Company[5] | 102,181 | – | – | 2,242 | – | 9,707 | – | – | 114,130 |
| **Other KMPs** | | | | | | | | | |
| **Greg Foulis**[10] | 15,000 | – | 3,804 | – | 55 | 35,000 | – | – | 53,859 |
| **Tim Benfield**[11] | 506,460 | 75,000[14] | 4,057 | – | 4,282 | 18,792 | – | 147,937 | 756,528 |
| **Ross Coyle**[12] | | | | | | | | | |
| Paid by Company | 395,168 | 58,500[14] | (1,398) | – | 6,336 | 35,000 | – | 109,107 | 602,713 |
| Paid by subsidiary[6] | 51,696 | – | – | – | – | – | – | – | 51,696 |
| **Ron James** | 400,000 | 80,000[14] | (16,730) | – | 4,743 | – | – | 110,534 | 578,547 |
| **Joel Forwood** | 295,504 | 44,750[14] | 3,947 | – | 4,060 | 35,000 | – | 92,321 | 475,582 |
| **Paul Mason**[13] | 115,858 | 15,000[14] | 5,061 | – | 1,247 | 20,215 | – | – | 157,381 |
| **Duane Woodbury** | 3,513 | – | (3,635) | 1,325 | (5,567) | 334 | – | – | (4,030) |
| **Michael Monaghan** | 417,757 | 59,147 | (7,561) | 10,588 | – | – | 434,903 | (33,035)[15] | 881,799 |
| **Geoff Day** | 68,305 | – | 5,278 | – | – | 4,759 | 25,962 | – | 104,304 |
| **Austen Perrin** | 28,715 | – | 2,236 | – | – | 3,132 | 17,692 | – | 51,775 |
| **Brett Dunstone** | 96,285 | 50,550 | 4,268 | – | (1,144) | 6,264 | 194,714 | (17,094)[15] | 333,843 |
| **Sub-total Executive Chairman and other KMP Compensation** | **2,496,442** | **382,947** | **(673)** | **14,155** | **14,012** | **168,203** | **673,271** | **409,770** | **4,158,127** |
| **TOTAL** | **3,027,343** | **382,947** | **(673)** | **15,072** | **14,012** | **206,051** | **673,271** | **409,770** | **4,727,793** |

1 Non-monetary benefits relate primarily to car parking.

2 Represents annual leave (short term) and long service leave (long term) entitlements, measured on an accrual basis, and reflects the movement in the entitlements over the 12 month period.

3 Benefits paid were in accordance with employment contract.

4 Amortised value of rights comprises the fair value of performance and deferred rights expensed during the year. This is an accounting expense and does not reflect the value to the executive of rights that vested in the financial year. Refer to the table on page 45 for the value of rights that have vested.

5 Total remuneration for the year for Ross Smyth-Kirk for Non-Executive and Executive roles was $231,784, including cash salary and fees of $214,945, non-monetary benefits of $3,159 and superannuation of $13,680.

6 Fees paid by subsidiary relate to director fees paid by Akara Resources PCL.

7 Consulting Fees of $90,000 were paid or payable to Norwest Mining Consultants Ltd, of which Peter McAleer is an officer and director.

8 Appointed Non-Executive Director 1 January 2015.

9 Received consulting fees of $90,000 which are not included in the remuneration table.

10 Appointed Chief Executive Officer 1 June 2015.

11 Acting Chief Executive Officer from 16 October 2014 to 30 April 2015.

12 Appointed Chief Financial Officer from 6 November 2014, previously General Manager Finance & Administration and Company Secretary. Resigned as Company Secretary 6 November 2014.

13 Appointed Company Secretary 6 November 2014.

14 Cash bonuses paid to these executives by the Board during the 2014/2015 financial year include a discretionary component relating to individual performance in the first half of the 2014/2015 financial year as well as an STI component relating to performance in the 2013/2014 financial year.

15 Amortised value is net of write-back of expense incurred in prior periods relating to unvested rights that were forfeited during the year.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| Name | Fixed remuneration 2016 | STI/cash bonus 2016 | At risk – LTI 2016 |
|---|---|---|---|
| **Non-Executive Director** | | | |
| Peter Warren | 100% | – | [1] – |
| **Other Key Management Personnel** | | | |
| Greg Foulis | 100% | – | – |
| Ross Coyle | 87% | – | [1] 13% |
| Tim Benfield | [2] 86% | – | [1,2] 14% |
| Alistair Waddell | 77% | – | [3] 23% |
| Ron James | 100% | – | [1] – |
| Joel Forwood | [2] 100% | – | [1,2] – |
| Paul Mason | 100% | – | – |

1 The percentages disclosed reflect the value consisting of deferred rights and performance rights, based on the value of deferred rights and performance rights expensed during the year. Where applicable, the expenses exclude negative amounts for expenses reversed during the year due to cessation of employment.

2 Termination benefits are excluded in determining the relative proportion of remuneration.

3 The percentages disclosed reflect the value of options expensed during the year.

continued

## Share rights held by Key Management Personnel

Details of each grant of share rights included in the Key Management Personnel remuneration tables are noted in the following tables. Note that no deferred or performance rights were granted in the 2015/2016 financial year.

The percentage of rights granted to Key Management Personnel on issue that have vested and the percentage that was forfeited because the person did not meet the service criteria is set out below:

| | Share rights | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Name** | Financial year granted | Number granted | Vested % | Vested number | Lapsed % | Lapsed number | Forfeited % | Forfeited number | Financial year that rights may vest |
| **P Warren** | | | | | | | | | |
| Performance | 2014 | 95,000 | – | – | – | – | – | – | 2017 |
| **T Benfield** | | | | | | | | | |
| Deferred | 2013 | 14,205 | 100 | 14,205 | – | – | – | – | 2016 |
| Deferred | 2014 | 49,407 | – | – | – | – | – | – | 2017 |
| Performance | 2013 | 28,409 | – | – | 100 | (28,409) | – | – | 2016 |
| Performance | 2014 | 98,814 | – | – | – | – | – | – | 2017 |
| **R James** | | | | | | | | | |
| Deferred | 2013 | 11,364 | 100 | 11,364 | – | – | – | – | 2016 |
| Deferred | 2014 | 39,526 | – | – | – | – | 100 | (39,526) | 2017 |
| Performance | 2013 | 22,727 | – | – | 100 | (22,727) | – | – | 2016 |
| Performance | 2014 | 79,051 | – | – | – | – | 100 | (79,051) | 2017 |
| **R Coyle** | | | | | | | | | |
| Deferred | 2013 | 11,080 | 100 | 11,080 | – | – | – | – | 2016 |
| Deferred | 2014 | 38,538 | – | – | – | – | – | – | 2017 |
| Performance | 2013 | 22,159 | – | – | 100 | (22,159) | – | – | 2016 |
| Performance | 2014 | 77,075 | – | – | – | – | – | – | 2017 |
| **J Forwood** | | | | | | | | | |
| Deferred | 2013 | 9,375 | 100 | 9,375 | – | – | – | – | 2016 |
| Deferred | 2014 | 32,609 | – | – | – | – | 100 | (32,609) | 2017 |
| Performance | 2013 | 18,750 | – | – | 100 | (18,750) | – | – | 2016 |
| Performance | 2014 | 65,217 | – | – | – | – | 100 | (65,217) | 2017 |

## Value of share rights

| Name | Share rights | | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial year that rights may vest | Number granted | Fair value per right at grant date[2] $ | Total fair value at grant date[2] $ | Maximum value yet to vest[3] $ | Value at vesting date[4] $ | Value at lapse date[5] $ |
| **P Warren** | | | | | | | |
| Performance | 2017 | 95,000 | 1.26 | 119,700 | – | – | – |
| **T Benfield** | | | | | | | |
| Deferred | 2016 | 14,205 | 5.17 | 73,438 | – | 10,228 | – |
| Deferred | 2017 | 49,407 | 1.47 | 72,628 | – | – | – |
| Performance | 2016 | 28,409 | 3.21 | 91,193 | – | – | 20,739 |
| Performance | 2017 | 98,814 | 0.74 | 72,628 | – | – | – |
| **R James** | | | | | | | |
| Deferred | 2016 | 11,364 | 5.17 | 58,750 | – | 8,182 | – |
| Deferred | 2017 | 39,526 | 1.34 | 52,965 | – | – | 16,206 |
| Performance | 2016 | 22,728 | 3.21 | 72,955 | – | – | 16,591 |
| Performance | 2017 | 79,051 | 0.74 | 58,102 | – | – | 32,411 |
| **R Coyle** | | | | | | | |
| Deferred | 2016 | 11,080 | 5.17 | 57,281 | – | 7,978 | – |
| Deferred | 2017 | 38,538 | 1.47 | 56,651 | – | – | – |
| Performance | 2016 | 22,159 | 3.21 | 71,131 | – | – | 16,176 |
| Performance | 2017 | 77,075 | 0.74 | 56,650 | – | – | – |
| **J Forwood** | | | | | | | |
| Deferred | 2016 | 9,375 | 5.17 | 48,469 | – | 6,750 | – |
| Deferred | 2017 | 32,609 | 1.47 | 47,935 | – | – | 23,478 |
| Performance | 2016 | 18,750 | 3.21 | 60,188 | – | – | 13,688 |
| Performance | 2017 | 65,217 | 0.74 | 47,934 | – | – | 46,956 |

1 *The minimum value of the rights yet to vest is nil, as the rights will be forfeited if the Key Management Personnel fails to meet a vesting condition.*

2 *The fair value of the performance rights was estimated using Monte Carlo simulation; taking into account the terms and conditions upon which the awards were granted.*

3 *The maximum value of the share rights yet to vest has been determined as the fair value of the rights at the grant date that is yet to be expensed.*

4 *The value at vesting date (1 July 2015) is the number of rights vesting multiplied by the Company's share price on the vesting date. As rights convert to ordinary shares on the vesting date, this date is also the exercise date. No payment by the holder of the right is required on vesting of the right.*

5 *The value at lapse date is the number of rights lapsing multiplied by the Company's share price at the close of business on that day.*

continued

## Movement in LTI Rights for the year ended 30 June 2016

### Performance rights

The number of performance rights held during the financial year by each Director of Kingsgate and each of the specified executives of the Group, including their personally-related entities, are set out as follows:

| 2016 | Balance at start of year | Granted during the year | Converted during the year | Lapsed/ forfeited during the year | Balance at year end | Vested and exercisable at year end |
|---|---|---|---|---|---|---|
| **Non-Executive Director** | | | | | | |
| Peter Warren | 95,000 | – | – | – | 95,000 | – |
| **Other Key Management Personnel** | | | | | | |
| Ross Coyle | 99,234 | – | – | (22,159) | 77,075 | – |
| Tim Benfield | 127,223 | – | – | (28,409) | 98,814 | – |
| Ron James | 101,778 | – | – | (101,778) | – | – |
| Joel Forwood | 83,967 | – | – | (83,967) | – | – |

### Deferred rights

The number of deferred rights held during the financial year by each Director of Kingsgate and each of the specified executives of the Group, including their personally-related entities, are set out as follows:

| 2016 | Balance at start of year | Granted during the year | Converted during the year | Forfeited during the year | Balance at year end | Vested and exercisable at year end |
|---|---|---|---|---|---|---|
| **Other Key Management Personnel** | | | | | | |
| Ross Coyle | 49,618 | – | (11,080) | – | 38,538 | – |
| Tim Benfield | 63,612 | – | (14,205) | – | 49,407 | – |
| Ron James | 50,890 | – | (11,364) | (39,526) | – | – |
| Joel Forwood | 41,984 | – | (9,375) | (32,609) | – | – |

### Options

The number of options held during the financial year by each Director of Kingsgate and each of the specified executives of the Group, including their personally-related entities, are set out as follows:

| 2016 | Balance at start of year | Granted during the year | Converted during the year | Forfeited during the year | Balance at year end | Vested and exercisable at year end |
|---|---|---|---|---|---|---|
| **Other Key Management Personnel** | | | | | | |
| Alistair Waddell | – | 1,500,000 | – | – | 1,500,000 | – |

Share holdings

| 2016 | Balance at start of year | Received during year on conversion of deferred rights | Other changes during the year | Balance at year end[1] |
|---|---|---|---|---|
| **Non-Executive Chairman** | | | | |
| Ross Smyth-Kirk | 5,076,725 | – | – | **5,076,725** |
| **Non-Executive Directors** | | | | |
| Peter Alexander | 46,487 | – | – | **46,487** |
| Peter McAleer | 100,000 | – | – | **100,000** |
| Sharon Skeggs | 19,347 | – | – | **19,347** |
| Peter Warren | 145,000 | – | – | **145,000** |
| **Other Key Management Personnel** | | | | |
| Greg Foulis | – | – | 100,000 | **100,000** |
| Ross Coyle | 36,724 | 9,691 | – | **46,415** |
| Tim Benfield | – | 12,816 | – | **12,816** |
| Ron James | 19,691 | 9,975 | (29,666) | **–** |
| Paul Mason | 15,000 | – | (15,000) | **–** |
| Joel Forwood | 7,930 | 7,986 | (15,916) | **–** |

1 *The closing balance represents the balance at year end or at the date of departure from the Group.*

## Loan to Director

There were no loans made to Directors or other Key Management Personnel at any time during the year.

## Insurance of officers

During the financial year, the Group paid premiums to insure Directors and Officers of the Group. The contracts include a prohibition on disclosure of the premium paid and nature of the liabilities covered under the policy.

## Directors' interest in contracts

No material contracts involving Directors' interests were entered into since the end of the previous financial year or existed at the end of the financial year other than the transactions detailed in the note to the accounts.

## Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year are detailed in Note 30: Auditors Remuneration. The Directors are satisfied that the provision of non-audit services during the period by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services disclosed in Note 30: Auditors Remuneration to the financial statements do not compromise the external auditor's independence, based on the Auditor' representations and advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

A copy of the Auditor's Independence Declaration as required under section 307c of the *Corporations Act 2001* is set out on page 48.

## Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/91 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.

