



# Quarterly Report

For the period ending 30 June 2016

## SIGNIFICANT MATTERS

- ▶ On 10 May 2016, the Thai Minister for Industry decided, following a Cabinet meeting, that the Metallurgical Licence for the Chatree Gold Mine would be extended only until the end of 2016, rather than for a further three to five year period as was expected.
- ▶ As the Metallurgical Licence is critical to the continued operation of the Chatree Gold Mine, all operations must cease by 31 December 2016.
- ▶ Due to ongoing uncertainty with respect to the remaining tenure of the Chatree Gold Mine, Kingsgate shares remain voluntarily suspended from trading.
- ▶ There is the potential for a substantial impairment to the carrying value of the Chatree Gold Mine, subject to a final review and audit that will be in the order of US\$175 million, which highlights the magnitude of the impact of the Thai Government's decision to prematurely close the mine.
- ▶ Kingsgate continues to push for clarity and remedies to the situation in Thailand.
- ▶ Kingsgate has a bright future in Chile being a jurisdiction that welcomes and respects foreign investment.
- ▶ Kingsgate is pushing ahead with its 100% owned Nueva Esperanza Project in Chile, and US\$3 million has been committed to exploration in FY17.
- ▶ Completion of the sale of the Bowdens Silver Project for a total of A\$25 million, of which A\$20 million has now been received, with the remaining A\$5 million to be paid by 30 September 2016.
- ▶ Cash and bullion/doré totaled A\$55.2 million (March quarter: A\$49.8 million), comprising cash of A\$47.5 million (including restricted cash of A\$11.2 million) and bullion/doré of A\$7.7 million.
- ▶ Debt facilities of A\$86 million comprise a A\$10 million corporate facility and an A\$76 million equivalent loan facility against Chatree.





## Thailand

The Thai Military Government has given a policy direction that relates specifically to stopping all gold mining in Thailand, and is behaving with all intent to permanently close the Chatree Gold Mine. The Government announced to the Thai media on 10 May 2016, that all gold mining in Thailand will cease at the end of 2016. Given that the Chatree Gold Mine is the only operating gold mine in the whole of Thailand, it has become obvious that these actions were clearly aimed at Kingsgate's Thai subsidiary Akara Resources Public Company Limited ("Akara"), and have now irrevocably damaged Kingsgate's and Akara's business and reputations.

The Thai Government's actions lack legal and operating clarity. The timeline of events thus far, saw the initial Cabinet policy resolution on 10 May 2016 rescinded less than a month later, on 7 June 2016. This caused much confusion in Thailand and prompted senior members of the Thai Government to re-confirm that they still intended to close the Chatree Gold Mine by 31 December 2016, even though they were at pains to say the closure was not a result of the way the mine is operated.

Additionally, in June, Akara was ordered to provide a full closure and remediation plan for the mine within 30 days and in a similar fashion to the Cabinet process. This rehabilitation order has also been rescinded less than a month after it was issued.

Adding to the confusion amongst the Thai bureaucracy, the Thai DSI (equivalent to the Federal Police) has since taken an interest in investigating the operation, following the new policy to close gold mining across the country. In its first action, the DSI proceeded to enter the Chatree Gold Mine site without notice, and potentially without proper legal grounds for such an entry, accompanied by a media contingent and a group of anti-mining protestors.

In the one meeting that Kingsgate has managed to secure with the Thai Minister of Industry ("MOI") in more than nine months of requesting meetings, the MOI duly informed Kingsgate that even if the unsubstantiated health and environment allegations are dismissed, Akara lacks full community support or popularity to remain in business. This is in spite of an international and independent health, environment and community audit by Behre Dolbear International, commissioned by the MOI, that shows the Chatree Gold Mine operates to best practice international mining standards.

In addition, an independent community survey presented to the Thai Prime Minister shows over 80% support for the mine from the surrounding communities. To further underpin the enormous level of community support for the Chatree Gold Mine, on 19 May more than 4,000 people rallied to ask the provincial Governor to keep the mine operating. Similarly, groups of supporters, ranging from university students granted Akara scholarships to elderly community leaders wanting to demonstrate their good health, have attended various events in Bangkok to show the Government that they happily co-exist alongside the Chatree Gold Mine with no adverse impacts.

