

DACIAN GOLD LIMITED

ABN 61 154 262 978

Interim Financial Report
for the
Half-Year Ended 31 December 2019

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ABN 61 154 262 978

**INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

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DIRECTORS' REPORT

The Directors present the financial report of Dacian Gold Limited ("the Company") and its controlled subsidiaries ("the Group") for the half-year ended 31 December 2019.

Directors

The names of the Company's directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Leigh Junk (Managing Director & CEO)⁽ⁱ⁾
 Rohan Williams (Executive Chairman)⁽ⁱⁱ⁾
 Ian Cochrane (Chairman)⁽ⁱⁱⁱ⁾
 Robert Reynolds (Non-Executive Director)
 Barry Patterson (Non-Executive Director)

- (i) Leigh Junk was appointed on 6 January 2020 and continues in office at the date of this report. There is no fixed term on Mr Junk's contract and the termination notice period is 6 months.
- (ii) Rohan Williams was Executive Chairman from the beginning of the financial year until his retirement on 6 January 2020.
- (iii) Ian Cochrane was a Non-Executive Director until his appointment as Chairman on 6 January 2020.

Company Secretary

Kevin Hart

Nature of Operations and Principal Activities

Dacian Gold Limited is an Australian mid-tier gold producer with its head office in Perth, Western Australia. The Company operates the Mt Morgans Gold Operation ("MMGO") near Laverton, Western Australia. The operation comprises a 2.5 Mtpa CIL treatment plant, the Jupiter open pit and Westralia underground mining areas.

The principal activities of the Group during the period were gold mining, processing and exploration at its 100% owned MMGO.

Operating and Financial Review

Results

Consolidated net loss after tax for the half-year was \$78.5 million (2018: Net loss \$7.0 million). The result was impacted by the following significant non-cash adjustments:

- \$68.5 million of MMGO asset impairments; and
- a net tax expense of \$18.1 million relating to the derecognition of deferred tax assets for previously recognised carried forward tax losses offset by the recognition of a timing deferred tax asset on the asset impairments.

To provide increased clarity in relation to the operating result of the Group, the following additional unaudited information has been presented.

	6 Months to December 2019 \$M	6 Months to December 2018 \$M
Net loss for the period	(78.5)	(7.0)
Impairment	68.5	-
Add back: Tax benefit from impairment	(20.6)	-
Add back: Derecognition of tax losses	34.1	-
Add back: Debt refinancing costs	1.2	-
Add back: Tax adjustment in respect of previous year	1.5	-
Adjusted unaudited profit / (loss)	6.2	(7.0)

DIRECTORS' REPORT

Operating and Financial Review (continued)

Mt Morgans Gold Operation (MMGO)

The MMGO achieved half-year production of 75,237 ounces of gold at an All-In Sustaining Cost ("AISC") of \$1,562 per ounce (2018: 67,250 ounces of gold produced).

Gold sales revenue of \$141.8 million (2018: \$Nil) was generated from the sale of 73,147 ounces at an average gold price of A\$1,938 (2018: \$Nil). Total cost of goods sold inclusive of amortisation and depreciation was \$118.5 million (2018: \$Nil). The increase in revenue and costs compared to the prior year reflects the commencement of commercial production on 1 January 2019.

Underground mine production at Westralia for the half-year totalled 417kt at 2.7 g/t for 36,526 ounces of contained gold. Whilst the December quarter saw an increase in ore tonnes mined +6%, contained metal reduced by -19% when compared to the September 2019 quarter. The reduction resulted from a greater proportion of development ore being mined as compared to stope ore combined with ore production activities in subordinate loads and lower grade areas of the mine. The reduced metal production from the mine in the December quarter combined with elevated expenditure for capital development and increased grade control drilling expenditure saw a significant reduction in margins from the mining activities as compared to the September 2019 quarter.

Mine production at the Jupiter open pit for the half-year totalled 724kt at 1.3 g/t for 30,608 ounces of contained gold. Production in the December quarter was lower on both tonnes by 40% and grade by 27% as waste stripping activities (as a % of ore production) increased and ore production (as scheduled) focused on narrow, lower grade zones located in the hanging wall to the Cornwall Shear Zone.

Mine planning activities continued during the period on the Doublejay open pit where pre-stripping of Doublejay Stage 1 is scheduled to commence in the June 2020 quarter. The initial mining activities will involve a cut back of the historical Jupiter open pit and associated waste stripping activities. Preparations for the commencement of mining at the Mt Marven open pit were also progressed during the half-year. Initial mining activities are scheduled for the September 2020 quarter.

The following table summarises the production results for the half-year ended 31 December 2019.

	UOM	Qtr Sep-19	Qtr Dec-19	Total HY Dec-19	Qtr Sep-18	Qtr Dec-18	Total HY Dec-18
<i>Underground</i>							
Stope Ore Mined	kt	135	125	260	101	113	214
Development Ore Mined	kt	67	90	157	76	82	158
Mined Ore Grade	g/t	3.1	2.4	2.7	3.3	4.2	3.8
Contained Gold	oz	20,175	16,351	36,526	18,999	25,925	44,924
<i>Open Pit Operations</i>							
Ore Mined	kt	453	271	724	443	537	980
Mined Ore Grade	g/t	1.5	1.1	1.3	0.8	0.9	0.9
Contained Gold	oz	21,255	9,353	30,608	11,419	15,304	26,723
Waste Mined	kbcn	1,941	1,788	3,729	1,887	2,107	3,994
<i>Processing</i>							
Ore Milled	kt	765	776	1,541	681	630	1,311
Head Grade	g/t	1.9	1.5	1.7	1.4	2.0	1.7
Recovery	%	92.4%	91.8%	92.2% ⁽ⁱ⁾	94.9%	93.0%	93.8%
Gold produced	oz	42,002	33,235	75,237	29,316	37,934	67,250
Gold Sold	oz	38,101	35,046	73,147	29,249	34,055	63,304
Gold on Hand	oz	9,462	7,564	7,564	5,445	9,913	9,913
All-in sustaining cost	A\$/oz	1,423	1,737	1,562	-	-	-

(i) Note the reduction in the Dec-19 quarter in recovery is due to reporting tails by fire assay versus previously stated PAL method.