## Auditors

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

Ross Smyth-Kirk
Director

Sydney
31 August 2016

# Auditor’s Independence Declaration

pwc

## Auditor’s Independence Declaration

As lead auditor for the audit of Kingsgate Consolidated Limited for the year ended 30 June 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 audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

**Brett Entwistle**
Partner
PricewaterhouseCoopers

Sydney
31 August 2016

***PricewaterhouseCoopers, ABN 52 780 433 757***
*Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

# Financial Statements

for the year ended 30 June 2016

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2016

| | Note | 2016 $'000 | 2015 *Restated $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Sales revenue | 5a | 174,412 | 194,808 |
| Costs of sales | 5b | (184,867) | (173,203) |
| **Gross (loss)/profit** | | (10,455) | 21,605 |
| Exploration expenses | | (552) | (1,138) |
| Corporate and administration expenses | 5c | (17,449) | (17,580) |
| Other income and expenses | 5d | (2,612) | 755 |
| Foreign exchange gain | | 3,655 | 2,699 |
| Share of loss in associate | | – | (112) |
| Impairment losses – Chatree Gold Mine | 5i | (227,564) | (115,650) |
| Impairment losses – exploration assets | 5i | (461) | (9,888) |
| **Loss before finance costs and income tax** | | (255,438) | (119,309) |
| Finance income | | 406 | 777 |
| Finance costs | 5e | (12,359) | (14,823) |
| **Net finance costs** | | (11,953) | (14,046) |
| Loss before income tax | | (267,391) | (133,355) |
| Income tax benefit/(expense) | 6 | 3,209 | (651) |
| **Loss from continuing operations after income tax** | | (264,182) | (134,006) |
| **Discontinued operations** | | | |
| Profit/(loss) from discontinued operations after income tax | 34 | 34,731 | (13,637) |
| **Loss for the year** | | (229,451) | (147,643) |
| **Other comprehensive income** | | | |
| *Items that will never be reclassified to profit and loss* | | | |
| Change in fair value of employee provisions (net of tax) | 19a | 201 | 838 |
| *Items that may be reclassified to profit and loss* | | | |
| Exchange differences on translation of foreign operations (net of tax) | 19a | (3,000) | 60,764 |
| **Total other comprehensive (loss)/income for the year** | | (2,799) | 61,602 |
| **Total comprehensive loss for the year** | | (232,250) | (86,041) |
| **Profit/(loss) attributable to:** | | | |
| Owners of Kingsgate Consolidated Limited | | | |
| Continuing operations | | (264,182) | (134,006) |
| Discontinued operations | | 34,731 | (13,637) |
| **Total comprehensive loss attributable to:** | | | |
| Owners of Kingsgate Consolidated Limited | | | |
| Continuing operations | | (266,981) | (72,404) |
| Discontinued operations | | 34,731 | (13,637) |

| **Earnings per share** | | Cents | Cents |
|---|---|---|---|
| Basic and diluted loss per share from continuing operations | 31 | (118.1) | (59.9) |
| Basic and diluted loss per share from discontinued operations | 31 | 15.5 | (6.1) |
| Basic and diluted loss per share from continuing operations and discontinued operations | | (102.6) | (66.0) |

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

* *Comparative information has been restated as a result of the classification of Challenger Mine and Bowdens Silver Project as discontinued operations (refer to Note 34 for details) and the correction of error (refer to Note 35 for details).*

# Consolidated Statement of Financial Position

as at 30 June 2016

| | Note | 2016 $'000 | 2015 *Restated $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | **36,314** | 55,472 |
| Restricted cash | 7 | **7,004** | – |
| Receivables | 8 | **12,273** | 19,139 |
| Inventories | 9 | **26,060** | 47,147 |
| Available-for-sale financial assets | 11 | **540** | – |
| Other assets | 10 | **10,919** | 9,619 |
| **Total current assets** | | **93,110** | 131,377 |
| **Non-current assets** | | | |
| Restricted cash | 7 | **–** | 6,601 |
| Receivables | 8 | **4,015** | – |
| Inventories | 9 | **–** | 55,711 |
| Available-for-sale financial assets | 11 | **–** | 1,350 |
| Property, plant and equipment | 12 | **44,278** | 188,494 |
| Exploration, evaluation and development | 13 | **96,972** | 143,035 |
| Other assets | 10 | **14,130** | 18,442 |
| **Total non-current assets** | | **159,395** | 413,633 |
| **TOTAL ASSETS** | | **252,505** | 545,010 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Payables | 15 | **21,313** | 27,344 |
| Borrowings | 16 | **98,097** | 67,552 |
| Provisions | 17 | **10,555** | 3,625 |
| **Total current liabilities** | | **129,965** | 98,521 |
| **Non-current liabilities** | | | |
| Payables | 15 | **4,074** | 7,171 |
| Borrowings | 16 | **–** | 75,071 |
| Deferred tax liabilities | 6 | **119** | 388 |
| Provisions | 17 | **25,983** | 39,226 |
| **Total non-current liabilities** | | **30,176** | 121,856 |
| **TOTAL LIABILITIES** | | **160,141** | 220,377 |
| **NET ASSETS** | | **92,364** | 324,633 |
| **Equity** | | | |
| Contributed equity | 18 | **677,042** | 677,109 |
| Reserves | 19a | **50,949** | 53,700 |
| Accumulated losses | 19b | **(635,627)** | (406,176) |
| **TOTAL EQUITY** | | **92,364** | 324,633 |

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

* *Comparative information has been restated as a result of the correction of error (refer to Note 35 for details).*

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2016

| | Note | Contributed equity $'000 | Reserves $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2014 (*Restated)** | | **677,109** | **(8,312)** | **(258,533)** | **410,264** |
| Loss after income tax | 19b | – | – | (147,643) | (147,643) |
| Total other comprehensive loss for the year | | – | 61,602 | – | 61,602 |
| **Total comprehensive loss for the year** | | **–** | **61,602** | **(147,643)** | **(86,041)** |
| Transaction with owners in their capacity as owners: | | | | | |
| Movement in share-based payment reserve | 19a | – | 410 | – | 410 |
| **Total transaction with owners** | | **–** | **410** | **–** | **410** |
| **Balance at 30 June 2015 (*Restated)** | | **677,109** | **53,700** | **(406,176)** | **324,633** |
| | | | | | |
| **Balance at 1 July 2015** | | **677,109** | **53,700** | **(406,176)** | **324,633** |
| Loss after income tax | | – | – | (229,451) | (229,451) |
| Total other comprehensive loss for the year | | – | (2,799) | – | (2,799) |
| **Total comprehensive loss for the year** | | **–** | **(2,799)** | **(229,451)** | **(232,250)** |
| Transaction with owners in their capacity as owners: | | | | | |
| Movement in contributed equity | 18 | (67) | – | – | (67) |
| Movement in share-based payment reserve | | – | 48 | – | 48 |
| **Total transaction with owners** | | **(67)** | **48** | **–** | **(19)** |
| **Balance at 30 June 2016** | | **677,042** | **50,949** | **(635,627)** | **92,364** |

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

* *Comparative information has been restated as a result of the correction of error (refer to Note 35 for details).*

# Consolidated Statement of Cash Flows

for the year ended 30 June 2016

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **255,082** | 313,918 |
| Payments to suppliers and employees | | **(203,241)** | (226,980) |
| Interest received | | **427** | 859 |
| Finance costs paid | | **(5,775)** | (9,480) |
| Income tax paid | | **–** | (1,671) |
| **Net cash inflow from operating activities** | 25 | **46,493** | 76,646 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(275)** | (1,828) |
| Payments for exploration, evaluation and development | | **(35,898)** | (38,048) |
| Increase in deposits | | **(1,139)** | (455) |
| Proceeds from sale of Bowdens | | **20,000** | – |
| Proceeds from sale of Challenger | | **250** | – |
| **Net cash outflow from investing activities** | | **(17,062)** | (40,331) |
| **Cash flows from financing activities** | | | |
| Proceeds from corporate borrowings, net of transaction costs | | **3,051** | 2,443 |
| Repayment of corporate borrowings | | **(19,043)** | (11,379) |
| Repayment of subsidiary (Akara Resources PCL) borrowings | | **(32,528)** | (28,741) |
| Share acquisition for the settlement of vested deferred rights | | **(67)** | – |
| **Net cash outflow from financing activities** | | **(48,587)** | (37,677) |
| **Net decrease in cash held** | | **(19,156)** | (1,362) |
| Cash at the beginning of the year | | **55,472** | 53,632 |
| Effects of exchange rate on cash and cash equivalents | | **(2)** | 3,202 |
| **Cash at the end of the year** | 7 | **36,314** | 55,472 |

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

# Notes to the Financial Statements

for the year ended 30 June 2016

The Financial Report of Kingsgate Consolidated Limited (Kingsgate or the "Company") for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of Directors on 30 August 2016.

Kingsgate is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange using the ASX code KCN. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "group entities"). A description of the nature of the Group's operations and its principal activities is included in the Directors' Report.

## 1. Basis of preparation

### Going Concern

The consolidated financial statements of the Group have been prepared on a going concern basis, which indicates continuity of business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As previously advised, on 10 May 2016 the Thai Government announced that the Chatree Gold Mine operated by Kingsgate's subsidiary Akara Resources Public Company Limited ("Akara") would only be able to continue to operate until 31 December 2016. Although uncertainty remains regarding the manner and the legal process that the Thai Government will use to implement this decision, the Group is currently of the view that there is a clear intention from the Thai Government to shut down the Chatree Gold Mine on 31 December 2016. The Chatree Gold Mine in its capacity as Kingsgate's primary production asset is the main cash contributor for the Group. Based on current resources within designed pits and the potential resource and exploration upside that exists the life of the Chatree Gold Mine can be extended well beyond the tenure of the current mining licences.

As at 30 June 2016, the Group's current liabilities exceeded its current assets by $36,855,000. This was largely a result of the reclassification of the external borrowing of Akara as current liabilities as this debt is expected to be repaid by 31 December 2016 and covenants under the loan agreement were not met due to the events described above. No default notice has been received from the financiers. The total borrowings classified as current liabilities amounts to $98,097,000 and the Group currently does not have sufficient cash available to fully repay these amounts.

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of the business and at the amounts stated in the financial report.

Over the next financial period, the continuing viability of the Group and its ability to continue as a going concern and to meet its commitments as and when they fall due is dependent upon the Group being able to continue to operate the Chatree Gold Mine successfully until 31 December 2016 and generating sufficient cash flows from the revised mine plan the Group has implemented to enable the repayment of creditors, employee liabilities and all external debt by 30 June 2017. The continuing operations of the Chatree Gold Mine also require the ongoing support of the external lenders of the Group until the external debt is fully repaid.

The Group has successfully operated the Chatree Gold Mine in the past and the current performance up to the date of this report supports the cash flow projections from the revised mine plan.

The external lenders of the Group have been advised of the revised mine plan that has been implemented to maximise cash flow from the operation up until 31 December 2016 and they have indicated at this time that they will support the adoption of the revised mine plan.

In the longer term, additional funds will be required for the Group to continue to develop the Nueva Esperanza Gold/Silver Project and to fund the net rehabilitation obligations of the Chatree Gold Mine after taking into account the already established cash backed rehabilitation fund. The ability of the Group to continue as a going concern, in addition to the short terms matters described above, is dependent upon the Group being successful in one or more 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;
- potentially extending the term of the metallurgical licence to enable the processing of other economic ore material beyond 31 December 2016;
- obtaining approval and implementing a rehabilitation plan for the Chatree Gold Mine that is commercially viable and more cost effective for the Group and which takes into account the significantly shorter life of mine that has been imposed on the Group;
- 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 Group has started a process to identify surplus assets that can be sold, including land and property assets at the Chatree Gold Mine. Management has prepared a responsible and cost effective rehabilitation plan that it believes will meet its obligations in the context of the early mine closure. The Group in conjunction with its legal advisors is working methodically through various potential remedies to compensate for the material economic impact of the Thai Government's actions.

The Directors believe that the Group will be successful in managing the above matters and accordingly, they have prepared the financial report on a going concern basis. At this time the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the consolidated financial statements at 30 June 2016.

Accordingly no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The general purpose financial statements have been prepared in accordance with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the financial statements.

### Compliance with IFRS

The financial statements comply with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB").

### Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial instruments (including derivative instruments) at fair value through profit or loss.

### Functional and presentation currency

The financial statements of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated statements are presented in Australian dollars, which is the Company's functional currency and presentation currency.

### Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/91 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.

### Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

## 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented.

### a. Principles of consolidation

#### (i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred does not include amounts related to the settlement of a pre-existing relationship. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The non-controlling interest in the acquiree is based on the fair value of the acquiree's net identifiable assets. The adjustments to non-controlling interests are based on the proportionate amount of the net assets of the subsidiary. The acquisition of an asset or group of assets that is not a business is accounted for by allocating the cost of the transaction to the net identifiable assets and liabilities acquired based on their fair values.

#### (ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

### b. Foreign currency translation

#### (i) Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of the Group entities at exchange rates on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss; except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or, are attributable to part of the net investment in a foreign operation.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary assets are included in the fair value reserve in equity.

Exchange gains and losses which arise on balances between Group entities are taken to the foreign currency translation reserve where the intra-group balances are in substance part of the Group's net investment. Where as a result of a change in circumstances, a previously designated intra-group balance is intended to be settled in the foreseeable future, the intra-group balance is no longer regarded as part of net investment. The exchange differences for such balance previously taken directly to the foreign currency translation reserves are recognised in the profit or loss.

#### (iii) Foreign operations

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a



continued

## b. Foreign currency translation continued

functional currency different from the presentation currency are translated into the presentation currency as follows:

- the assets and liabilities of the foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated at the year-end exchange rate;
- the income and expenses of foreign operations are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rate prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve.

## c. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Sales revenue represents the net proceeds receivable from the buyer.

### Gold and silver sales

Gold and silver revenue is recognised when the refinery process has been finalised at which point the sale transaction to a third party is also completed. Transportation and refinery costs are expensed when incurred.

## d. Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial; reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries where the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and, they relate to income taxes levied by the same tax authority on the same taxable entity.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised.

### Tax consolidation

The Company and its wholly owned Australian resident entities formed a tax-consolidation group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidation group is Kingsgate Consolidated Limited.

Current tax expense or benefit, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax-consolidation group are recognised in the separate financial statements of the members of the tax-consolidation group using the “stand alone taxpayer” approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Current tax assets or liabilities and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax-consolidation group, are recognised as amounts receivable or payable to other entities in the tax-consolidation group in conjunction with any tax funding agreement amounts.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidation group to the extent that it is probable that future taxable profits of the tax-consolidation group will be available against which the asset can be utilised.

### Tax funding and sharing agreements

The members of the tax-consolidation group have entered into a funding agreement that sets out the funding obligations of members of the tax-consolidation group in respect of tax amounts. The tax funding arrangements require payments; to or from, the head entity and any deferred tax asset assumed by the head entity, resulting in the head entity recognising an intra-group receivable or payable in the separate financial statements of the members of the tax-consolidation group equal in amount to the tax liability or asset assumed. The intra-group receivables or payables are at call.

The head entity recognises the assumed current tax amounts as current tax liabilities or assets adding to its own current tax amounts, since they are also due to or from the same taxation authority. The current tax liabilities or assets are equivalent to the tax balances generated by external transactions entered into by the tax-consolidated group.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

The members of the tax-consolidation group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the consolidated financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

## e. Leases

Leases of property, plant and equipment where the Group as lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease’s inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

## f. Divestment transaction costs

Transaction costs directly relating to the partial divestment of an interest in a subsidiary are expensed as incurred in the year prior to the disposal where control is retained.