The MOI has also advised Akara that the 30 day health and environment committee investigation, underway since October 2015, is still ongoing and is expected, possibly, to conclude in October 2016. Akara is very concerned about the validity of the science arising from some of these committees, given there are a number of anti-mining academics lacking proper qualifications appointed to these committees and, in some instances, Akara has been deliberately excluded from participating or presenting relevant information.

Given the limited mine life imposed by the Thai Government and, subject to a final review and audit, there will also be a substantial impairment to the carrying value of the Chatree Gold Mine that will be in the order of US\$175 million (A\$230 million at current exchange rates).

There has been no further engagement from the Thai National Anti-Corruption Commission since the notices were issued in October 2015, other than the occasional gratuitous comment in the media.

In summary, Kingsgate and its subsidiary Akara are operating in a very difficult and extremely uncertain environment that lacks any degree of transparency.

## Thailand Strategy

Kingsgate will review structural options to provide the maximum value and exposure to the 100%-owned growth project, Nueva Esperanza in Chile, whilst seeking to minimize the downside impact of Thailand.

Additionally, Kingsgate is working methodically through various potential remedies, including both legal and diplomatic options, for shareholders to compensate for the material economic impact of the Thai Government's new policies and actions. Accordingly, Kingsgate's shares remain voluntarily suspended from trading on the Australian Securities Exchange.

As the situation continues to develop in Thailand, Kingsgate will be providing monthly updates or, if an event of a material nature occurs, an immediate disclosure will be made in accordance with the Australian Securities Exchange continuous disclosure obligations.

# Detailed Production Report

	June Quarter 2016				Year To Date		
<b>Production Summary</b>	Units	Chatree	Challenger	Consolidated	Chatree	Challenger	Consolidated
Ore Mined	bcm	438,714			1,208,291		
Waste Mined	bcm	758,886			2,965,381		
Waste to Ore Ratio		1.7 : 1			2.5 : 1		
Ore Mined	tonnes	1,149,431	-	1,149,431	3,167,843	518,183	3,686,026
Ore Treated	tonnes	1,235,604	-	1,235,604	5,514,660	386,372	5,901,032
Head Grade - Gold	g/t Au	0.79	-	0.79	0.70	4.08	0.92
Head Grade - Silver	g/t Ag	13.2	-	-	11.5	-	11.5
Gold Recovery	%	77.9	-	77.9	79.8	96.0	81.7
Silver Recovery	%	32.0	-	32.0	33.3	-	33.3
Gold Poured	ounces	23,711	-	23,711	97,510	48,992	146,502
Silver Poured	ounces	164,410	-	164,410	675,579	1,364	676,943
<b>Financial Summary</b>							
<b>Cost Summary</b>							
Mining Cost	US\$/oz	409	-	409	304	489	366
Milling Cost	US\$/oz	482	-	482	453	167	357
Administration & Other	US\$/oz	82	-	82	68	94	77
Stockpile Adjustments	US\$/oz	(79)	-	(79)	69	(31)	36
By Product Credit *	US\$/oz	(105)	-	(105)	(97)	-	(65)
<b>Cash Operating Cost</b>	<b>US\$/oz</b>	<b>789</b>	<b>-</b>	<b>789</b>	<b>797</b>	<b>719</b>	<b>771</b>
Gold Royalty	US\$/oz	113	-	113	98	44	80
<b>Total Cash Cost</b>	<b>US\$/oz</b>	<b>902</b>	<b>-</b>	<b>902</b>	<b>895</b>	<b>763<sup>^</sup></b>	<b>851</b>
Depreciation & Amortisation - Operating	US\$/oz	318	-	318	297	44	212
Depreciation & Amortisation - Deferred Stripping	US\$/oz	67	-	67	33	-	22
<b>Total Production Cost</b>	<b>US\$/oz</b>	<b>1,287</b>	<b>-</b>	<b>1,287</b>	<b>1,225</b>	<b>807</b>	<b>1,085</b>
<b>Total Cash Cost per Tonne of Ore Treated</b>	<b>US\$/tonne</b>	<b>17.31</b>	<b>-</b>	<b>17.31</b>	<b>15.83</b>	<b>96.62</b>	<b>21.12</b>
<b>Revenue Summary</b>							
Gold Sold	ounces	24,435	-	24,439	100,557	50,756	151,313
Silver Sold	ounces	166,232	-	166,232	690,818	1,407	692,225
Average Gold Price Received	US\$/oz	1,211	-	1,211	1,140	1,125	1,135
Average Silver Price Received	US\$/oz	16.7	-	16.7	15.2	14.8	15.2
Revenue from Metal Production	US\$M	32.4	-	32.4	125.2	57.1	182.3
Average exchange rate [A\$/US\$]				0.75			0.73
* Net of Silver Royalties      ^ Includes mine development costs							