DIRECTORS' REPORT

Operating and Financial Review (continued)

Mt Morgans Gold Operation (MMGO) (continued)

On 27 February 2020 the Company announced a Mineral Resource and Ore Reserve update which included a 40% reduction in Mineral Resource at the MMGO from 3.5 million to 2.1 million ounces. The resource reduction related primarily to the Westralia underground mine where the Mineral Resource decreased by 52% from 1.5 million ounces to 0.7 million ounces. As a result of the work undertaken to update the Westralia underground resource, together with an assessment of the forecast mine plan, underground production from the Westralia mine is now only scheduled to continue until December 2020, with studies being conducted throughout the remainder of CY2020 to determine whether optionality exists for underground production to continue beyond December 2020. Capital development activities will cease immediately, with mining to focus on levels that are currently developed or near developed. Stope production is expected to continue until the end of December 2020 when mining activities are currently planned to cease.

During this period to December 2020, exploration / definition drilling will be undertaken in the mine to further test a number of areas that may present near term mining opportunities. A mining optimisation study will also be undertaken to assess alternative mine plan strategies and options that may result in the continuation of mining in the underground beyond December 2020. The outcome of these activities is uncertain and the Company at this time does not have plans to continue underground mining beyond December 2020. Refer to Impairment Note 11. Should the study identify further mining opportunities, the resulting mine plan must demonstrate an operating strategy that has a high potential of delivering sustainable positive cash flows.

At period end the Group undertook an impairment assessment of the carrying value of its assets at 31 December 2019. The impairment indicators were considered to be the decision to proceed to suspend mining at the Westralia underground based on performance during the period and the reduction in the Group's Mineral Resources. This has given rise to an impairment charge of \$68.5 million and a net tax expense of \$18.1 million for the derecognition of deferred tax assets at 31 December 2019 offset by the recognition of a timing deferred tax asset on asset impairments. Full details of the impairment charge and tax expense are included in the Notes to the Financial Statements.

Financial Position

The Group held cash on hand as at 31 December 2019 of \$28.1 million (30 June 2019: \$35.5 million) including cash restricted on deposit of \$7.05 million, and \$14.2 million in unsold gold on hand which has been recognised in the Statement of Financial Position inventory balance at cost. As at 31 December 2019 the Group has a working capital deficit of \$50.7 million (30 June 2019: \$21.1 million). Cash inflows from operating activities for the period were \$35.4 million and cash outflows from investing activities were \$39.1 million. Investing outflows included the transfer of \$7.05 million of cash to cash reserved for debt service and mine development expenditure of \$30.3 million.

Cash flow contribution during the December quarter was impacted by lower cash generation at both the open pit and underground mining operations. Open pit operations were impacted by planned lower ore production, combined with increased waste stripping expenditure at Heffernans. Operating margins at the Westralia underground mine were below expectations due to grade under performance (23% reduction) which was largely influenced by the higher proportion of development ore mined during the quarter. Margins were further impacted by elevated expenditure for capital development and increased grade control drilling.

Exploration

During the period, a total of 12,708 metres of exploration drilling was completed. The majority of this drilling was conducted across the Phoenix Ridge project located 650m north of the Allanson underground operation.

On 3 October 2019, the Company announced a Maiden Inferred Mineral Resource for the Phoenix Ridge deposit at the MMGO of 481,000t @ 8.1g/t for 125,000oz. During the December quarter, infill drilling continued at Phoenix Ridge as work progresses towards a mineral resource update, expected to be released in the June 2020 quarter. The resource was unchanged at 31 December 2019 and was confirmed in the Mineral Resource and Ore Reserve update announcement to the ASX on 27 February 2020.

DIRECTORS' REPORT

Operating and Financial Review (continued)

Corporate

At 31 December 2019, committed hedging totalled 91,116 ounces at a weighted average delivery price of A\$1,772 per ounce on hedge contracts for delivery over the period to 30 June 2021. The contracted delivery profile for these hedges results in 74% (67,116 ounces at an average price of A\$1,782/oz) of the total outstanding hedges at 31 December 2019 being settled over the period to 30 June 2020.

During the half-year, the Group agreed to implement new uncommitted hedging on 150,000 ounces of production using deferred premium gold put options at a strike price of \$2,100 per ounce. This hedging was undertaken with the Group's debt financiers (the "Financiers") under existing hedge facility limits. Refer to Note 8 for further discussion on hedging.

Project debt facility repayments during the half-year were made totalling \$10.8 million which reduced outstanding borrowings under the facility agreement to \$94.7 million. The scheduled 31 December 2019 debt repayment was deferred, with the scheduled amount instead being provisioned to a restricted cash account totalling \$7.05 million. The December 2019 debt repayment was deferred to March 2020.