## g. Impairment of assets

Assets other than goodwill and indefinite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds it recoverable amount. The recoverable amount is the higher of an asset's fair value in use. 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). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## h. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

## i. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are due for settlement no more than 90 days from the date of recognition.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments more than 60 days overdue are considered indicators that the trade and other receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade and other receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

## j. Inventories

Raw materials and stores, work in progress and finished goods (including gold bullion), are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Stockpiles represent ore that has been extracted and is available for further processing. If there is significant uncertainty as to whether the stockpiled ore will be processed it is expensed as incurred. Where the future processing of this ore can be predicted with confidence, e.g. because it exceeds the mine's cut-off grade, it is valued at the lower of cost and net realisable value. If the ore will not be processed within the 12 months after the reporting date, it is included within non-current assets. Work in progress inventory includes ore stockpiles and other partly processed material. Quantities are assessed primarily through surveys and assays, and truck counts.

## k. Non-derivative financial assets

### Classification and recognition

The Group classifies its investments and other financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. The Group determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges.

Attributable transaction costs are recognised in the profit or loss when incurred. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

continued

## k. Non-derivative financial assets continued

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

### (iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses, are recognised as a separate component of equity net of attributable tax. When an asset is derecognised the cumulative gain or loss in equity is transferred to the income statement.

### Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the profit or loss on equity instruments classified as available-for-sale are not reversed through the income statement.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement.

## l. Derivative financial instruments

Derivative financial instruments are used by the Group to protect against the Group's Australian dollar gold price risk exposures. The Group does not apply hedge accounting and accordingly all fair value movements on derivative financial instruments are recognised in the profit or loss.

Derivative financial instruments are stated at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately.

## m. Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

### Depreciation

Depreciation and amortisation of mine buildings, plant, machinery and equipment is provided over the assessed life of the relevant mine or asset, whichever is the shorter.

Depreciation and amortisation is determined on a units-of-production basis over the estimated recoverable reserves from the related area. In some circumstances, where conversion of resources into reserves is expected, some elements of resources may be included. For mine plant, machinery and equipment, which have an expected economic life shorter than the life of the mine, a straight line basis is adopted.

The expected useful lives are as follows:

- mine buildings – the shorter of applicable mine life and 25 years;
- plant, machinery and equipment – the shorter of applicable mine life and 3–15 years depending on the nature of the asset.

The estimated recoverable reserves and life of each mine and the remaining useful life of each class of asset are reassessed at least annually. Where there is a change in the reserves during the period, depreciation and amortisation rates are adjusted prospectively from the beginning of the reporting period.

Major spares purchased specifically for a particular plant are capitalised and depreciated on the same basis as the plant to which they relate.

### Impairment

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2g).

### De-recognition

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is de-recognised.

## n. Deferred stripping costs

As part of its mining operations, the Group incurs stripping (waste removal) costs both during the development phase and production phase of its operations.

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory in the period or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and the benefit is improved access to the ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a "production stripping asset", if the following criteria are all met:

- future economic benefits (being improved access to the ore body) associated with the stripping activity are probable;
- the component of the ore body for which access has been improved can be accurately identified; and
- the costs associated with the stripping activity associated with that component can be reliably measured.

The amount of stripping costs deferred is based on the ratio obtained by dividing the volume of waste mined by the volume of ore mined for each component of the mine. Stripping costs incurred in the period are deferred to the extent that the actual current period waste to ore ratio exceeds the life of component expected waste to ore ("life of component") ratio.

A component is defined as a specific volume of the ore body that is made more accessible by the stripping activity. An identified component of the ore body is typically a subset of the total ore body of the mine. It is considered that each mine may have several components, which are identified based on the mine plan. The mine plans and therefore the identification of specific components will vary between mines as a result of both the geological characteristics and location of the ore body. The financial considerations of the mining operations may also impact the identification and designation of a component.

The identification of components is necessary for both the measurement of costs at the initial recognition of the production stripping asset, and the subsequent depreciation of the production stripping asset.

The life of component ratio is a function of an individual mine's design and therefore changes to that design will generally result in changes to the ratio. Changes in other technical or economic parameters that impact reserves will also have an impact on the life of component ratio even if they do not affect the mine's design. Changes to the life of component ratio are accounted for prospectively from the date of change.

The production stripping asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset.

The production stripping asset is amortised over the expected useful life of the identified component of the ore body that is made more accessible by the activity, on a units of production basis. Economically recoverable reserves are used to determine the expected useful life of the identified component of the ore body. The production stripping asset is then carried at cost less accumulated amortisation and any impairment losses.

The production stripping asset is included in "Exploration, Evaluation and Development". These costs form part of the total investment in the relevant cash generating unit to which they relate, which is reviewed for impairment in accordance with the Group's impairment accounting policy (Note 2g).

## o. Deferred mining services costs

Provisions to the group of mining services by its contractor do not systematically align with the billing made by the contractor employed for these services. When there is a material difference between the provisions of the mining services and the amount paid for these services, a portion of the billing is deferred on the statement of financial position. These amounts are subsequently recognised in the profit or loss. Mining services are recognised in the profit or loss on a systematic basis based on bank cubic metres mined by the contractor.

## p. Exploration, evaluation and feasibility expenditure

### Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by, or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises direct costs and depreciation and does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Exploration expenditure for each area of interest is carried forward as an asset provided the rights to tenure of the area of interest are current and one of the following conditions is met:

- the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale, or;
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration expenditure is written off when it fails to meet at least one of the conditions outlined above or an area of interest is abandoned. The carrying value of exploration and evaluation assets is assessed in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources and the Group's impairment policy (Note 2g).

### Feasibility expenditure

Feasibility expenditure represents costs related to the preparation and completion of a feasibility study to enable a development decision to be made in relation to an area of interest and capitalised as incurred.

At the commencement of production; all past exploration, evaluation and feasibility expenditure in respect of an area of interest that has been capitalised is transferred to mine properties where it is amortised over the life of the area of interest to which it relates on a unit-of-production basis.

## q. Mine properties

Mine properties represents the accumulated exploration, evaluation, land and development expenditure incurred by or on behalf of the Group in relation to areas of interest in which mining of a mineral resource has commenced.

When further development expenditure is incurred in respect of a mine property after commencement of production, such expenditure is carried forward as part of the mine property only when substantial future economic benefits are thereby established. Otherwise, such expenditure is classified as part of the cost of production.

Amortisation of costs is provided on the units-of-production method with separate calculations being made for each component. The units-of-production basis results in an amortisation charge proportional to the depletion of the estimated recoverable reserves. In some circumstances, where conversion of resources into reserves is expected, some elements of resources may be included. Development and land expenditure still to be incurred in relation to the current recoverable reserves are included in the amortisation calculation. Where the life of the assets is shorter than the mine life, their costs are amortised based on the useful life of the assets.

The estimated recoverable reserves and life of each mine and the remaining useful life of each class of asset are reassessed at least annually. Where there is a change in the reserves during a six month period, depreciation and amortisation rates are adjusted prospectively from the beginning of that reporting period.

## r. Investment in associates

Investments in associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried on the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate.

The income statement reflects the Group's share of the results of operations of the associate. The Group recognises its share of any changes and discloses this when applicable, in the statement of changes of equity. Un-realised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is included in the income statement. This is the profit attributable to equity holders of the associate and therefore, is profit after tax and

continued

## r. Investment in associates continued

non-controlling interests in the subsidiaries of the associate. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of the impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

## s. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

## t. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised and amortised over the period of the facility to which it relates.

Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividends on these preference shares are recognised in the profit or loss as finance costs.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

## u. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Where the funds used to finance a qualifying asset form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to the relevant borrowings during the period. Where funds borrowed are directly attributable to a qualifying asset, the amount capitalised represents the borrowing costs specific to those borrowings.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

## v. Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as finance costs.

## w. Restoration and rehabilitation provision

The estimated costs of decommissioning and removing an asset and restoring the site are included in the cost of the asset at the date the obligation first arises and to the extent that it is first recognised as a provision. This restoration asset is subsequently amortised on a units-of-production basis.

The corresponding provision of an amount equivalent to the restoration asset created is reviewed at the end of each reporting period. The provision is measured at the best estimate of present obligation at the end of the reporting period based on current legal and other requirements and technology, discounted where material using national government bond rates at the reporting date with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Where there is a change in the expected restoration, rehabilitation or decommissioning costs, an adjustment is recoded against the carrying value of the provision and any related restoration asset, and the effects are recognised in the income statement on a prospective basis over the remaining life of the operation.

The unwinding of the effect of discounting on the rehabilitation provision is included within finance costs in the income statement.

Costs incurred that relate to an existing condition caused by past operations, but do not have a future economic benefit are expensed as incurred.

## x. Employee benefits

### (i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries (including non-monetary benefits and annual leave) expected to be settled within 12 months of the reporting date are recognised in provisions for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

### (ii) Long service leave and severance pay

The liability for long service leave and severance pay is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### (iii) Cash bonuses

Cash bonuses are expensed in the income statement at reporting date.

A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the Directors or employees and the obligation can be estimated reliably.

### (iv) Retirement benefit obligations

**Defined Contribution plan**

Contributions to defined contribution superannuation plans are recognised as an expense in the income statement as they become payable.

**Defined benefit plan**

The Company's Thai subsidiary, Akara Resources Public Company Limited, have a defined benefit plan which is the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

**Retirement benefit**

Under Labour laws applicable in Thailand, employees completing 120 days of service are entitled to severance pay on termination or retrenchment without cause or upon retirement age of 60. The severance pay will be at the rate according to number of years of service as stipulated in the Labor Law which is currently at a maximum rate of 300 days of final salary.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yield of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

**Other long-term benefits – Gold**

The Company's Thai subsidiary, Akara Resources Public Company Limited, has a policy to give gold to employees who have worked for the Company for 10 years, 15 years and 20 years, in the amounts of Baht 0.5, Baht 1 and Baht 1.5 respectively.

The liability recognised in the statement of financial position in respect of other long-term benefit plan is the present value of the other long-term benefit obligation at the end of the reporting period, together with adjustments for unrecognised past-service costs. The other long-term benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the other long-term benefit obligation is determined by discounting the estimated future cash outflows using market yield of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in profit or loss.

### (v) Share-based payment transactions

The Group provides benefits to employees (including Directors) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ("equity settled transactions").

The fair value of these equity settled transactions is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled.

The fair value at grant date is determined using a pricing model that takes into account the exercise price, the term, the share price at the grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate.

Upon the exercise of the equity settled reward, the related balance of the share-based payments reserve is transferred to share capital.

## y. Dividends

Dividends are recognised as a liability in the period in which they are declared.

## z. Earnings per share

### (i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

### (ii) Diluted earnings per share

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## aa. Contributed equity

Issued ordinary share capital is classified as equity and is recognised at the fair value of the consideration received by the Group. Incremental costs directly attributable to the issue of shares and share options are recognised as a deduction, net of tax from the proceeds.

## bb. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of the cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

continued

## cc. Operating and segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The operating segments are disclosed in Note 4.

## dd. New accounting standards and interpretations

### (i) New and amended standards adopted by the Group

The Group has adopted the following new and revised accounting standards, amendments and interpretations as of 1 July 2015:

- *AASB 2013-9: Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*
- *AASB 2015-3: Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031: Materiality*

The adoption of these new and revised standards did not have a material impact on the Group's financial statements.

### (ii) New accounting standards and interpretations not yet adopted

The Group has not elected to early adopt any new standards, amendments or interpretations that are issued but are not yet effective. Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not yet been applied in the financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below:

- ***AASB 9 Financial Instruments and AASB 2010-7 and AASB 2012-6 Amendments to AAS's arising from AASB 9***

AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting treatment of financial liabilities.

The revised IFRS 9 will eventually replace AASB 139 and all previous versions of IFRS 9. The revised standard includes changes to the:

- classification and measurement of financial assets and financial liabilities;
- expected credit loss impairment model; and
- hedge accounting.

Financial assets are measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics.

Apart from the 'own credit risk' requirements, classification and measurement of financial liabilities is unchanged from existing requirements.

When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The application date for the Group is 1 July 2018.

- ***AASB 15 Revenue from Contracts with Customers***

IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

IFRS 15 supersedes:

(a) IAS 11 Construction Contracts; and

(b) IAS 18 Revenue.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group does not expect the adoption of this standard to have a significant impact as gold and silver sales are only made with reputable institutions using a market price and on relatively short trading terms.

The application date for the Group is 1 July 2018.

- ***AASB 16: Leases***

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group does not expect the adoption of this standard to have a significant impact as the Group does not expect to have any material lease contracts in place on the application date of this Standard.

The application date for the Group is 1 July 2019.

- ***AASB 2: Clarifications of classification and measurement of share based payment transactions***

This Standard amends IFRS 2: Share-based Payment to clarify how to account for certain types of share based payment transactions.

The Group does not expect the adoption of this Standard to have a significant impact as the use of share-based payments by the Group in recent years had been minimal and any impact of a change in accounting for them would immaterial.

The application date for the Group is 1 July 2018.

## ee. Parent entity financial information

The financial information for the parent entity Kingsgate Consolidated Limited, disclosed in Note 32 has been prepared on the same basis as the consolidated financial statements except as set out below:

### Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Kingsgate.

### Share-based payments

The issue by the Company of equity instruments to extinguish liabilities of a subsidiary undertaking in the Group is treated as a capital contribution to that subsidiary undertaking.

## 3. Critical accounting estimates, assumptions and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. Actual results may differ from these estimates under different assumptions and conditions. The estimates and assumptions that could materially affect the financial position and results are discussed below:

### (i) Mineral resources and ore reserves estimates

The Group estimates its ore reserves and mineral resources annually at 30 June each year, and reports in the following October, based on information compiled by Competent Persons as defined and in accordance with the Australasian code for reporting Exploration Results, Mineral Resources and Ore Resources (JORC code 2012). The estimated quantities of economically recoverable reserves are based upon interpretations of geological models and require assumptions to be made regarding factors such as estimates of short and long-term exchange rates, estimates of short and long-term commodity prices, future capital requirements and future operating performance. Changes in reported reserves estimates can impact the carrying value of property, plant and equipment (including exploration and evaluation assets), the provision for rehabilitation obligations, the recognition of deferred tax assets, as well as the amount of depreciation charged to the Income Statement.

### (ii) Exploration and evaluation assets

Judgement is required to determine whether future economic benefits are likely, from either exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. In addition to these judgements, the Group has to make certain estimates and assumptions. The determination of a JORC resource is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified (i.e. measured, indicated or inferred). The estimates directly impact when the Group capitalises exploration and evaluation expenditure. The capitalisation policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves will be found. Any such estimates and assumptions may change as new information becomes available.

The recoverable amount of capitalised expenditure relating to undeveloped mining projects (projects for which the decision to mine has not yet been approved at the required authorisation level within the Group) can be particularly sensitive to variations in key estimates and assumptions. If a variation in key estimates or assumptions has a negative impact on recoverable amount it could result in a requirement for impairment.

### (iii) Production stripping assets

The life of component ratio is a function of the mine design and therefore changes to that design will generally result in changes to the ratio. Changes in other technical or economic parameters that impact reserves will also have an impact on the life of component ratio even if they do not affect the mine design. Changes to production stripping assets resulting from a change in life of component ratios are accounted for prospectively.