## CHATREE GOLD MINE, Thailand

### Chatree General

June quarter gold production at Chatree was 23,711 ounces at a total cash cost of US\$902 per ounce. Gold sales for the quarter were 24,435 ounces at an average gold price received of US\$1,211 per ounce with the All-in Sustaining Cash Cost (AISC) of US\$1,075 per ounce.

The operation has prepared a working budget until 31 December 2016 in accordance with the reduced term of the Metallurgical Licence, and the following actions have been taken as a result:

- In the June quarter, Kingsgate disbanded an operating taskforce that was preparing plans to enhance productivity, further optimize performance and prepare to make a significant re-investment including upgrading the mining fleet;
- All capital expenditure has been suspended; and
- Akara has given notice to all mine site employees that they will be made redundant by December 2016.

Akara is urgently seeking legal clarity for the site for 2017, as Akara owns the land, has valid mining licences as far out as 2028 and the processing plant closure is scheduled for 31 December 2016.

The June quarter operating performance was significantly impacted by issues associated with the Thai Government's closure notice including supplier and mining contractor performance issues. Aside from being required to terminate operations prematurely in December 2016, the current business is now faced with morale and supplier issues.

### Safety

There were no Lost Time Injuries recorded for the quarter. The Chatree Gold Mine to date has a 12 month rolling Lost Time Injury Frequency Record (LTIFR) of 0.40.

There were no reportable environmental incidents during the quarter and it remains in compliance with all environmental regulations.

### Mining Operations

Total ore mined for the quarter was 1,149,431 tonnes @ 0.89g/t for 32,852 ounces of gold, with higher grades expected in the next quarter.

Stockpiled marginal-grade ore at the close of the quarter was 6,749,423 tonnes at 0.44g/t containing 95,340 ounces of gold.

Tailings Storage Facility #2 - Stage 5 lift was fully completed in April at a cost of approximately US\$15 million which provides storage capacity well beyond the reduced life of mine imposed by the Thai Government.

### Processing

Mill throughput for the quarter was 1.2 million tonnes. The mill feed grade was 0.79g/t gold and 13g/t silver with recoveries for gold and silver of 77.9% and 32% respectively.

Production for the quarter was 23,711 ounces of gold and 164,410 ounces of silver.

## NUEVA ESPERANZA PROJECT, Chile (100% Kingsgate)

In the coming 12 months, Kingsgate intends to make further progress on the exciting Nueva Esperanza Project.

The project continues to generate industry and market interest, and has demonstrable value.

The Pre-Feasibility Study published in April 2016, highlights an NPV5% of US\$168 million<sup>1</sup> pre-tax, based on gold and silver prices lower than current spot prices.

In FY17, Kingsgate has committed to a US\$3 million exploration program, and will advance permitting and feasibility activities.

### Exploration

#### Geological Targets

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 totaled 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<sup>2</sup> 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.

#### Surface Sampling

A campaign of surface sampling took place in May following-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 in the spring field season, expected to commence in September 2016.

#### 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 square kilometre 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 Kinross Gold Corporation’s La Coipa Project and 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. These are currently being processed by the Chilean authorities. Ground truthing of these new projects will be initiated in the spring field season.

1. NPV5% = Net Present Value at a 5% discount rate.
2. Gold Equivalent:  $AuEq60 (g/t) = Au (g/t) + (Ag (g/t) \div 60)$ .

## BOWDENS SILVER PROJECT, NSW

Kingsgate was pleased to announce that Silver Mines Limited completed the purchase of the Bowdens Silver Project during the quarter.

Kingsgate has now received a total payment of A\$20 million cash for an 85% interest in the Bowdens Silver Project.

The \$20 million was paid in three instalments with the remaining A\$18 million, paid on 29 June, successfully completing the deal.