During the period ended 31 December 2019, the Group and its Financiers initiated and completed a review of certain terms under the Syndicated Facility Agreement. This resulted in the approval of an updated bank financial model, the re-sculpting of debt repayments over the existing tenor to 30 June 2022 and other associated changes and waivers such that as at 31 December 2019 the Group was in financial compliance with its obligations under the Syndicated Facility Agreement. Refer to Note 15 for further discussion on borrowings.

Further information relating to post year end events is disclosed in the Significant Changes in the State of Affairs and Events Subsequent to the Reporting Date sections of the Directors' report.

DIRECTORS' REPORT

Significant Changes in the State of Affairs

The formal strategic review announced to the ASX on 5 June 2019 concluded in the period following 31 December 2019. The review validated the Group's strategy to focus on its existing operations, making the necessary changes to establish a high margin, sustainable operation with a strengthened balance sheet. The planned suspension of underground mining activities at Westralia (detailed in the preceding section) was an outcome of this review.

Further mine plan optimisation work continues across both the underground and open pit operations. The Group has also developed plans to investigate, assess and establish operations at dormant historical mining areas owned by the Group. The Mt Marven open pit exemplifies this and is being prepared for the commencement of mining operations in the September 2020 quarter.

At the date of this report, the Group is working on a number of initiatives that are collectively referred to as a recapitalisation strategy. These initiatives broadly include;

1. The implementation of a mine plan that significantly de-risks the three-year production outlook that is pre-dominantly underpinned by open pit ore sources (96%), including minimal underground contribution (4%).
2. Accelerate near-term new production sources. The Group has developed a targeted near mine exploration program to assess the potential near-term production sources with the aim of bringing these into the mine plan within an 18 month timeframe.
3. Debt reduction. The Group is assessing options to reduce its overall level of debt and to secure lending terms and conditions that are flexible and better aligned with the Group's future plans and working capital funding requirements. This may include the restructure or replacement of the Group's current debt arrangements with existing Financiers or new Financiers. This could result in the lending arrangements changing to a corporate-style facility or an alternate funding structure to better facilitate the Group's development plans.
4. Improve the working capital position of the business to allow the Group to pursue exploration and new mine development activities that have a high potential of success in contributing to the Group's mine plan and cash flows in the short term.

The Group requires additional funding support by 30 April 2020 to meet its cash flow forecasts including the scheduled repayment of debt totalling \$24.7 million on or before 30 April 2020. The funding support will also provide working capital headroom to the Group that underpins ongoing preparations for the commencement of mining at Doublejay and ongoing exploration activities.

The Company intends to undertake a capital raise in the period to 30 April 2020. Advisors have been mandated by the Company to facilitate this on an underwritten basis. The underwriting at this time is subject to the usual conditions that include the execution of an underwriting agreement which is currently being negotiated. The Company intends to raise a sufficient amount of capital to underpin the Group's funding position taking into account the scheduled debt repayment of \$24.7 million due on or before 30 April 2020 and the recapitalisation strategy referred to above.

Trading in the Company's securities on ASX was suspended on 3 February 2020. The suspension was requested by the Company to allow sufficient time to complete work on the update to the Company's Mineral Resource and Ore Reserve estimate and the consequential changes to the Company's life-of-mine plan, as well as to progress the development of a recapitalisation proposal to reduce the Group's debt, improve the working capital position and accelerate near-term production sources. The Company's shares will remain in suspension pending the finalisation of that recapitalisation proposal.

Other than the matters noted above there were no significant changes in the state of affairs of the Group during the half-year, not otherwise disclosed in this report.

DIRECTORS' REPORT

Events Subsequent to the Reporting Date

Subsequent to 31 December 2019, the following events occurred.

On 6 January 2020 new hedging was undertaken to protect 117,396 ounces of production, refer to Note 8. The hedging comprised;

- Gold forward sale contracts covering 49,788 ounces at an average delivery price of A\$2,266/oz over the period September 2020 to June 2021.
- Gold put options (deferred premium basis) covering 67,608 ounces at a strike price of \$2,100/oz over the period of April 2020 to June 2021.

On 3 February 2020 the Company requested a voluntary suspension be applied to trading in the Company's securities on ASX. The suspension was requested by the Company to allow sufficient time to complete work on the update to the Company's Mineral Resource and Ore Reserve estimate and the consequential changes to the Company's life-of-mine plan, as well as to progress the development of a recapitalisation proposal to reduce the Group's debt, improve the working capital position and accelerate near-term production sources.

On 27 February the Company announced an updated Mineral Resource and Ore Reserve estimate which included a 40% reduction in Mineral Resource at the MMGO from 3.5 million to 2.1 million ounces. The resource reduction related primarily to the Westralia underground mine where the Mineral Resource estimate decreased by 52% from 1.5 million ounces to 0.7 million ounces.

On 27 February the Company further announced that underground production from Westralia is now only scheduled to continue until December 2020, with studies being conducted throughout the remainder of CY2020 to determine whether optionality exists for underground production to continue beyond December 2020. The announcement also provided an updated three year production outlook that is pre-dominantly underpinned by open pit ore sources (96%) with only a minimal underground contribution (4%).

As a result of the changes announced on 27 February 2020 (detailed above), the Group sought and received a number of approvals, waivers and concessions from its Financiers in respect to its Syndicated Facility Agreement. This resulted in changes to the debt repayment schedules including the deferral of the \$24.7 million debt repayment subject to conditions from 31 March 2020 to on or before 30 April 2020, so as to align the Company's funding plans with the repayment. Refer to the Notes to the Financial Statements for further discussion of going concern.