### (iv) Impairment of non-current assets, determination of recoverable amounts

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. For further details regarding the impairment testing refer to note 14.

### (v) Net realisable value

The computation of net realisable value for ore stockpiles involves significant judgements and estimates in relation to timing and cost of processing, commodity prices, foreign exchange rates, recoveries and the timing of sale of the bullion produced. A change in any of these assumptions will alter the estimated net realisable value and may therefore impact the carrying value of ore stockpiles.

### (vi) Restoration and rehabilitation provision

Significant estimates and assumptions are required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine sites. Factors that will affect this liability include changes in technology, changes in regulations, price increases, changes in timing of cash flows which are based on life of mine plans and changes in discount rates. When these factors change or become known in the future, such differences will impact the mine rehabilitation provision in the period in which they change or become known. The rehabilitation provision relating to the Chatree Gold Mine takes into account the premature shut-down of the mine.

### (vii) Units-of-production method of depreciation

The Group uses the units of production basis when depreciating/amortising specific assets which results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's economic life, which is assessed annually, has due regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which it is located. These calculations require the use of estimates and assumptions.

### (viii) Share-based payments

The Group measures share-based payments at fair value at the grant date. The fair value is determined by an external valuer using a Monte Carlo simulation model or other valuation technique appropriate for the instrument being valued.

### (ix) Deferred tax balances

Deferred tax assets in respect of tax losses for the Kingsgate tax-consolidation group (Note 6) are only recognised to the extent of deferred tax liabilities, the balance of tax losses are not recognised in the financial statements as management considers that it is currently not probable that future taxable profits will be available to utilise those tax losses. Management reviews on a regular basis the future profitability of the entities included in the tax-consolidation group to consider if tax losses should be recognised and to ensure that any tax losses recognised will be utilised.

Deferred tax balances for temporary differences in respect of Akara Resources PCL are measured based on their expected rate of reversal which is different for the two Royal Thai Board of Investment ("BOI") activities (Note 6). The period in which the temporary differences will reverse also take into account the impact of the shutdown of the Chatree Gold Mine as discussed in Note 1, basis of preparation going concern. Deferred tax assets in respect of deductible temporary differences are only recognised as deferred tax assets to the extent of deferred tax liabilities as management considers not probable that future taxable profits of the entity in the context of the shut-down of the mine will be available to utilise them.

continued

## 4. 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 Mine, Thailand;
- Challenger Mine, South Australia, Australia (discontinued during the year ended 30 June 2016);
- Bowdens Silver Project, New South Wales, Australia (discontinued during the year ended 30 June 2016);
- Nueva Esperanza Gold/Silver Project, Chile; and
- Exploration, South East Asia.

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

| | Operation | Development | Exploration | Corporate | Continuing Operations | Discontinued Operations | Total |
|---|---|---|---|---|---|---|---|
| **2016** | Chatree $'000 | Nueva Esperanza $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| External sales revenue | 174,412 | – | – | – | 174,412 | 78,916 | 253,328 |
| Other income | 521 | – | – | 2 | 523 | 467 | 990 |
| **Total segment revenue** | **174,933** | **–** | **–** | **2** | **174,935** | **79,383** | **254,318** |
| Segment EBITDA | 29,830 | (3) | (561) | [1] (12,226) | 17,040 | 22,824 | 39,864 |
| Impairment/impairment reversal* | (227,564) | – | (461) | – | (228,025) | 17,056 | (210,969) |
| Depreciation and amortisation | (44,370) | – | – | (83) | (44,453) | (1,724) | (46,177) |
| **Segment result (Operating EBIT)** | **(242,104)** | **(3)** | **(1,022)** | **(12,309)** | **(255,438)** | **38,156** | **(217,282)** |
| Finance income | – | – | – | – | 406 | 33 | 439 |
| Finance costs | – | – | – | – | (12,359) | (209) | (12,568) |
| **Net finance costs** | **–** | **–** | **–** | **–** | **(11,953)** | **(176)** | **(12,129)** |
| **Loss before tax** | **(242,104)** | **(3)** | **(1,022)** | **(12,309)** | **(267,391)** | **37,980** | **(229,411)** |
| **Other segment information** | | | | | | | |
| Segment assets | 106,562 | 106,125 | 1,137 | 38,681 | 252,505 | – | 252,505 |
| Segment liabilities | (141,354) | (6,038) | (53) | (12,696) | (160,141) | – | (160,141) |

* *Related to the sale of Challenger Gold Mine (see Note 34).*

1 *includes foreign exchange gain of $3,655,000 for the Group.*

| 2015 *Restated | Operation<br>Chatree<br>$'000 | Development<br>Nueva Esperanza<br>$'000 | Exploration<br>$'000 | Corporate<br>$'000 | Continuing Operations<br>$'000 | Discontinued Operations<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|---|---|
| External sales revenue | 194,808 | – | – | – | 194,808 | 118,354 | 313,162 |
| Other income | 648 | – | – | 157 | 805 | 9 | 814 |
| **Total segment revenue** | **195,456** | **–** | **–** | **157** | **195,613** | **118,363** | **313,976** |
| Segment EBITDA | 70,031 | – | (1,138) | [1] (13,214) | 55,679 | 13,779 | 69,458 |
| Impairment | (115,650) | – | (9,888) | – | (125,538) | (22,643) | (148,181) |
| Depreciation and amortisation | (49,354) | – | – | (96) | (49,450) | (4,500) | (53,950) |
| **Segment result (Operating EBIT)** | **(94,973)** | **–** | **(11,026)** | **(13,310)** | **(119,309)** | **(13,364)** | **(132,673)** |
| Finance income | – | – | – | – | 777 | 82 | 859 |
| Finance costs | – | – | – | – | (14,823) | (355) | (15,178) |
| **Net finance costs** | **–** | **–** | **–** | **–** | **(14,046)** | **(273)** | **(14,319)** |
| **Loss before tax** | **(94,973)** | **–** | **(11,026)** | **(13,310)** | **(133,355)** | **(13,637)** | **(146,992)** |
| **Other segment information** | | | | | | | |
| Segment assets | 386,243 | 96,234 | 2,956 | 30,156 | 515,589 | 29,421 | 545,010 |
| Segment liabilities | (164,729) | (6,419) | (770) | (28,769) | (200,687) | (19,690) | (220,377) |

* *Comparative information has been restated as a result of the classification of Challenger Mine and Bowdens Silver Project as discontinued operations (refer to Note 34 for details) and the correction of error (refer to Note 35 for details).*

1 *includes foreign exchange gain of $2,699,000 for the Group.*

| | Revenue** | | % of External Revenue | |
|---|---|---|---|---|
| | 2016<br>$'000 | 2015<br>$'000 | 2016<br>% | 2015<br>% |
| Customer A | **174,412** | 194,808 | **69** | 62 |
| Customer B | **78,916** | 118,354 | **31** | 38 |

** *Revenue from continuing operations and discontinued operations (refer to Note 34 for details).*

## 5. Revenue and expenses

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| **a) Sales revenue** | | |
| Gold sales | **159,972** | 177,983 |
| Silver sales | **14,440** | 16,825 |
| **Sales revenue from continuing operations** | **174,412** | 194,808 |
| **Sales revenue from discontinued operations (Note 34)** | **78,916** | 118,354 |

continued

## 5. Revenue and expenses continued

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **b) Cost of sales** | | |
| Direct costs of mining and processing | 112,854 | 98,478 |
| Royalties | 14,693 | 16,019 |
| Inventory movements | 12,950 | 9,352 |
| Depreciation (operations) | 44,370 | 49,354 |
| **Cost of sales from continuing operations** | 184,867 | 173,203 |
| **Cost of sales from discontinued operations (Note 34)** | 57,331 | 105,704 |
| **c) Corporate and administration expenses** | | |
| Administration | 13,860 | 13,434 |
| Divestment transaction costs | – | 191 |
| Technical support and business development | 1,016 | 1,210 |
| Statutory and professional fees | 2,490 | 2,649 |
| Depreciation | 83 | 96 |
| **Corporate and administration expenses from continuing operations** | 17,449 | 17,580 |
| **Corporate and administration expenses from discontinued operations (Note 34)** | 903 | 564 |
| **d) Other income and expenses** | | |
| Net gain on sale of fixed assets | 18 | 11 |
| Realised loss on delivery against hedge contracts | (2,325) | – |
| Change in fair value of available-for-sale assets | (810) | 120 |
| Other revenue | 505 | 624 |
| **Other income and expenses from continuing operations** | (2,612) | 755 |
| **Other income and expenses from discontinued operations (Note 34)** | 467 | (2,632) |
| **e) Finance costs** | | |
| Interest and finance charges | 6,795 | 9,823 |
| Foreign exchange loss on loans | 3,257 | 2,419 |
| Unwinding of discount | 748 | 756 |
| Amortisation of deferred borrowing costs | 1,559 | 1,825 |
| **Finance costs from continuing operations** | 12,359 | 14,823 |
| **Finance costs from discontinued operations (Note 34)** | 209 | 355 |
| **f) Depreciation and amortisation** | | |
| Property, plant and equipment | 15,801 | 15,652 |
| Mine properties | 30,467 | 38,878 |
| Less: depreciation capitalised | (91) | (580) |
| **Depreciation and amortisation expenses** | 46,177 | 53,950 |
| Included in: | | |
| Costs of sales depreciation | 45,954 | 53,732 |
| Corporate depreciation | 223 | 218 |

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **g) Employee benefits expenses** | | |
| Included in: | | |
| Cost of sales | 18,024 | 20,386 |
| Corporate and administration expenses | 7,178 | 8,503 |
| **Total employee benefits expenses** | **25,202** | 28,889 |
| **h) Other items** | | |
| Operating lease rentals | 457 | 583 |
| **Total other items** | **457** | 583 |
| **i) Significant items** | | |
| Impairment of Chatree Gold Mine | 227,564 | 115,650 |
| Impairment of capitalised exploration | 461 | 9,888 |
| **Total significant items (pre-tax) from continuing operations** | **228,025** | 125,538 |
| **Total significant items (pre-tax) from discontinued operations (Note 34)** | **(17,056)** | 22,643 |

## 6. Income tax

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **a) Income tax expense** | | |
| Current tax | 309 | (704) |
| Deferred tax | (269) | 1,355 |
| **Income tax expense** | **40** | 651 |
| Deferred tax expense/(benefit) included in tax expense comprises: | | |
| Increase in deferred tax assets | 14,465 | (11,196) |
| Increase in deferred tax liabilities | (14,734) | 12,551 |
| **Deferred tax** | **(269)** | 1,355 |

continued

## 6. Income tax continued

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Loss from continuing operations before income tax | **(267,431)** | (134,006) |
| Profit/(loss) from discontinued operations before income tax | **37,980** | (13,637) |
| Total loss before income tax | **(229,411)** | (147,643) |
| Tax at Australian rate of 30% | **(68,823)** | (44,293) |
| **Tax effect of amounts not deductible/assessable in calculating taxable income** | | |
| Non-deductible expenses | **468** | 1,037 |
| Non-deductible amortisation | **129** | 1,762 |
| Non-deductible interest expense to preference shareholders | **364** | 361 |
| Share-based payment remuneration | **100** | 123 |
| Share of loss of associate | **–** | 34 |
| Difference in Thailand tax rates | **–** | (1,968) |
| Non-temporary differences affecting the tax expense | **–** | 417 |
| Tax benefit of tax losses not brought to account in the prior year recognised this year | **(3,620)** | – |
| Tax benefit of tax losses not brought to account | **6,719** | – |
| Temporary difference adjustment (Thailand) | **1,046** | – |
| Other temporary difference adjustment | **271** | – |
| impairment of Chatree Gold Mine | **68,269** | 33,419 |
| impairment reversal of Bowdens Silver Project | **(4,994)** | 6,793 |
| impairment of exploration | **111** | 2,966 |
| **Income tax expense** | **40** | 651 |

Kingsgate's Thai controlled entity Akara Resources Public Company Limited ("Akara") received on 18 June 2010 approval from The Royal Thai Board of Investment ("BOI") for promotion of the Chatree North gold processing plant. Based on annual production limit from the new processing plant of 185,200 ounces of gold and 1,080,400 ounces of silver, Akara is entitled to:

a. an eight year tax holiday on income derived from the new processing plant with tax savings limited to the capital cost of the new treatment plant;
b. 25% investment allowance on the capital cost of certain assets of the new processing plant; and
c. other benefits.

The start of the promotion period was 1 November 2012.

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **c) Tax recognised in other comprehensive income** | | |
| Foreign exchange losses recognised directly in foreign currency translation reserves | **–** | – |
| **Total tax recognised in other comprehensive income** | **–** | – |

### d) Deferred tax liabilities offset

Deferred tax liabilities amounting to $11,007,000 (2015: $28,795,000) have been offset against deferred tax assets.

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **e) Unrecognised deferred tax assets and tax liabilities** | | |
| Tax losses – Australian entities | **301,841** | 277,098 |
| Tax losses – other entities | **502** | 1,443 |
| Temporary difference | **1,278** | 38,293 |
| **Subtotal** | **303,621** | 316,834 |
| **Unrecognised deferred tax assets** | **90,703[1]** | 95,050 |

*1 Amount excludes potential deductible temporary differences in respect of Akara for $45,350,000 arising from an impairment charge recognised during the year. It is not probable that there will be sufficient future assessable income available against which this deferred tax asset could be utilised.*

As at 30 June 2016 Akara has undistributed earnings of $20,604,000 which, if paid out as dividends, and if not paid out from one of the BOI activity, would be subject to withholding tax in the hands of its Australian parent entity.

## f) Tax consolidation group

Kingsgate Consolidated Limited and its wholly owned Australian subsidiary have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in Note 2d.