- Kingsgate has advised that an agreement was reached to allow Silver Mines Limited to purchase the remaining 15% interest in the Bowdens Silver Project, with Silver Mines Limited 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 will form an unincorporated 85% / 15% Joint Venture as originally contemplated under the Agreement.

## Finance

At the end of June 2016, following debt repayment during the quarter of equivalent A\$8.7 million and receipt of proceeds from the sale of the Bowdens Silver Project of \$18 million, the Kingsgate's group cash and debt facilities consisted of:

### Cash and Bullion/doré

Cash and bullion/doré totaled A\$55.2 million (March quarter: A\$49.8 million), comprising cash of A\$47.5 million (including restricted cash of A\$11.2 million) and bullion/doré of A\$7.7 million.

### Senior Corporate Facility

Kingsgate has A\$10 million owing against a Revolving Credit Facility ("RCF"). A debt repayment of A\$5 million is scheduled at the end of July 2016.

### Multi-currency Loan Facility

Kingsgate's Thai operating subsidiary, Akara Resources PCL, has an amortising Multi-currency (Non-recourse Project) Loan Facility which is due to be repaid in full by November 2018. Following a debt repayment of equivalent A\$8.7 million in May 2016, the balance owing against this facility is the equivalent of A\$76 million (consisting of THB 798 million and US\$33 million).

## People

Kingsgate continues to restructure the company to ensure organisational alignment with changes in its portfolio. In that regard, the Chief Operating Officer, Mr Tim Benfield, will be leaving Kingsgate effective August 2016.

All-in Sustaining Cash Costs		
For the 3 months to 30 June 2016	Units	Chatree / Group
Adjusted Total Cash Cost (including royalties) <sup>2</sup>	US\$/oz	923
Sustaining Capex	US\$/oz	81
Corporate and Administration Costs <sup>1</sup>	US\$/oz	71
All-in Sustaining Cash Costs	US\$/oz	1,075

<sup>1.</sup> Corporate and Administration costs have been allocated 60% to the operating assets. This allocation may vary from quarter to quarter.  
<sup>2.</sup> Adjusted operating costs are based on gold sales and include movements in gold inventory and stockpiles over the period.  
<sup>3.</sup> Above figures based on gold sold for the quarter.

# Notes and Statements

## Forward Looking Statement

These materials include forward looking statements. Forward looking statements inherently involve subjective judgment & analysis & are subject to significant uncertainties, risks & contingencies, many of which are outside of the control of, & may be unknown to, the company. Actual results and developments may vary materially from that expressed in these materials. The types of uncertainties which are relevant to the company may include, but are not limited to, commodity prices, political uncertainty, changes to the regulatory framework which applies to the business of the company & general economic conditions. Given these uncertainties, readers are cautioned not to place undue reliance on such forward looking statements. Forward looking statements in these materials speak only at the date of issue. Subject to any continuing obligations under applicable law or any relevant stock exchange listing rules, the company undertakes any obligation to publicly update or revise any of the forward looking statements, changes in events, conditions or circumstances on which any such statement is based.

# Corporate Directory

## Board of Directors

<b>Ross Smyth-Kirk</b>	Chairman
<b>Peter McAleer</b>	Non-Executive Director
<b>Peter Alexander</b>	Non-Executive Director
<b>Peter Warren</b>	Non-Executive Director
<b>Sharon Skeggs</b>	Non-Executive Director

## Senior Management

<b>Greg Foulis</b>	Chief Executive Officer
<b>Ross Coyle</b>	Chief Financial Officer & Company Secretary
<b>Tim Benfield</b>	Chief Operating Officer
<b>Alistair Waddell</b>	General Manager, Business Development & Exploration

## Investor Relations Contact

<b>Jamie Gibson</b>	General Manager, Corporate and External Relations
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## Principal and Registered Office

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Email: [info@kingsgate.com.au](mailto:info@kingsgate.com.au)

## Exchange Details

ASX Code: KCN

OTC Code: KSKGY

## Share Details

As at 30 June 2016, there were 223,584,937 ordinary shares on issue.

## Bangkok Office

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## Chile Office

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## Share Registry

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## ADR Depository

### **(American Depository Receipts)**

The Bank of New York Mellon

ADR Division

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