Other than the matters noted above, there has not arisen in the interval between the end of the reporting period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Rounding off

The Company is of a kind referred to in ASIC Instrument 2016/191 dated 24 March 2016 and in accordance with that instrument, amounts in the Financial Statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act is set out on the following page.

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

DATED at Perth this 13th day of March 2020.



Leigh Junk
Managing Director & CEO



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Dacian Gold Limited

I declare that, to the best of my knowledge and belief, in relation to the review of for the half-year ended 31 December 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

GL + 177

Graham Hogg
Partner
Perth
13 March 2020

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Note	Consolidated	
		31 December 2019 \$'000	31 December 2018 \$'000
Revenue	2	142,105	-
Cost of goods sold	3	(118,510)	-
Gross Profit		23,595	-
Corporate employee expenses	3	(1,837)	(1,486)
Share-based employee expense	17	(361)	(452)
Finance costs	3	(4,249)	(253)
Finance income		171	609
Exploration costs expensed and written off		(4,196)	(5,681)
Other expenses	3	(4,998)	(1,802)
Impairment loss on assets	11	(68,537)	-
Loss before income tax		(60,412)	(9,065)
Income tax (expense) / benefit	4	(18,108)	2,062
Net loss for the period attributable to the members of the parent entity		(78,520)	(7,003)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period attributable to the members of the parent entity		(78,520)	(7,003)
Loss per share			
Basic and diluted earnings per share attributable to ordinary equity holders of the parent (cents per share)		(34.7)	(3.9)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

		Consolidated	
	Note	31 December 2019 \$'000	30 June 2019 \$'000
Current assets			
Cash and cash equivalents	5	21,029	35,515
Cash reserved on deposit	5	7,050	-
Receivables	6	4,221	5,173
Inventories	7	25,274	20,674
Derivative financial instruments	8	1,587	-
Total current assets		59,161	61,362
Non-current assets			
Property, plant and equipment	9	116,677	130,858
Exploration and evaluation assets		4,072	4,072
Mine properties	10	98,237	142,763
Deferred tax assets	12	14,213	32,573
Total non-current assets		233,199	310,266
Total assets		292,360	371,628
Current liabilities			
Trade and other payables	13	49,124	43,954
Provisions	14	1,282	1,151
Borrowings	15	55,178	37,395
Other financial liabilities	8	4,297	-
Total current liabilities		109,881	82,500
Non-current liabilities			
Provisions	14	20,491	18,608
Borrowings	15	55,523	85,645
Total non-current liabilities		76,014	104,253
Total liabilities		185,895	186,753
Net assets		106,465	184,875
Equity			
Issued capital	16	245,323	244,513
Share-based payments reserve		1,772	3,007
Accumulated losses		(140,630)	(62,645)
Total equity		106,465	184,875

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Consolidated			
	Issued capital	Share reserve	Accumulated losses	Attributable to owners of the parent
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2018	195,187	3,516	(65,838)	132,865
Reported loss for the year	-	-	(7,003)	(7,003)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(7,003)	(7,003)
Shares issued	48,429	-	-	48,429
Share issue transaction costs	(1,616)	-	-	(1,616)
Options exercised	1,497	-	-	1,497
Options exercised (non-cash)	419	(419)	-	-
Performance rights exercised	636	(636)	-	-
Performance rights forfeited	-	(175)	175	-
Share-based payments expense	-	452	-	452
Balance at 31 December 2018	244,552	2,738	(72,666)	174,624
Balance at 1 July 2019	244,513	3,007	(62,645)	184,875
Reported loss for the year	-	-	(78,520)	(78,520)
Other comprehensive income	-	-	-	-
Total comprehensive profit for the year	-	-	(78,520)	(78,520)
Deferred tax on share issue costs	(251)	-	-	(251)
Options exercised (non-cash)	265	(265)	-	-
Performance rights exercised	796	(796)	-	-
Performance rights forfeited	-	(535)	535	-
Share-based payments expense	-	361	-	361
Balance at 31 December 2019	245,323	1,772	(140,630)	106,465

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Consolidated	
	31 December 2019 \$'000	31 December 2018 \$'000
Cash flows from operating activities		
Gold sales	141,782	-
Interest received	194	609
Other income	323	-
Interest paid	(3,026)	(246)
Payments for exploration and evaluation	(3,987)	(5,212)
Payments to suppliers and employees	(99,875)	(2,758)
Net cash from operating activities	35,411	(7,607)
Cash flows from investing activities		
Payments for mine properties expenditure (net of 2018 pre-production revenue)	(30,303)	(1,565)
Payments for plant and equipment	(1,789)	(2,925)
Proceeds from disposal of assets	45	-
Payments for capitalised interest during development	-	(2,852)
Payments to acquire exploration assets ⁽ⁱ⁾	-	(11,500)
Transfer to cash reserved for debt service	(7,050)	(15,000)
Net cash from investing activities	(39,097)	(33,842)
Cash flows from financing activities		
Proceeds from issue of share capital	-	47,878
Repayment of borrowings	(10,800)	(16,500)
Transaction costs associated with borrowings	-	(173)
Net cash from financing activities	(10,800)	31,205
Net decrease in cash and cash equivalents	(14,486)	(10,244)
Cash and cash equivalents at the beginning of the period	35,515	62,866
Cash and cash equivalents at the end of the period	21,029	52,622

⁽ⁱ⁾ Consideration paid to terminate a Jupiter life-of-mine royalty obligation accrued in the prior year.