On adoption of the tax consolidation legislation, the entities in the tax-consolidation group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liabilities of the wholly owned entities in the case of default by the head entity, Kingsgate Consolidated Limited.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Kingsgate for any current tax payable assumed and are compensated for any current tax receivable and deferred assets relating to the unused tax losses or unused tax credits that are transferred to Kingsgate under the tax legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amount receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

## g) Recognised deferred tax assets and liabilities

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| **Deferred tax assets/(liabilities):** | | | | | | |
| Employee benefits | **158** | 1,009 | **–** | – | **158** | 1,009 |
| Provision for restoration and rehabilitation | **–** | 2,368 | **–** | – | **–** | 2,368 |
| Unrealised exchange (gains)/losses | **5,722** | 5,198 | **(10,824)** | (9,677) | **(5,102)** | (4,479) |
| Other items | **631** | 472 | **(302)** | (164) | **329** | 308 |
| Available-for-sale financial assets | **660** | 417 | **–** | – | **660** | 417 |
| Mine properties and exploration | **–** | 19,331 | **–** | (19,342) | **–** | (11) |
| Tax losses | **3,836** | – | **–** | – | **3,836** | – |
| **Total deferred tax assets/(liabilities)** | **11,007** | 28,795 | **(11,126)** | (29,183) | **(119)** | (388) |
| **Set off tax** | **(11,007)** | (28,795) | **11,007** | 28,795 | **–** | – |
| **Net deferred tax assets/(liabilities)** | **–** | – | **(119)** | (388) | **(119)** | (388) |
| Deferred tax assets/(liabilities) expected to be recovered within 12 months | **208** | 131 | **–** | (23) | **208** | 108 |
| Deferred tax assets/(liabilities) expected to be recovered after more than 12 months | **10,799** | 28,664 | **(11,126)** | (29,160) | **(327)** | (496) |
| **Total deferred tax assets/(liabilities)** | **11,007** | 28,795 | **(11,126)** | (29,183) | **(119)** | (388) |



continued

## 6. Income tax continued

### Movement in deferred tax balances

| 2016 | Balance at 1 July | Recognised in profit or loss | Recognised in other comprehensive income | Foreign exchange | Balance at 30 June |
|---|---|---|---|---|---|
| **Deferred tax assets/(liabilities):** | | | | | |
| Employee benefits | 1,009 | (851) | – | – | 158 |
| Provision for restoration and rehabilitation | 2,368 | (2,368) | – | – | – |
| Unrealised exchange losses | (4,479) | (623) | – | – | (5,102) |
| Other items | 308 | 21 | – | – | 329 |
| Available-for-sale financial assets | 417 | 243 | – | – | 660 |
| Mine properties and exploration | (11) | (12) | – | 23 | – |
| Tax losses | – | 3,836 | – | – | 3,836 |
| **Net deferred tax assets/(liabilities)** | **(388)** | **246** | **–** | **23** | **(119)** |

| 2015 | Balance at 1 July | Recognised in profit or loss | Recognised in other comprehensive income | Foreign exchange | Balance at 30 June |
|---|---|---|---|---|---|
| **Deferred tax assets/(liabilities):** | | | | | |
| Derivatives | 189 | (189) | – | – | – |
| Employee benefits | 1,814 | (909) | – | 104 | 1,009 |
| Provision for restoration and rehabilitation | 4,774 | (2,724) | – | 318 | 2,368 |
| Provision for obsolescence | 348 | (390) | – | 42 | – |
| Unrealised exchange losses | 21 | (4,500) | – | – | (4,479) |
| Other items | 521 | (263) | – | 50 | 308 |
| Available-for-sale financial assets | 419 | (2) | – | – | 417 |
| Mine properties and exploration | (7,509) | 7,622 | – | (124) | (11) |
| **Net deferred tax assets/(liabilities)** | **577** | **(1,355)** | **–** | **390** | **(388)** |

## 7. Cash and cash equivalents and restricted cash

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Cash on hand | **13** | 21 |
| Deposits at call | **36,301** | 55,451 |
| Restricted cash | **7,004** | – |
| **Total current** | **43,318** | 55,472 |
| **Non-current** | | |
| Restricted cash | **–** | 6,601 |
| **Total non-current** | **–** | 6,601 |

### Cash on hand

These are petty cash balances held by subsidiaries.

### Deposits at call

These deposits are at call, interest bearing and may be accessed daily.

### Restricted cash

Under the terms of the loan facilities (see Note 16), the Group is required to maintain a minimum cash balance of US$5,000,000 in respect of Akara.

### Risk exposure

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

## 8. Receivables

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | – | 1,448 |
| Other debtors | 7,273 | 17,691 |
| Financial assets measured at fair value through profit or loss (Bowdens receivable) | 5,000 | – |
| **Total receivables – current** | **12,273** | 19,139 |
| **Non-current** | | |
| Other debtors | 4,015 | – |
| **Total receivables – non-current** | **4,015** | – |

### Trade receivables

Trade receivables represent gold sales at the end of the financial year, where payment was yet to be received.

### Other debtors

Other debtors mainly relate to GST/VAT receivables and receivables on sale of Challenger Gold Mine and Bowdens Silver Project (see Note 34).

### Risk exposure

The Group's exposure to credit and currency risks are disclosed in Note 28.

## 9. Inventories

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Raw materials and stores | 12,664 | 15,261 |
| Livestock | – | 82 |
| Stockpiles and work in progress | 69,812 | 28,341 |
| Gold bullion | 6,525 | 6,080 |
| Provision for obsolescence | (4,763) | (2,617) |
| Impairment* | (58,178) | – |
| **Total inventories – current** | **26,060** | 47,147 |
| **Non-current** | | |
| Stockpiles | – | 55,711 |
| **Total inventories – non-current** | **–** | 55,711 |

* *Impairment relates to ore stockpiles and work in progress at Chatree Gold Mine (see Note 14).*

## 10. Other assets

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Prepaid mining services | – | 1,060 |
| Prepayments | 2,365 | 4,982 |
| Other deposits | 8,554 | 3,577 |
| **Total other assets – current** | **10,919** | 9,619 |
| **Non-current** | | |
| Prepayments | 14,060 | 11,345 |
| Other deposits | 70 | 7,097 |
| **Total other assets – non-current** | **14,130** | 18,442 |

continued

## 10. Other assets continued

### 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 cash held on deposit with financial institutions that is restricted to use on community projects in Thailand and $4,118,000 of security deposits.

## 11. Available-for-sale financial assets

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Equity securities – current** | | |
| At the beginning of the financial year | **1,350** | – |
| Revaluation | **(810)** | – |
| **At the end of the financial year** | **540** | – |
| **Equity securities – non-current** | | |
| At the beginning of the financial year | **–** | 270 |
| Reclassification from investment in associate | **–** | 960 |
| Revaluation | **–** | 120 |
| **At the end of the financial year** | **–** | 1,350 |

## 12. Property, plant and equipment

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Opening balance** | | |
| Cost | **365,349** | 320,915 |
| Accumulated depreciation and amortisation | **(111,958)** | (85,360) |
| Accumulated impairment | **(64,897)** | (64,897) |
| **Net book amount** | **188,494** | 170,658 |
| **Year ended 30 June** | | |
| Opening net book amount | **188,494** | 170,658 |
| Additions | **619** | 5,315 |
| Reclassified | **(7,491)** | (1,214) |
| Disposals | **(77)** | (36) |
| Disposal group* | **(834)** | – |
| Impairment | **(119,363)** | – |
| Depreciation and amortisation expense | **(15,710)** | (15,652) |
| Foreign currency differences | **(1,360)** | 29,423 |
| **Closing net book amount** | **44,278** | 188,494 |
| Cost | **263,453** | 365,349 |
| Accumulated depreciation and amortisation | **(34,915)** | (111,958) |
| Accumulated impairment | **(184,260)** | (64,897) |
| **Net book amount** | **44,278** | 188,494 |

* *Related to the sales of Challenger Gold Mine and Bowdens Silver Project (see Note 34).*

## 13. Exploration, evaluation and development

| | Exploration & evaluation $'000 | Feasibility expenditure $'000 | Mine properties $'000 | Total $'000 |
|---|---|---|---|---|
| **At 30 June 2014** | | | | |
| Cost | 48,024 | 151,861 | 649,556 | 849,441 |
| Accumulated depreciation and amortisation | – | – | (240,112) | (240,112) |
| Accumulated impairment | (39,530) | (74,694) | (239,848) | (354,072) |
| **Net book amount** | **8,494** | **77,167** | **169,596** | **255,257** |
| **Year ended 30 June 2015** | | | | |
| Opening net book amount | 8,494 | 77,167 | 169,596 | 255,257 |
| Additions | 1,283 | 13,173 | 25,032 | 39,488 |
| Reclassified | – | 1,530 | (316) | 1,214 |
| Disposals | – | – | (326) | (326) |
| Impairment | (9,888) | (22,643) | (115,650) | (148,181) |
| Depreciation and amortisation expense | – | – | (38,878) | (38,878) |
| Foreign currency exchange differences | 991 | 8,875 | 24,595 | 34,461 |
| **Closing net book amount** | **880** | **78,102** | **64,053** | **143,035** |
| **At 30 June 2015** | | | | |
| Cost | 50,298 | 175,439 | 720,474 | 946,211 |
| Accumulated depreciation and amortisation | – | – | (300,923) | (300,923) |
| Accumulated impairment | (49,418) | (97,337) | (355,498) | (502,253) |
| **Net book amount** | **880** | **78,102** | **64,053** | **143,035** |
| **Year ended 30 June 2016** | | | | |
| Opening net book amount | 880 | 78,102 | 64,053 | 143,035 |
| Additions | 91 | 5,816 | 29,710 | 35,617 |
| Reclassified | (510) | 601 | 7,400 | 7,491 |
| Disposal groups * | – | – | (8,599) | (8,599) |
| Impairment | (461) | – | (50,023) | (50,484) |
| Depreciation and amortisation expense | – | – | (30,467) | (30,467) |
| Foreign currency exchange differences | – | 1,436 | (1,057) | 379 |
| **Closing net book amount** | **–** | **85,955** | **11,017** | **96,972** |
| **At 30 June 2016** | | | | |
| Cost | 39,991 | 160,649 | 327,638 | 528,278 |
| Accumulated depreciation and amortisation | – | – | (26,750) | (26,750) |
| Accumulated impairment | (39,991) | (74,694) | (289,871) | (404,556) |
| **Net book amount** | **–** | **85,955** | **11,017** | **96,972** |

* *Related to the sales of Challenger Gold Mine and Bowdens Silver Project (see Note 34).*



continued

## 14. 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 Chatree Gold Mine has been determined using a value in use model and 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 these 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. For both Chatree and Nueva Esperanza, 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 2016 and FY 2017 | +FY 2018 long term average |
|---|---|---|
| Gold (US$ per ounce) | US$1,300 | US$1,300 |
| Silver (US$ per ounce) | US$19 | US$20 |
| US$:THB exchange rate | 35 | 35 |

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 0.75 and USD/THB of 35.0 based on exchange rates current at period end.

| | Discount rate (%) |
|---|---|
| Chatree Gold Mine | 9.3% |
| Nueva Esperanza Gold/Silver Project | 8.5% |

The Group has applied post-tax real discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax nominal discount rates applied to Chatree Gold Mine is 39% (the pattern of the tax payments included in the impairment model lead to a higher pre-tax rate) and to the Nueva Esperanza Gold/Silver Project is 11.1%. 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.

### Chatree Gold Mine

In accordance with AASB 136 – *Impairment of Assets* an impairment charge of $227,564,000 has been made against the carrying value of the Chatree Gold Mine ("Chatree"). This reduction in carrying value reflects the shortened Chatree mine life arising from the implementation during 2016 of a policy resolution by the Thai Government requiring all gold mining activity in Thailand to cease by 31 December 2016.

The recoverable amount of Chatree at 30 June 2016 was determined based on a value in use model. Based on the assumptions noted above, the recoverable amount of Chatree as at 30 June 2016 is assessed as being equal to its carrying amount of $35,080,000 after impairment.

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

- gold and silver prices;
- foreign exchange rates; and
- production costs.

### Nueva Esperanza Gold/Silver Project

The recoverable amount of Nueva Esperanza at 30 June 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 30 June 2016 is assessed as being approximately equal to its carrying value of $98,878,000 resulting in no impairment.

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

After effecting the impairment for the Chatree Gold Mine CGU, the recoverable amount of these assets is assessed as being equal to their carrying amount as at 30 June 2016.

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 additional impairment of non-current assets.

It is estimated that the following reasonably possible changes in the key assumptions would have the following approximate pre-tax impact on the recoverable amount of each CGU as at 30 June 2016:

| | Chatree Gold Mine $'000 | Nueva Esperanza Gold/Silver Project $'000 |
|---|---|---|
| US$100/oz increase/decrease in gold price | 6,011 | 15,676 |
| US$1 increase/decrease in silver price | 515 | 25,889 |
| THB1.5 increase in US$: THB exchange rate | 2,680 | n/a |
| THB1.5 decrease in US$: THB exchange rate | (2,449) | n/a |
| 5% increase/decrease in operating costs | 2,689 | 19,248 |
| 5% increase/decrease in capital expenditure | – | 10,797 |

In respect of Nueva Esperanza, as the recoverable amount only marginally exceeds the carrying amount, applying any negative sensitivity to the cash flow forecasts would result in an impairment charge at 30 June 2016.

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.

## 15. Payables

| | 2016 $'000 | 2015 Restated $'000 |
|---|---|---|
| **Current** | | |
| Trade payables | **12,342** | 18,095 |
| Other payables and accruals | **8,971** | 9,249 |
| **Total payables – current** | **21,313** | 27,344 |
| **Non-current** | | |
| Other payables | **4,074** | 7,171 |
| **Total payables – non-current** | **4,074** | 7,171 |

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 28.



continued

## 16. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and liquidity risk, see Note 28.

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Secured bank loans | **85,240** | 54,971 |
| Preference shares in controlled entity | **10,171** | 10,870 |
| Finance lease liabilities | **1,549** | 398 |
| Other loan | **1,137** | 1,313 |
| **Total borrowings – current** | **98,097** | 67,552 |
| **Non-current** | | |
| Secured bank loans | **–** | 73,427 |
| Preference shares in controlled entity | **–** | 82 |
| Finance lease liabilities | **–** | 1,562 |
| **Total borrowings – non-current** | **–** | 75,071 |
| **Borrowings** | | |
| Secured bank loans | **85,240** | 128,398 |
| Preference shares in controlled entity | **10,171** | 10,952 |
| Finance lease liabilities | **1,549** | 1,960 |
| Other loan | **1,137** | 1,313 |
| **Total borrowings** | **98,097** | 142,623 |

### Secured bank loans

#### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

| | Currency | Nominal interest | Financial year of maturity | Face value $'000 | Carrying amount $'000 |
|---|---|---|---|---|---|
| Revolving Credit Facility | AUD | BBSY[1] + margin | 2017 | 10,000 | 10,000 |
| Multi-currency loan facilities | THAI BAHT | THBFIX[2]+ margin | *2019 | 30,585 | 30,585 |
| | USD | LIBOR[3] + margin | *2019 | 44,723 | 44,723 |
| Less capitalised borrowing costs | | | | | (68) |
| **Total** | | | | | **85,240** |

1 *BBSY means bank bill swap bid rate*
2 *THBFIX means Thai Baht interest rate fixing*
3 *LIBOR means London interbank offered rate*
* *classified as current liabilities at year end.*

### Revolving Credit Facility

Kingsgate has a Revolving Credit Facility ("RCF") with $10 million drawn against this facility at 30 June 2016. A debt repayment of $5 million was paid at the end of July 2016. The balance of the RCF of $5 million is due for repayment at the end of January 2017. As security the lender has a fixed and floating charge over Kingsgate assets including shares in its material subsidiaries.

Kingsgate, in addition, has available over the tenure of the RCF an Equity-linked Loan Facility ("ELF") of $15 million. The ELF is currently undrawn.

### Multi-currency loan facility

Kingsgate's Thai operating subsidiary, Akara Resources PCL ("Akara"), has an amortising multi-currency loan facility which under the loan facility agreement has less than three years remaining following the commencement of quarterly repayments in November 2013. Subsequent to the Thai Government decision on 10 May 2016 that the Chatree Gold Mine would only be able to continue to operate until 31 December 2016, a revised mine plan was implemented which from the planned production profile indicates the potential to generate sufficient cash flow to repay this debt in full by 31 December 2016. The outstanding debt balance is classified as a current liability at year end as it is expected to be repaid by 31 December 2016, and covenants under the loan agreement were not met. No default notice has been received from the financiers. At year end the equivalent of $75.3 million was owed against this facility and a further equivalent $7.3 million has been repaid since year end. As security against the facility the lender has a fixed and floating charge over the land, buildings, plant and equipment in Thailand owned by Akara and its material subsidiaries.

### Restricted funds

Under the terms of the loan facilities, Akara is required to maintain a debt service reserve account of US$5,000,000 ($7,004,000).

### Preference shares in controlled entity

**Terms and repayment schedule**
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 | 10,238 | 11,394 |

### Finance lease liabilities

The Group has various items of plant and equipment with a carrying amount of $1,700,000 under finance leases.

Finance lease liabilities are payable as follows:

| | Future minimum lease payments $'000 | Interest $'000 | Present value of minimum lease payments $'000 |
|---|---|---|---|
| Within 1 year | 1,700 | 151 | 1,549 |
| Later than 1 year but not later than 5 years | – | – | – |
| **Total** | **1,700** | **151** | **1,549** |

continued

## 17. Provisions

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Current** | | | |
| Employee benefits | 2x,24 | **6,280** | 3,625 |
| Restoration and rehabilitation | | **4,275** | – |
| **Total provisions – current** | | **10,555** | 3,625 |
| **Non-current** | | | |
| Restoration and rehabilitation | 2w | **25,917** | 34,641 |
| Employee benefits | 2x,24 | **66** | 4,585 |
| **Total provisions – non-current** | | **25,983** | 39,226 |
| ***Movements in the restoration and rehabilitation provision:*** | | | |
| **Restoration and rehabilitation** | | | |
| At the beginning of the financial year | | **34,641** | 27,731 |
| Revision of rehabilitation provision | | **2,691** | 2,215 |
| Unwind of discount rate for provision | | **952** | 981 |
| Disposal on sale of Challenger Gold Mine (see Note 34) | | **(7,851)** | – |
| Foreign currency exchange differences | | **(241)** | 3,714 |
| **At the end of the financial year** | | **30,192** | 34,641 |

## 18. Contributed equity

| | 2016 Shares | 2015 Shares | 2016 $'000 | 2015 $'000 |
|---|---|---|---|---|
| Opening balance | **223,584,937** | 223,584,937 | **677,109** | 677,109 |
| Share acquisition for the settlement of vested deferred rights | **–** | – | **(67)** | – |
| **Closing balance** | **223,584,937** | 223,584,937 | **677,042** | 677,109 |

During the year, the Company acquired 98,000 shares in Kingsgate Consolidated Limited on market for consideration of $67,000. These shares were distributed to rights holders as settlement of vested deferred rights.

### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets. The Group's focus over the financial year has been to utilise surplus cash from operations and asset sale to fund capital investment at Chatree, working capital and exploration and evaluation activities, for the Nueva Esperanza Project in Chile and to repay borrowings.

## 19. Reserves and accumulated losses

### (a) Reserves

| | 2016 $'000 | 2015 Restated $'000 |
|---|---|---|
| Foreign currency translation reserve | 45,234 | 48,234 |
| Share-based payment reserve | 9,056 | 9,008 |
| General reserve | (3,341) | (3,542) |
| **Total reserves** | 50,949 | 53,700 |
| Movements: | | |
| **Foreign currency translation reserve** | | |
| At the beginning of the financial year | 48,234 | (12,530) |
| Exchange differences on translation of foreign controlled entities (net of tax) | (3,000) | 60,764 |
| **At the end of the financial year** | 45,234 | 48,234 |
| **Share-based payment reserve** | | |
| At the beginning of the financial year | 9,008 | 8,598 |
| Share-based payment expense | 48 | 410 |
| **At the end of the financial year** | 9,056 | 9,008 |
| **General reserve** | | |
| At the beginning of the financial year | (3,542) | (4,380) |
| Net change | 201 | 838 |
| **At the end of the financial year** | (3,341) | (3,542) |

#### Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in Note 2b.

#### Share-based payment reserve

The share-based payment reserve is used to recognise the fair value of deferred rights, performance rights and options issued but not exercised.

#### General reserve

The general reserve represents changes in equity as a result of changes in non-controlling interests in prior periods and revaluation of employee benefit obligations in current year.

### (b) Accumulated losses

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Accumulated losses at the beginning of the year | (406,176) | (258,533) |
| Net loss attributable to members of Kingsgate Consolidated Limited | (229,451) | (147,643) |
| **Accumulated losses** | (635,627) | (406,176) |



continued

## 20. Commitments for expenditure

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Operating leases** | | |
| Within one year | **343** | 465 |
| Later than one year but not later than five years | **373** | 706 |
| **Total operating leases** | **716** | 1,171 |
| **Exploration commitments** | | |
| Within one year | **–** | 1,400 |
| **Total exploration commitments** | **–** | 1,400 |

## 21. Controlled entities

| Entity | Country of Incorporation | Class of shares | Equity holding 2016 % | Equity holding 2015 % |
|---|---|---|---|---|
| **Parent Entity** | | | | |
| Kingsgate Consolidated Limited | | | | |
| **Subsidiaries** | | | | |
| Dominion Mining Ltd | Australia | Ordinary | **100** | 100 |
| Gawler Gold Mining Pty Ltd | Australia | Ordinary | **100** | 100 |
| Dominion Metals Proprietary Ltd | Australia | Ordinary | **100** | 100 |
| Kingsgate Treasury Pty Ltd | Australia | Ordinary | **100** | 100 |
| Kingsgate Capital Pty Ltd | Australia | Ordinary | **100** | 100 |
| Kingsgate Chile NL[1] | Australia | Ordinary | **100** | 100 |
| Laguna Exploration Pty Ltd | Australia | Ordinary | **100** | 100 |
| Akara Resources Public Company Limited | Thailand | Ordinary | **100** | 100 |
| Issara Mining Limited | Thailand | Ordinary | **100** | 100 |
| Suan Sak Patana Ltd | Thailand | Ordinary | **100** | 100 |
| Phar Mai Exploration Ltd | Thailand | Ordinary | **100** | 100 |
| Richaphum Mining Ltd | Thailand | Ordinary | **100** | 100 |
| Phar Lap Ltd | Thailand | Ordinary | **100** | 100 |
| Phar Rong Ltd | Thailand | Ordinary | **100** | 100 |
| Asia Gold Ltd | Mauritius | Ordinary | **100** | 100 |
| Dominion (Lao) Co., Ltd | Laos | Ordinary | **100** | 100 |
| Laguna Chile Ltda | Chile | Ordinary | **100** | 100 |

1 *Laguna Resources NL changed its name to Kingsgate Chile NL on 12 August 2015.*

## 22. Dividends

No final dividend was declared for the year ended 30 June 2015 (30 June 2014: nil).

No interim dividend was declared for the year ended 30 June 2016 (30 June 2015: nil).

## 23. Related parties

### Transaction with related parties

Information on remuneration of Directors and Key Management Personnel is disclosed in Note 29 and the Remuneration Report.

### Controlling entity

The ultimate parent entity of the Group is Kingsgate Consolidated Limited.

## 24. Employee benefits and share-based payments

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Employee benefits and related on-costs liabilities** | | |
| Provision for employment benefits – current | **6,280** | 3,625 |
| Provision for employee benefits – non-current | **66** | 4,585 |
| **Total employee provisions** | **6,346** | 8,210 |

### Superannuation

The Group makes contributions on behalf of employees to externally managed defined contribution superannuation funds. Contributions are based on percentages of employee wages and salaries and include any salary-sacrifice amounts. Contributions to defined contribution plans for 2016 were $1,423,000 (2015: $1,869,000).

| Retirement benefit and other long-term benefits (Akara Resources PCL) | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Opening balance** | **4,091** | 4,190 |
| Service costs | **1,637** | 293 |
| Interest | **145** | 111 |
| Actuarial gain | **–** | (993) |
| Benefits paid | **(405)** | (221) |
| Foreign currency exchange differences | **(51)** | 711 |
| **Closing balance** | **5,417** | 4,091 |
| The principal actuarial assumptions used were as follows: | | |
| Discount rate | **4.1%** | 4.1% |
| Inflation rate | **3%** | 3% |

### Executive Rights Plan

On 1 July 2012, the Company introduced an Executive Rights Plan which involves the grant of two types of rights being performance rights and deferred rights. Subject to the satisfaction of the performance condition at the end of a three year measurement period in respect of performance rights and the service condition at the end of the three year vesting period in respect of deferred rights, the rights will vest. The first $1,000 of value per individual award is settled by cash with the balance settled by shares.

### Performance rights

Kingsgate issued the following performance rights during financial year 2013/2014:

| | Grant date | Vesting date | Number |
|---|---|---|---|
| Performance rights | 7/13 November 2013 | 1 July 2016 | 479,643 |
| Performance rights | 26 November 2013 | 1 July 2016 | 768,380 |

The Executives Rights Plan entitles participants to receive rights to fully paid ordinary shares in the Company (Performance Rights). The performance measures for the Performance Rights issued in the 2013 and 2014 financial years is subject to a hurdle derived from a three year vesting period using the internal performance measuring metric, TSR Alpha™. This measure is based on total shareholder return over that vesting period.

The fair value of the performance rights was estimated using Monte Carlo simulations, taking into account the terms and conditions upon which the awards were granted.

continued

## 24. Employee benefits and share-based payments continued

The following table lists the inputs to the model used for the performance rights granted for the year:

| | | |
|---|---|---|
| **Number of rights issued** | **479,643** | **768,380** |
| Grant date | 7/13 November 2013 | 26 November 2013 |
| Spot price ($) | 1.24 | 1.24 |
| Risk-free rate (%) | 2.9 | 2.9 |
| Term (years) | 2.6 | 2.6 |
| Volatility (%) | 60–65 | 60–65 |
| Exercise price | – | – |
| Fair value ($) | 0.72–0.75 | 0.72–0.75 |

The volatility above was determined with reference to the historical volatility of the Company's share price from June 2008 to November 2013.

The outstanding balance of the performance rights is summarised in the table below:

| | 2016 Number | 2015 Number |
|---|---|---|
| Outstanding balance at the beginning of the year | **507,202** | 695,097 |
| Performance rights granted during the year | **–** | – |
| Vested during the year | **–** | – |
| Lapsed during the year | **(92,045)** | – |
| Forfeited during the year | **(144,268)** | (187,895) |
| **Outstanding balance at the end of the year** | **270,889** | **507,202** |

### Deferred rights

Kingsgate issued the following deferred rights during financial year 2013/2014:

| | Grant date | Vesting date | Fair value | Number |
|---|---|---|---|---|
| Deferred rights | 7 November 2013 | 1 July 2016 | $1.47 | 215,874 |
| Deferred rights | 13 November 2013 | 1 July 2016 | $1.34 | 63,241 |
| Deferred rights | 4 November 2013 | 1 July 2016 | $1.39 | 49,407 |
| **Total** | | | | **328,522** |

The fair value of the deferred rights was estimated based on the share price less the present value of projected dividends over the expected term of each deferred right using Monte Carlo simulations model.

The following table lists the inputs to the model used for the deferred rights granted for the year:

| | | | |
|---|---|---|---|
| **Number of rights issued** | **215,874** | **63,241** | **49,407** |
| Grant date | 7 November 2013 | 13 November 2013 | 4 November 2013 |
| Spot price ($) | $1.47 | $1.34 | $1.39 |
| Term (years) | 2.6 | 2.6 | 2.6 |
| Dividends ($) | – | – | – |

The outstanding balance of the deferred rights is summarised in the table below:

| | 2016 Number | 2015 Number |
|---|---|---|
| Outstanding balance at the beginning of the year | **236,637** | 560,502 |
| Deferred rights granted during the year | **–** | – |
| Vested during the year | **(52,842)** | (99,308) |
| Lapsed during the year | **–** | – |
| Forfeited during the year | **(72,135)** | (224,557) |
| **Outstanding balance at the end of the year** | **111,660** | **236,637** |

## Employee Share Option Plan

On 29 April 2016, Kingsgate granted 1,500,000 employee options. The terms of the options issued pursuant to the plan are as follows:

- Each option will entitle the holder to subscribe for one ordinary share of the Company;
- Options are granted under the plan for no consideration; and
- Options granted under the plan carry no dividend or voting rights.

| Grant date | Expiry date | Exercise price | Balance start of year Number | Granted during year Number | Expired during year Number | Balance end of year Number | Vested and exercisable at end of year Number |
|---|---|---|---|---|---|---|---|
| 29 Apr 2016 | 30 June 2019 | $0.40 | – | 500,000 | – | 500,000 | – |
| 29 Apr 2016 | 30 June 2020 | $0.50 | – | 500,000 | – | 500,000 | – |
| 29 Apr 2016 | 30 June 2021 | $0.60 | – | 500,000 | – | 500,000 | – |

### Fair value of options granted

The fair value at grant date of the options is determined using the Black-Scholes option pricing model which incorporates the following inputs:

| | | | |
|---|---|---|---|
| **Number of options issued** | **500,000** | **500,000** | **500,000** |
| Term (years) | 3.17 | 4.17 | 5.17 |
| Exercise price ($) | 0.40 | 0.50 | 0.60 |
| Dividend yield ($) | – | – | – |
| Spot price ($) | 0.455 | 0.455 | 0.455 |
| Volatility (%) | 65–75 | 65–75 | 65–75 |
| Risk free rate (%) | 1.86 | 1.85 | 1.85 |
| Fair value ($) | 0.23 | 0.24 | 0.22 |
| Outstanding balance at the beginning of the year | – | – | – |
| Options granted during the year | 500,000 | 500,000 | 500,000 |
| Vested during the year | – | – | – |
| Lapsed during the year | – | – | – |
| Forfeited during the year | – | – | – |
| Outstanding balance at the end of the year | 500,000 | 500,000 | 500,000 |

The volatility above was determined with reference to the historical volatility of the Company's share price from April 2013 to April 2016.

continued

## 25. Reconciliation of loss after income tax to net cash flow from operating activities

| | 2016 $'000 | 2015 Restated $'000 |
|---|---|---|
| Loss for the year | **(229,451)** | (147,643) |
| Depreciation and amortisation | **46,177** | 53,950 |
| Share-based payments | **48** | 410 |
| Impairment | **210,969** | 148,181 |
| Unwind of discount rate for provision | **952** | 1,104 |
| Amortisation of deferred borrowing costs | **1,559** | 1,825 |
| Unrealised losses/(gains) | **810** | (743) |
| Share of associate's loss | **–** | 112 |
| Net exchange differences | **123** | 448 |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in receivables | **9,039** | (3,263) |
| (Increase)/decrease in prepayments | **3,736** | 14,328 |
| (Increase)/decrease in inventories | **13,622** | 10,875 |
| Increase/(decrease) in current tax liabilities | **–** | (1,284) |
| Increase/(decrease) in creditors | **(9,244)** | (2,418) |
| Increase/(decrease) in provisions | **(1,578)** | (201) |
| Increase/(decrease) in deferred tax liabilities | **(269)** | 965 |
| **Net cash inflow from operating activities** | **46,693** | 76,646 |

## 26. Events occurring after reporting date

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

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

## 27. Contingent liabilities

The Group had contingent liabilities at 30 June 2016 in respect of guarantees. Bank guarantees have been given by Kingsgate's controlled entities to participating banks in the loan facility and corporate loan facility as described in Note 16 as part of the security package. 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. No material losses are anticipated in respect of the above contingent liabilities.