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

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Basis of Preparation and Accounting Policies

The interim condensed consolidated financial statements of Dacian Gold Limited and its subsidiaries (collectively referred to as the “Group”) for the six months ended 31 December 2019 have been prepared in accordance with Accounting Standard AASB134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Dacian Gold Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as noted below.

The interim condensed consolidated financial statements were approved by the Board of Directors on the 13th of March 2020.

(a) Going Concern Basis for Preparation of Financial Statements

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

The Group held cash as at 31 December 2019 of \$28.1 million (30 June 2019: \$35.5 million) including restricted cash on deposit totalling \$7.05 million. As at 31 December 2019 the Group has a working capital deficit of \$50.7 million (30 June 2019: \$21.1 million), which includes a current liability for scheduled bank debt repayments totalling \$51.7 million.

For the half-year ended 31 December 2019 the Group incurred a loss after income tax of \$78.5 million including impairments of \$68.5 million and a tax expense of \$18.1 million predominantly relating to the derecognition of carried forward tax losses. Cash inflows from operating activities were \$35.4 million and cash outflows from investing activities were \$39.1 million. Investing outflows included the transfer of \$7.05 million of cash to cash reserved for debt service and mine development expenditure of \$30.3 million. At 31 December 2019 the Group held total assets of \$292.4 million and net assets of \$106.5 million.

Cash flows for the half-year were impacted primarily in the December quarter as total mine production decreased on a contained metal basis by 38% (September Qtr 41,430oz vs December Qtr 25,704oz). As a result, gold produced (through processing) for the December 2019 quarter also decreased by 21% when compared to the September quarter. The Company continued in the December quarter to invest in both operations, which included ongoing waste stripping activities in the Jupiter open pit and an accelerated focus in the underground on capital development and grade control drilling activities. The combination of lower gold production and the ongoing financial investment in these operations in the December 2019 quarter resulted in the reduction to the Group's cash position at the end of the half year.

During the period ended 31 December 2019 and following a revision by the Group of its mine plan and gold production forecast that was announced to the ASX on 5 June 2019, the Group and its Financiers initiated and completed a review of certain terms under the Syndicated Facility Agreement. In addition to other changes (refer Note 15) the fixed debt repayment schedule was modified to better align these repayment obligations with the future cash flow forecast in the approved bank financial model over the existing tenor to 30 June 2022. A variable debt repayment schedule was agreed with Financiers, see Note 15.

Subsequent to period end, the Company announced two material changes to its business and future plans, being a reduction to its Mineral Resources and Reserves and to immediately suspend capital development at the Westralia underground mine resulting in current underground mining activities to be completed during the period to December 2020. As a consequence of these changes, the Group sought and received a number of approvals, waivers and concessions from the Project Debt Facility Financiers (‘the Financiers’). A further rescheduling of debt repayments has been agreed with Financiers in March 2020 to align debt repayments with the updated forecast mine plan and cash flow which included the deferral of the \$24.7 million debt repayment from 31 March 2020 to on or before 30 April 2020, so as to align the Company's funding plans with the repayment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Basis of Preparation and Accounting Policies (continued)

(a) Going Concern Basis for Preparation of Financial Statements (continued)

The Group requires additional funding support by 30 April 2020 to meet its cash flow forecasts including the scheduled repayment of debt totalling \$24.7 million on or before 30 April 2020. The funding support will also provide a required significant working capital injection to the Group that underpins ongoing preparations for the commencement of mining at Doublejay and exploration activities.

The Company intends to undertake a capital raise in the period to 30 April 2020. Advisors have been mandated by the Company to facilitate this on an underwritten basis. The underwriting at this time is subject to usual conditions that include the execution of an underwriting agreement which is currently being negotiated. The Company intends to raise a sufficient amount of capital to underpin the Group's funding position taking into account the scheduled debt repayment of \$24.7 million due on or before 30 April 2020 and further working capital requirements.

The going concern is also dependent upon the Group achieving forecast targets for gold revenue, mining operations and processing activities that are in accordance with management's plans and forecast gold price and foreign exchange assumptions to enable the cash flow forecast to be achieved. Critical to achieving forecast cash flows is the Group's ability to achieve forecast gold production in accordance with Board approved forecasts (as disclosed in Note 11).

The Directors are satisfied that at the date of signing the financial report, there are reasonable grounds to believe the Group and Company will be able to meet its debts as and when they fall due and that it is appropriate for the financial statements to be prepared on a going concern basis considering the following matters:

1. In March 2020, the Group commenced planning for the discontinuance of underground production from the Westralia mine from December 2020, with studies being conducted throughout the remainder of CY2020 to determine whether optionality exists for underground production to continue beyond December 2020. The amendments to the life-of-mine plan are expected to improve the cash flow performance and margins of that operation. This is aimed to be achieved through a combination of expenditure reduction via the suspension of capital development and the transition of mining activities to solely stope ore production. The combination of these changes is expected to deliver an immediate cash flow contribution which is forecast to be sustained over the period to December 2020.
2. From March 2020, mining operations at the Heffernans open pit will transition to a period of high grade ore production as current operations drive the pit floor down to the broad high grade Cornwell Shear Zone. This is expected to result in an increase in cash flow contribution from this operation as waste stripping activities reduce and ore production volumes and grades increase.

The combination of 1 and 2 above, and the timing of these changes is expected to improve future operating cash flows for the Group. This improvement will contribute (in part) to the initial funding requirements for the commencement of mining activities at the Doublejay open pit.