## 28. Financial risk management and instruments

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk, fair value risk and interest rate risk), credit risk and liquidity risk.

At this point, the Directors believe that it is in the interest of shareholders to expose the Group to foreign currency risk, price risk (except in specific circumstances) and interest rate risk. Therefore, the Group does not employ any derivative hedging of foreign currency or interest rate risks. The Group has entered into forward gold sale contracts to manage Australian gold price risk in respect of the forecast production from the Challenger Gold Mine and US$ gold price risk in respect of the forecast production from Chatree. No forward gold sale contracts were in place at year end (refer to "commodity price risk"). The Directors and management monitors these risks, in particular market forecasts of future movements in foreign currency and price movements and, if it is to be believed to be in the best interests of shareholders, will implement risk management strategies to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the senior executive team. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group holds the following financial instruments:

| | 2016 $'000 | 2015 Restated $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **36,314** | 55,472 |
| Receivables | **16,288** | 19,139 |
| Restricted cash | **7,004** | 6,601 |
| Available-for-sale financial assets | **540** | 1,350 |
| Other financial assets | **8,624** | 10,674 |
| **Total financial assets** | **68,770** | 93,236 |
| **Financial liabilities** | | |
| Payables | **(25,387)** | (34,515) |
| Borrowings | **(98,097)** | (144,092) |
| **Total financial liabilities** | **(123,484)** | (178,607) |

## Market risk

### Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar and Thai Baht and as discussed earlier, no financial instruments are employed to mitigate the exposed risks. This is the Group's current policy and it is reviewed regularly including forecast movements in these currencies by management and the Board. Currently foreign exchange risks arise primarily from:

- the sale of gold, which is in US dollars;
- payables denominated in US dollars; and
- cash balances in US dollars.

The functional currency of the Thai subsidiaries is Thai Baht. The Company's functional currency is Australian dollars.

The Group's exposure to US dollar foreign currency risk at the reporting date was as follows:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Cash and cash equivalents | **1,819** | 2,074 |
| Restricted cash | **7,004** | 6,601 |
| Receivables | **59** | 38 |
| Payables | **(4,493)** | (3,242) |
| **Total exposure to foreign currency risk** | **4,389** | 5,471 |

The Group's sale of gold produced from Chatree Gold Mine and part of the multi-currency loan facilities (see Note 16) are in US dollars, however the functional currency of the subsidiary company that owns Chatree Gold Mine is Thai Baht and therefore, the Group's profit is sensitive to movement in those currencies.

The Group's current exposure to other foreign exchange movements is not material.

| | Impact on post tax loss | | Impact on other comprehensive income | |
|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| One cent weakened in Australian dollar against the US dollar | **1,743** | 1,739 | **–** | – |
| One cent strengthened in Australian dollar against the US dollar | **(1,743)** | (1,739) | **–** | – |

continued

## 28. Financial risk management and instruments continued

### Commodity price risk

As at 30 June 2016, no forward gold sale contracts were in place at year end.

| | Gold for physical delivery ounces | Contracted sales price A$/oz | Value of committed sales $'000 |
|---|---|---|---|
| **As at 30 June 2016** | | | |
| Within one year | – | – | – |
| **As at 30 June 2015** | | | |
| Within one year | 5,000 | 1,538 | 7,693 |

The following table displays fluctuations in the fair value of the Group's gold forward contracts due to movements in the spot price of gold with all other variables held constant. The 10% sensitivity is based on reasonable possible changes, over a financial year, using the observed range of actual historical prices.

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Mark to market movement of the fair value of gold forward contracts** | | |
| 10% increase in the spot price of gold (2015: 10%) | – | (804) |
| 10% decrease in the spot price of gold (2015: 10%) | – | 741 |

### Equity price risk

The Group is exposed to equity securities price risk, which arises from investments classified on the statement of financial position as available-for-sale financial assets.

A 10% increase/decrease of the share price for the equity securities at 30 June 2016 would have increased/(decreased) profit/equity by the amounts shown as follows:

| | +10% | | -10% | |
|---|---|---|---|---|
| | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 |
| Available-for-sale financial asset – 2016 | **54** | **–** | **(54)** | **–** |
| Available-for-sale financial asset – 2015 | 135 | – | (135) | – |

## Interest rate risk

The Group's exposure to interest rate risk for classes of financial assets and financial liabilities, at 30 June 2016 and 30 June 2015 are set out as follows:

| | Floating interest rate $'000 | Fixed interest maturing in | | | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| | | 1 year or less $'000 | 1–2 years $'000 | 2–5 years $'000 | | |
| **2016** | | | | | | |
| Financial assets | | | | | | |
| Cash and cash equivalents | 36,303 | – | – | – | 11 | 36,314 |
| Receivables | – | – | – | – | 16,288 | 16,288 |
| Restricted cash | 7,004 | – | – | – | – | 7,004 |
| Available-for-sale financial assets | – | – | – | – | 540 | 540 |
| Other financial assets | 8,316 | – | – | – | 308 | 8,624 |
| **Total financial assets** | **51,623** | **–** | **–** | **–** | **17,147** | **68,770** |
| Financial liabilities | | | | | | |
| Payables | – | – | – | – | (25,387) | (25,387) |
| Borrowings | (87,859) | (10,171) | – | – | (67) | (98,097) |
| **Total financial liabilities** | **(87,859)** | **(10,171)** | **–** | **–** | **(25,454)** | **(123,484)** |
| **Net financial liabilities** | **(36,236)** | **(10,171)** | **–** | **–** | **(8,307)** | **(54,714)** |
| **2015 Restated** | | | | | | |
| Financial assets | | | | | | |
| Cash and cash equivalents | 55,451 | – | – | – | 21 | 55,472 |
| Receivables | – | – | – | – | 19,139 | 19,139 |
| Restricted cash | 6,601 | – | – | – | – | 6,601 |
| Available-for-sale financial assets | – | – | – | – | 1,350 | 1,350 |
| Other financial assets | 10,268 | – | – | – | 406 | 10,674 |
| **Total financial assets** | **72,320** | **–** | **–** | **–** | **20,916** | **93,236** |
| Financial liabilities | | | | | | |
| Payables | – | – | – | – | (34,515) | (34,515) |
| Borrowings | (129,866) | (12,582) | (472) | (1,090) | (82) | (144,092) |
| **Total financial liabilities** | **(129,866)** | **(12,582)** | **(472)** | **(1,090)** | **(34,597)** | **(178,607)** |
| **Net financial liabilities** | **(57,546)** | **(12,582)** | **(472)** | **(1,090)** | **(13,681)** | **(85,371)** |

The weighted average rate on floating rate borrowings was 4.18% for the year ended 30 June 2016 (2015: 4.67%).

A change of 100 basic points ("bps") in interest rate at the reporting date would have increased/decreased profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates remain constant.

continued

## 28. Financial risk management and instruments continued

| | 100 bps increase Profit $'000 | 100 bps decrease Profit $'000 |
|---|---|---|
| Variable rate instrument – 2016 | **853** | **(853)** |
| Variable rate instrument – 2015 | 1,299 | (1,299) |

### Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers including, outstanding receivables and committed transactions.

The Group has no significant concentrations of credit risk. The sale of gold and other cash equivalents are limited to counterparties with sound credit ratings.

The maximum exposure to credit risk is represented by the carrying value of the Group's financial assets in the statement of financial position. The maximum exposure to credit risk at reporting date was:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Cash and cash equivalents | **36,314** | 55,472 |
| Receivables | **16,288** | 19,139 |
| Restricted cash | **7,004** | 6,601 |
| Other financial assets | **8,624** | 10,674 |
| **Total exposure to credit risk at year end** | **68,230** | 91,886 |

### Liquidity risk

The Group's liquidity requirements are based upon cash flow forecasts which are based upon forward production, operations, exploration and capital projections. Liquidity management, including debt/equity management, is carried out under policies approved by the Board and forecast material liquidity changes are discussed at Board meetings. The following table analyses the Company's financial assets and liabilities into relevant maturity groupings base on the remaining period at the reporting date. The amounts disclosed are the contractual undiscounted cash flows. The borrowings of the Group are repayable on demand, however the contractual amounts for borrowings also include the interests that are expected to be repaid until the repayment of these debts based on the cash flow forecast prepared by the Group.

| | Carrying amount $'000 | 1 year or less $'000 | 1–2 years $'000 | 2–5 years $'000 | More than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Payables | 25,387 | 21,313 | – | 4,074 | – | 25,387 |
| Borrowings | 98,097 | 100,610 | – | – | – | 100,610 |
| **Total financial liabilities 2016** | **123,484** | **121,923** | **–** | **4,074** | **–** | **125,997** |
| **2015 (Restated)** | | | | | | |
| Payables | 34,515 | 27,344 | 952 | 5,741 | 774 | 34, 811 |
| Borrowings | 144,092 | 73,379 | 32,502 | 47,389 | – | 153,270 |
| **Total financial liabilities 2015** | **178,607** | **100,723** | **33,454** | **53,130** | **774** | **188,081** |

### 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. Refer to Note 14 for details of impairment of Level 3 assets.

#### 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 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **30 June 2016** | | | | |
| Available-for-sale financial assets | **540** | **–** | **–** | **540** |
| Receivable | **–** | **–** | **5,000** | **5,000** |
| **30 June 2015** | | | | |
| Available-for-sale financial assets | 1,350 | – | – | 1,350 |

## 29. Key Management Personnel disclosures

| | |
|---|---|
| **Chairman** | |
| Ross Smyth-Kirk | Non-Executive Chairman |
| **Non-Executive Directors** | |
| Peter Alexander | Non-Executive Director |
| Peter McAleer | Non-Executive Director |
| Sharon Skeggs | Non-Executive Director |
| Peter Warren | Non-Executive Director |
| **Key Management Personnel** | |
| Greg Foulis | Chief Executive Officer |
| Ross Coyle | Chief Financial Officer and Company Secretary – *Appointed Company Secretary 7 December 2015* |
| Tim Benfield | Chief Operating Officer – *Ceased employment 9 August 2016* |
| Alistair Waddell | General Manager Corporate Development – *Commenced 1 April 2016* |
| Ron James | General Manager Exploration – *Ceased employment 31 May 2016* |
| Paul Mason | Company Secretary – *Resigned as Company Secretary 7 December 2015* |
| Joel Forwood | General Manager Corporate and Markets – *Ceased employment 30 September 2015* |

continued

## 29. Key Management Personnel disclosures continued

| Key Management Personnel Compensation | 2016 $ | 2015 $ |
|---|---|---|
| Short-term employee benefits | **2,358,058** | 3,424,689 |
| Post-employment benefits | **227,388** | 206,051 |
| Termination benefits | **470,201** | 673,271 |
| Share-based payments | **29,295** | 409,770 |
| Other long term benefits | **87,713** | 14,012 |
| **Total Key Management Personnel compensation** | **3,172,655** | 4,727,793 |

## 30. Auditors' remuneration

| | 2016 $ | 2015 $ |
|---|---|---|
| **Audit and other assurance services** | | |
| *PricewaterhouseCoopers Australian Firm* | | |
| Audit and review of the financial reports | **592,840** | 563,300 |
| *Related Practices of PricewaterhouseCoopers Australian Firm* | | |
| Audit and review of the financial statements | **295,782** | 338,176 |
| **Total remuneration for audit services** | **888,622** | 901,476 |
| **Other Services** | | |
| *PricewaterhouseCoopers Australian Firm* | | |
| Other services | **35,401** | 11,325 |
| *Related practices of PricewaterhouseCoopers Australian Firm* | | |
| Transaction services (IPO) | **–** | 68,376 |
| Other services | **42,205** | 27,075 |
| **Total remuneration for non-audit related services** | **77,606** | 106,776 |
| **Taxation services** | | |
| *PricewaterhouseCoopers Australian Firm* | | |
| Tax compliance services | **30,600** | 45,575 |
| *Related practices of PricewaterhouseCoopers Australian Firm* | | |
| Tax compliance services | **47,164** | 47,575 |
| **Total remuneration for tax related services** | **77,764** | 93,150 |

## 31. Loss per share

| | 2016 Cents | 2015 Restated Cents |
|---|---|---|
| Basic and diluted loss per share from continuing operations | (118.1) | (59.9) |
| Basic and diluted loss per share from discontinued operations | 15.5 | (6.1) |
| Basic and diluted loss per share from continuing operations and discontinued operations | (102.6) | (66.0) |

| | $'000 | $'000 |
|---|---|---|
| Net loss used to calculate basic and diluted earnings per share | | |
| Continuing operations | (264,182) | (134,006) |
| Discontinued operations | 34,731 | (13,637) |

| | Number | Number |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator: basic | 223,575,540 | 223,584,937 |
| Adjustment for dilutive effect | – | – |
| **Weighted average number of ordinary shares used as the denominator: diluted** | **223,575,540** | 223,584,937 |

### Diluted loss per share

As the Group made a loss for the year, diluted loss per share is the same as basic loss per share as the impact of dilution would be to reduce the loss per share.

## 32. Parent entity financial information

As at, and throughout the financial year ending 30 June 2016, the parent entity of the Group was Kingsgate.

| Summary of financial information | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Results of parent entity** | | |
| Loss for the year | (18,303) | (36,777) |
| Other comprehensive loss | – | – |
| **Total comprehensive loss** | **(18,303)** | (36,777) |
| **Financial position of parent entity at year end** | | |
| Current assets | 107,622 | 125,219 |
| Total assets | 136,288 | 168,240 |
| Current liabilities | 74,869 | 88,565 |
| Total liabilities | 74,977 | 88,607 |
| **Total equity of the parent entity comprising:** | | |
| Issued capital | 677,042 | 677,109 |
| Reserve | 8,377 | 8,329 |
| Accumulated losses | (624,108) | (605,805) |
| **Total equity** | **61,311** | 79,633 |

continued

## 32. Parent entity financial information continued

### Contingent liabilities of the parent entity

Bank guarantees have been given by Kingsgate's controlled entities to participating banks in the loan facility as described in Note 16 as part of the security package.

The corporate loan facility 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 guarantee. No material losses are anticipated in respect of the above contingent liabilities.