3. The Financiers have demonstrated a willingness to negotiate and permit changes to the Group's lending arrangements in response to changed operating plans and performance and provide accommodation where needed. Since 31 December 2019, the Group has received a waiver letter from its Financiers which provides various approvals, waivers and concessions of certain requirements under the Syndicated Facility Agreement as a result of the updated life-of-mine plan. This includes the re-scheduling of future debt repayments to better match forecast cash flows, the approval of the revised mine plan (taking into account the changes to underground mining activities) and various other compliance acknowledgements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Basis of Preparation and Accounting Policies (continued)

(a) Going Concern Basis for Preparation of Financial Statements (continued)

4. Based on the announced changes to the Group's life-of-mine plan (including the scheduled discontinuance of underground mining operations from December 2020), the expected immediate positive cash flow contribution such changes are expected to deliver to the Group and discussions with the Company's financial advisers regarding the ability to successfully complete an equity capital raising of the quantum required, funding from equity markets via a capital raise is expected to be available, of sufficient quantum and in the timeframe required to meet its cash flow forecasts, to enable the Group to continue as a going concern. The completion of any potential capital raise will be dependent upon investor support, shareholder participation and prevailing significant capital market volatility whether caused by COVID-19 or otherwise, which creates uncertainty.

Should the Group not achieve its cash flow forecasts from operations, the planned capital raising or new funding support in time to meet its revised debt repayment schedules (including the \$24.7 million principal debt repayment due on or before 30 April 2020) as well as ongoing significant working capital requirements, there is material uncertainty whether the Company will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

The financial report does not include any adjustments relating to the recoverability or classification of recorded assets amounts, or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(b) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period resulting in a change to the Group's accounting policies as a result of adopting AASB 16: *Leases*.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies.

AASB 16 Leases

This note explains the impact of the adoption of AASB 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019.

The Group has adopted AASB 16 using the modified retrospective approach from 1 July 2019, and has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

Adjustments recognised on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 July 2019. The incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.9%.

	2019 \$'000
Operating lease commitments at 1 July 2019	483
Discounted using the lessee's incremental borrowing rate at the date of initial application	471
Lease liability recognised at 1 July 2019	471
Represented by:	
Current lease liabilities	202
Non-current lease liabilities	269
	471

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Basis of Preparation and Accounting Policies (continued)

(b) New and amended standards adopted by the Group (continued)

AASB 16 Leases (continued)

Adjustments recognised on adoption of AASB 16 (continued)

Lease liabilities are classified in Borrowings on the Statement of Financial Position.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 \$'000	1 July 2019 \$'000
Land and buildings	370	471
Total right-of-use assets	370	471

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The right-of-use assets are classified as Property, plant and equipment in the Statement of Financial Position. There was no impact on retained earnings at 1 July 2019.

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application and;
- the use of hindsight in determining the leases term where the contract contains options to extend or terminate the lease.

The Group has applied the grandfathering provisions and also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and *IFRIC 4 Determining whether an Arrangement contains a Lease*. This applies to the Group's mining services contracts.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Basis of Preparation and Accounting Policies (continued)

(b) New and amended standards adopted by the Group (continued)

AASB 16 Leases (continued)

Right-of-use assets (continued)

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(c) Use of judgements and estimates

In preparing these interim financial statements, the Company's management have made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by the Company's management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last financial statements, except for the new significant judgements related to lessee accounting under AASB 16.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 1 Segment Information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources.

Reportable segments disclosed are based on aggregating operating segments, where the segments have similar characteristics. The Group's sole activity is mineral production, exploration and development at the Mt Morgans Gold Operation ("MMGO") wholly within Australia, therefore it has aggregated all operating segments into the one reportable segment being mineral production, exploration and development.

The reportable segment is represented by the primary statements forming these financial statements.

Note 2 Revenue

Prior to the commencement of commercial production at MMGO on 1 January 2019, revenue from the sale of gold and silver was treated as pre-production income and credited to capitalised mine properties in development.

	31 December 2019 \$'000	31 December 2018 \$'000
<i>Revenue from contracts with customers</i>		
Gold Sales	141,782	-
Silver Sales	323	-
	142,105	-

Gold forward contracts delivery commitments

The Group enters into gold forward sale contracts and put options to manage the gold price of a proportion of gold sales. Further details of put options which are classified at fair value through profit and loss can be found in Note 8. The treatment of forward sale contracts are discussed further below.

The forward sale contracts are settled by the physical delivery of gold as per the contract terms. The gold forward sale contracts are accounted for as gold sales contracts with revenue recognised once the gold has been delivered to the counterparties. Consistent with the gold sales revenue recognition policy, the physical gold delivery contracts are considered to sell a non-financial item and therefore do not fall within the scope of AASB 9: *Financial Instruments*.

Gold forward contracts outstanding at balance date are summarised in the table below. Refer to the Subsequent Events note for additional gold forward commitments post year end.

	Gold for physical delivery oz	Weighted Average contract sale price A\$/oz	Value of committed sales \$'000
Due within 1 year	79,116	1,775	140,405
Due after 1 year but not more than 5 years	12,000	1,751	21,012
	91,116	1,772	161,417

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 3 Expenses

Prior to the commencement of commercial production at MMGO on 1 January 2019, expenditure of an operating nature was capitalised to mine properties in development including cash costs of pre-commercial production, depreciation and amortisation.

	31 December 2019 \$'000	31 December 2018 \$'000
a) <i>Cost of goods sold</i>		
Costs of production	90,956	-
Royalties	4,117	-
Depreciation of mine plant and equipment	8,900	-
Amortisation of mine properties	14,537	-
	118,510	-
b) <i>Finance costs</i>		
Unwind of rehabilitation and restoration provision	127	-
Transaction costs	1,555	-
Interest expense on borrowings	2,567	253
	4,249	253
c) <i>Corporate employee expenses</i>		
Salaries and wages	1,314	921
Director fees and consulting expenses	358	366
Defined contribution superannuation	131	122
Other employment expenses	34	77
	1,837	1,486
d) <i>Other expenses</i>		
Unrealised losses on derivative instruments	2,672	-
Administration & corporate	2,111	1,696
Non-production depreciation	215	106
	4,998	1,802

Note 4 Income Tax

Income tax expense for the period is \$18.1 million predominantly comprised by an expense of \$34.1 million (31 December 2018: \$Nil) relating to the derecognition of carry forward losses previously recognised as a deferred tax assets largely offset by timing tax benefits from asset impairments of \$20.6 million (31 December 2018: \$Nil). Refer to Note 11 for further discussion of impairment and Note 12 for deferred tax.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 5 Cash and Cash Equivalents

	31 December 2019 \$'000	30 June 2019 \$'000
Cash at bank	21,029	35,515
Cash reserved on deposit ⁽ⁱ⁾	7,050	-
	28,079	35,515

⁽ⁱ⁾ At 31 December 2019 an amount of \$7.05 million was reserved on deposit in respect of debt service obligations under the Project Debt Facility for a debt repayment obligation at the end of March 2020.

At 31 December 2019, the Group had drawn debt totalling \$94.7 million. Refer Note 15 for further discussion.

Note 6 Receivables

	31 December 2019 \$'000	30 June 2019 \$'000
Current receivables		
GST receivable	2,105	2,354
Prepayments	1,290	2,055
Other receivables	826	764
	4,221	5,173

The Group does not consider any of its current receivables to be impaired.

Note 7 Inventories

	31 December 2019 \$'000	30 June 2019 \$'000
ROM inventory – at cost	684	4,635
Crushed ore – at cost	1,440	1,462
Gold in circuit – at cost	5,419	4,292
Gold dore – at cost	14,172	6,464
Mine spares and stores – at cost	3,559	3,821
	25,274	20,674

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 8 Derivative Financial Instruments & Other Financial Liabilities

	31 December 2019 \$'000	30 June 2019 \$'000
<i>(a) Derivative Financial Instruments - Assets</i>		
Current Assets:		
Gold put option fair value	1,587	-
<i>(b) Other Financial Liabilities</i>		
Current Liabilities:		
Gold put option premium payable	4,297	-

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange and gold price.

During the period, the Group agreed to purchase deferred premium gold put options covering 150,000 ounces at a strike price of \$2,100 per ounce expiring on 28 February 2020. These options were purchased at the time the Group and Financiers were undertaking a review of certain terms within the Syndicated Facility Agreement. The options were purchased with the intention of setting a gold price floor such that the Group could restructure this hedging on or before 28 February 2020 having completed the review of certain Syndicated Facility Agreement terms with its Financiers. This new hedging and its profile over the period to 30 June 2021 will be determined by the updated production and cash flow results from the approved bank financial model. The Group, subsequent to the end of the period, implemented the new hedging program, the details of which are discussed below. These options were held to expiry on the 28 February 2020.

The gold put options are being financed on a deferred premium basis. As at 31 December 2019, the present value of the total amount owing on the purchase of the options was \$4.3 million and is reflected in current liabilities on the balance sheet. The liability will be settled as each option expires.

The put options held by the Group at period end do not qualify for hedge accounting and are therefore classified as fair value through profit and loss and, accordingly, the fair value movements of all derivatives are recognised in the profit and loss. As at 31 December 2019, the Group has 150,000 deferred premium gold put options.

The Group also enters into gold forward contracts. Refer to Note 2 for further details of gold forward contracts held at 31 December 2019.

Subsequent to period end, on 6 January 2020 the Group implemented the Financiers' required new hedging program comprising 49,788 ounces in gold forward contracts and 67,608 ounces in gold put options covering the period to 30 June 2021. The hedging was based on the forecast financial results derived from the updated bank financial model that was approved on 20 December 2019. This hedging underpins a substantial part of the Group's scheduled debt reduction and repayment obligations during that period. The Financiers participated equally in the new hedging program using existing facility limits. The new hedging is summarised as follows.

- Gold forward sale contracts covering 49,788 ounces at an average delivery price of A\$2,266/oz over the period September 2020 to June 2021. This hedging is a committed obligation requiring the delivery of physical gold at settlement.
- Gold put options (deferred premium basis) covering 67,608 ounces at a strike price of \$2,100/oz over the period of April 2020 to June 2021. Average deferred premium costs are \$50/oz over the tenor of the options, resulting in a protected gold price floor (net of costs) of A\$2,050/oz. This hedging is uncommitted and does not have delivery obligations. Put options allow the Group to participate in higher spot gold prices above the strike price of the option.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 9 Property, Plant and Equipment

	31 December 2019 \$'000	30 June 2019 \$'000
Cost	154,591	152,715
Accumulated depreciation	(30,928)	(21,857)
Net Book Value	123,663	130,858
Movements:		
Opening net book value	130,858	150,073
Additions	1,466	2,904
Additions – Right-of-use asset ⁽ⁱ⁾	471	-
Disposals	(17)	(54)
Transfers to mine properties	-	(5,668)
Depreciation expensed	(9,115)	(8,244)
Depreciation capitalised to mine properties ⁽ⁱⁱ⁾	-	(8,153)
Impairment loss (Refer Note 11)	(6,986)	-
Closing net book value	116,677	130,858

(i) Right-of-use asset for the Group's head office rental agreement on initial implementation of AASB 16: *Leases*.