In addition, there are cross guarantees given by Kingsgate, Dominion Mining Limited and Gawler Gold Mining Pty Ltd as described in Note 33. No deficiencies of assets exist in any of these companies. No liability was recognised by the parent entity or the group in relation to this guarantee, as the fair value of the guarantees is immaterial.

As at 30 June 2016, the parent entity had no contractual commitments for the acquisition of property, plant or equipment.

## 33. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' Reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee ("Deed"). The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt on the event of the winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the *Corporations Act 2001*, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Dominion Mining Limited;
- Challenger Gold Operations Pty Ltd*; and
- Gawler Gold Mining Pty Ltd.

** discontinued operation and exited closed group on 15 March 2016 (see Note 34).*

The above companies represent a 'closed group' for the purpose of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Kingsgate Consolidated Limited, they also represent the 'extended closed group'.

A consolidated income statement and other comprehensive income, a summary of movements in consolidated accumulated losses, and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, is set out as follows:

## Income statement and other comprehensive income

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Sales revenue | **78,916** | 118,353 |
| Costs of sales | **(57,331)** | (105,697) |
| **Gross profit** | **21,585** | 12,656 |
| Exploration expenses | **(80)** | (143) |
| Corporate and administration expenses | **(10,196)** | (9,436) |
| Other income and expenses | **30,979** | (1,293) |
| Foreign exchange gain/(loss) | **1,962** | 11,924 |
| Impairment losses – investment in Chatree Gold Mine | **(2,091)** | – |
| Impairment losses – investment in Bowdens Silver Project | **(9,217)** | (23,921) |
| Impairment losses – investment in Nueva Esperanza Gold/Silver Project | **(6,750)** | (19,026) |
| Impairment reversal – investment in Challenger Gold Mine | **411** | – |
| Write-off on loan to subsidiaries | **(41,180)** | – |
| **Loss before financial costs and income tax** | **(14,577)** | (29,239) |
| Finance income | **271** | 434 |
| Finance costs | **(4,337)** | (4,480) |
| **Net finance costs** | **(4,066)** | (4,046) |
| Loss before income tax | **(18,643)** | (33,285) |
| Income tax expense | **–** | – |
| **Loss after income tax** | **(18,643)** | (33,285) |
| **Total comprehensive loss for the year** | **(18,643)** | (33,285) |
| **Loss attributable to:** | | |
| Owners of Kingsgate Consolidated Limited | **(18,643)** | (33,285) |
| **Total comprehensive loss attributable to:** | | |
| Owners of Kingsgate Consolidated Limited | **(18,643)** | (33,285) |

## Summary of movements in consolidated retained earnings

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Accumulated losses** | | |
| Accumulated losses at beginning of the financial year | **(603,242)** | (569,957) |
| Loss for the year | **(18,643)** | (33,285) |
| **Accumulated losses at end of the financial year** | **(621,885)** | (603,242) |



continued

## 33. Deed of cross guarantee continued

| Statement of financial position | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Assets** | | |
| *Current assets* | | |
| Cash and cash equivalents | **30,356** | 37,981 |
| Receivables | **78,950** | 104,888 |
| Inventories | **–** | 4,541 |
| Other assets | **543** | 725 |
| **Total current assets** | **109,849** | 148,135 |
| *Non-current assets* | | |
| Property, plant and equipment | **68** | 562 |
| Exploration, evaluation and development | **–** | 906 |
| Investment in subsidiaries | **28,528** | 39,153 |
| Other assets | **70** | 1,559 |
| **Total non-current assets** | **28,666** | 42,180 |
| **TOTAL ASSETS** | **138,515** | 190,315 |
| **Liabilities** | | |
| *Current liabilities* | | |
| Payables | **63,452** | 71,139 |
| Borrowings | **11,069** | 26,140 |
| Provisions | **352** | 3,100 |
| **Total current liabilities** | **74,873** | 100,379 |
| *Non-current liabilities* | | |
| Payables | **43** | – |
| Provisions | **65** | 7,740 |
| **Total non-current liabilities** | **108** | 7,740 |
| **TOTAL LIABILITIES** | **74,981** | 108,119 |
| **NET ASSETS** | **63,534** | 82,196 |
| **Equity** | | |
| Contributed equity | **677,042** | 677,109 |
| Reserves | **8,377** | 8,329 |
| Accumulated losses | **(621,885)** | (603,242) |
| **TOTAL EQUITY** | **63,534** | 82,196 |

## 34. Discontinued operations

### a. Accounting for discontinued operations

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

### b. Details of discontinued operations

#### Challenger Gold Mine

On 30 October 2015, Kingsgate announced an Option Agreement was reached with a 50/50 Joint Venture between Diversified Minerals Pty Ltd and WPG Resources Limited ("Purchasers"), whereby the Purchasers would acquire 100% of the Challenger Gold Mine and certain exploration licences for consideration of $1,000,000 and a $25 per ounce revenue royalty on future production in excess of 30,000 ounces from the Challenger SSW Zone. The Option Agreement was exercised on 11 December 2015. A Share Purchase Agreement was executed on 19 February 2016 and the sale was completed on 15 March 2016.

#### Bowdens Silver Project

On 25 February 2016, Kingsgate announced a Share Purchase Agreement was entered into to sell an 85% interest in the Bowdens Silver Project for a cash consideration of $20 million to Silver Investment Holdings Australia Limited ("SIHA"). This arrangement was subsequently varied with SIHA agreeing to purchase 100% of the project for a total consideration of $25 million. On 29 June 2016, the Company completed the sale of the project. At that date $5 million of the consideration was outstanding and is due to be paid by 30 September. If this is not paid by the due date the Company will retain 15% of the project and revert to an unincorporated Joint Venture.

Challenger Gold Mine and Bowdens Silver Project were not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of profit or loss and other comprehensive income has been restated to show the discontinued operation separately from continuing operations.

### c. Results of the discontinued operations

The results of the discontinued operations for the year until disposal are presented below:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Sales revenue | 78,916 | 118,354 |
| Cost of sales | (57,331) | (105,704) |
| **Gross profit** | 21,585 | 12,650 |
| Exploration expenses | (49) | (175) |
| Corporate and administration expenses | (903) | (564) |
| Other income and expenses | 467 | (2,632) |
| Reversal of impairment/(impairment) | 17,056 | (22,643) |
| **Profit/(loss) before finance costs and income tax from discontinued operations** | 38,156 | (13,364) |
| Finance income | 33 | 82 |
| Finance cost | (209) | (355) |
| **Net finance costs** | (176) | (273) |
| Profit before income tax | 37,980 | (13,637) |
| Income tax expense | (3,249) | – |
| **Profit/(loss) after income tax from discontinued operations** | 34,731 | (13,637) |

| **Earnings per share for profit from discontinued operations** | Cents | Cents |
|---|---|---|
| Basic earnings per share (Note 31) | 15.5 | (6.1) |
| Diluted earnings per share (Note 31) | 15.5 | (6.1) |

continued

## 34. Discontinued operations continued

### d. Cash flow information of the discontinued operations

The net cash flows of discontinued operations are as follows:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Net cash flows from operating activities | 13,610 | 17,346 |
| Net cash flows from investing activities | (2,742) | (2,986) |
| **Net cash flows for the year** | 10,868 | 14,360 |

### e. Details of the sale of the discontinued operations

| | 2016 $'000 |
|---|---|
| Consideration | 26,000 |
| Carrying amount of net assets sold | (26,000) |
| **Gain on sale before income tax** | – |
| Income tax expense | – |
| **Gain on sale after income tax** | – |

The carrying amounts of assets and liabilities of the discontinued operations as at the date of the sale were:

| | 2016 $'000 |
|---|---|
| Receivables | 35 |
| Inventories | 4,339 |
| Exploration, evaluation and development | 22,331 |
| Property, plant and equipment | 873 |
| Other assets | 3,069 |
| Deferred tax asset | 3,249 |
| Provisions | (7,896) |
| **Net assets** | 26,000 |

## 35. Correction of prior year error

The error, which relates to the non-provision by Akara (Kingsgate's Thai operating subsidiary) of a community fund required under the metallurgical licence applicable to the operation of the Chatree North processing plant, has been adjusted retrospectively by restating the comparative amounts for the prior periods in which the errors occurred. As the prior period's errors on the opening balance sheet at 1 July 2014 are considered immaterial, a third balance sheet has not been included in the financial statements.

The impacts of this correction in the prior period are:

- Payables at 30 June 2015 has increased from $26,281,000 to $27,344,000 by $1,063,000;
- Reserves at 30 June 2015 has decreased from $53,793,000 to $53,700,000 by $93,000;
- Accumulated losses at 30 June 2015 has increased from $405,206,000 to $406,176,000 by $970,000;
- Cost of sales for the year ended 30 June 2015 has increased by $550,000 from $278,357,000 to $278,907,000; and
- Basic and diluted loss per share for the year ended 30 June 2015 has increased by $0.002 from $0.658 to $0.660.

There is no impact to the statement of cash flows for the year ended 30 June 2015.

# Directors' Declaration

In the Directors' opinion:

a) the financial statements and notes that are set out on pages 50 to 96 and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and

   (ii) complying with Australian Accounting Standards, the Corporation Regulations 2001 and other mandatory professional reporting requirements.

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 33.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.

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

Ross Smyth-Kirk
Director

Dated at Sydney on 31 August 2016
On behalf of the Board

# Independent Auditor's Report

pwc

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

### Report on the financial report

We have audited the accompanying financial report of Kingsgate Consolidated Limited (the company), which comprises the consolidated statement of financial position as at 30 June 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, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Kingsgate Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

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

### Auditor's opinion

In our opinion:

(a) the financial report of Kingsgate Consolidated Limited is in accordance with the *Corporations Act 2001*, including:

  (i) a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

### Material uncertainty regarding continuation as a going concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity's main cash contributor, the Chatree Gold mine will only operate until 31 December 2016. Related external borrowings have been therefore reclassified to current liabilities resulting in the consolidated entity having current liabilities exceeding its current assets by $36,855,000 and having insufficient financial resources to fully fund its ongoing operations.

The continuing viability of the consolidated entity and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the consolidated entity being successful in generating sufficient positive cash flows from the Chatree Gold mine until 31 December 2016 and the ongoing support of the external lenders of the Group.

These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise its assets and settle its liabilities in the normal course of business and at the amounts stated in the financial report.

## Report on the Remuneration Report

We have audited the remuneration report included in pages 31 to 47 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's opinion

In our opinion, the remuneration report of Kingsgate Consolidated Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

## Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Kingsgate Consolidated Limited (the company) for the year ended 30 June 2016 included on Kingsgate Consolidated Limited's web site. The company's directors are responsible for the integrity of Kingsgate Consolidated Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Brett Entwistle
Partner

Sydney
31 August 2016

***PricewaterhouseCoopers, ABN 52 780 433 757***
*Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

# Shareholder Information

As at 30 September 2016

## Distribution of equity securities

| Size of Holding | Number of shareholders of fully paid ordinary shares | Number of option holders | Number of vested deferred rights holders |
|---|---|---|---|
| 1 – 1,000 | 5,082 | – | – |
| 1,001 – 5,000 | 3,992 | – | – |
| 5,001 – 10,000 | 1,269 | – | – |
| 10,001 – 100,000 | 1,671 | – | 3 |
| 100,001 + | 151 | 1 | – |
| **Total** | **12,165** | **1** | **3** |

## 20 largest shareholders

20 largest shareholders of quoted ordinary shares

| | Shareholder | Number of shares | Percentage |
|---|---|---|---|
| 1 | HSBC Custody Nominees (Australia) Limited | 31,699,917 | 14.18 |
| 2 | J P Morgan Nominees Australia Limited | 27,537,890 | 12.32 |
| 3 | BNP Paribas Noms Pty Ltd < DRP > | 16,771,768 | 7.50 |
| 4 | Citicorp Nominees Pty Limited | 16,524,993 | 7.39 |
| 5 | Merrill Lynch (Australia) Nominees Pty Limited | 13,460,715 | 6.02 |
| 6 | National Nominees Limited | 8,799,142 | 3.94 |
| 7 | Arinya Investments Pty Ltd | 4,996,944 | 2.23 |
| 8 | Bruce Clayton Bird | 3,207,110 | 1.43 |
| 9 | Lujeta Pty Ltd | 2,068,063 | 0.92 |
| 10 | Elizabeth Aprieska <Tap Money Family A/C> | 1,412,590 | 0.63 |
| 11 | Ali Beydoun | 1,300,000 | 0.58 |
| 12 | Christopher Komor | 1,097,462 | 0.49 |
| 13 | Yandal Investments Pty Ltd | 1,000,000 | 0.45 |
| 14 | Peter Chapman | 837,058 | 0.37 |
| 15 | Maminda Pty Ltd | 792,833 | 0.35 |
| 16 | Bahulu Holdings Pty Ltd <Thomas Family Superfund A/C> | 641,822 | 0.29 |
| 17 | ABN Amro Clearing Sydney Nominees Pty Ltd | 547,045 | 0.24 |
| 18 | SFB Investments Pty Limited <SFB Settlements A/C> | 500,000 | 0.22 |
| 19 | Chen Chen | 430,000 | 0.19 |
| 20 | Mediflex Industries Australia Pty Ltd | 420,000 | 0.19 |

## Unquoted equity securities

There was one option holder holding 1,500,000 options.

There were three vested deferred rights holders holding 111,660 deferred rights.

## Unquoted equity security holdings greater than 20%

### Options

On 29 April 2016, Kingsgate granted 1,500,000 employee options.

| Grant Date | Expiry date | Exercise price | Number |
|---|---|---|---|
| 29 Apr 2016 | 30 June 2019 | $0.40 | 500,000 |
| 29 Apr 2016 | 30 June 2020 | $0.50 | 500,000 |
| 29 Apr 2016 | 30 June 2021 | $0.60 | 500,000 |

There were no persons holding more than 20% of deferred rights other than rights issued under the Executive Rights Plan.

## Voting rights

### a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### b) Options

No voting rights.

### c) Deferred rights (vested)

No voting rights.

# Corporate Information

Kingsgate Consolidated Limited
ABN 42 000 837 472

## Directors

| | |
|---|---|
| Ross Smyth-Kirk | Chairman |
| Peter Alexander | Non-Executive Director |
| Peter McAleer | Non-Executive Director |
| Sharon Skeggs | Non-Executive Director |
| Peter Warren | 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
Web: www.kingsgate.com.au

## Bangkok Office

### Akara Resources Public Company Limited

19th 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

## Chatree Mine Office

### Akara Resources Public Company Limited

No. 99 Moo 9, Tambon Khao Chet Luk
Amphur Thap Khlo
Phichit 66230
Thailand

Tel: +66 56 614 500
Fax: +66 56 614 190

## 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
Web: www.linkmarketservices.com.au

### ADR Depository

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

Tel: +1 212 815 2293

## Auditor

### PricewaterhouseCoopers

Darling Park Tower 2 – 201 Sussex Street
Sydney NSW 2000
Australia

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

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Consolidated Limited

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