(ii) Prior to the commencement of commercial production on 1 January 2019 depreciation was capitalised to mine properties in development (refer to Note 10).

Note 10 Mine Properties

	31 December 2019 \$'000	30 June 2019 \$'000
Opening balance	142,763	103,004
Additions ⁽ⁱ⁾	29,811	37,619
Transfers from property, plant and equipment	-	5,668
Change in rehabilitation provision	1,751	3,474
Amortisation expense	(14,537)	(10,645)
Borrowing costs capitalised ⁽ⁱⁱ⁾	-	3,643
Impairment loss (Refer Note 11)	(61,551)	-
	98,237	142,763

(i) The 30 June 2019 additions include mine development and capitalised operating costs (including depreciation and amortisation) net of revenue from gold sales. During the commissioning phase (before the commencement of commercial production on 1 January 2019) expenditures of an operating nature were capitalised to mine properties in development. Revenue from the sale of gold prior to 1 January 2019 has been treated as pre-production income and was credited to capitalised mine properties in development.

(ii) Borrowing costs at 30 June 2019 include capitalised interest of \$2.9 million.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 11 Impairment

The Group assessed its cash generating unit ("CGU") for the half-year ended 31 December 2019 to determine whether any indication of impairment existed. Where an indicator of impairment existed, a formal estimate of the recoverable amount was made.

In assessing whether an impairment is required for the CGU, the carrying value is compared to its recoverable amount. The recoverable amount was assessed by determining the CGU's fair value less costs of disposal. Management of the Group has identified one CGU, the Mt Morgans Gold Operation ("MMGO").

31 December 2019 Assessment

Subsequent to period end, the Company announced two material changes to its business and future plans.

On 27 February 2020 the Company announced an updated Mineral Resource and Ore Reserve estimate which included a 40% reduction in Mineral Resource at the MMGO from 3.5 million to 2.1 million ounces. The resource reduction related primarily to the Westralia underground mine where the Mineral Resource estimate decreased by 52% from 1.5 million ounces to 0.7 million ounces.

On 27 February 2020 the Company further announced that underground production from Westralia is now only scheduled to continue until December 2020. In that announcement, the Company confirmed that capital development would cease immediately, with stope ore production continuing until the end of December 2020. Whilst the Group intends to undertake optimisation studies on the underground throughout calendar year 2020, the outcome of this work cannot be determined at this time and the results are uncertain.

As a result of these factors, it was determined that there were indicators of potential impairment of the MMGO CGU. The Group used the fair value less cost of disposal to determine the recoverable value of the MMGO CGU based on the following methodology and assumptions.

Methodology

The Group has impaired the assets within the MMGO CGU based on the fair values determined by a five year discounted cash flow assessment underpinned by the Group's revised life-of-mine outlook. The key assumptions in addition to the mine plans used in the discounted cash flow valuation are the USD gold price, the Australian dollar exchange rate against the US dollar and the discount rate (real terms).

Average annual production between financial years 2021 and 2023 averages 110,000 oz per annum at an average AISC of \$1,350/oz.

Gold price and AUD:USD exchange rate assumptions are estimated by management in real terms, with reference to external market forecasts. For this review, the forecast gold price was estimated at between US\$1,305 – US\$1,493, and the forecast exchange rate of US\$0.69 to US\$0.74 per A\$1.00, based on the forward curve over the life of the operation. The carrying value of the MMGO CGU equals its recoverable amount. Significant changes to key assumptions including the forecast gold price, forecast exchange rate and operating assumptions will have an impact on the carrying value of the CGU in future periods.

A discount rate of 5.6% was applied to post tax cash flows expressed in real terms. The discount rate was derived from the Company's post tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU, that are not in the underlying cash flows.

The impairment testing at 31 December 2019 resulted in a total impairment charge to the CGU of \$68.5 million. This impairment charge is reflected in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and is summarised in this note. The impairment is applied against the asset carrying values for the Westralia underground mine comprising mine properties and property plant and equipment.

A +/-10% change in average gold price would impact the impairment by between \$61.8 million and \$63.2 million.
A +/- 10% change in gold production would impact the impairment by \$16.0 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 11 Impairment (continued)

	MMGO carrying value prior to impairment \$'000	Impairment loss \$'000	Recoverable amount \$'000
Property, plant and equipment	123,663	(6,986)	116,677
Mine properties	159,788	(61,551)	98,237
Total impairment	283,451	(68,537)	214,914

Note 12 Deferred Tax

The decision by the Group to suspend mining operations at the Westralia underground mine over the period to December 2020, has reduced the expected future taxable income to be generated by MMGO to utilise the tax losses brought to account at 30 June 2019. As a result, deferred tax assets of \$34.1 million (31 December 2018: \$Nil) have been derecognised during the period.

The value of tax losses (gross basis not tax effected) available to the Group at 31 December 2019 for income tax purposes is \$177.8 million, which comprises (for accounting) recognised tax losses totalling \$58.9 million and unrecognised tax losses totalling \$118.9 million. Utilisation will be subject to relevant tax legislation associated with recoupment including the same business test and continuity of ownership test. The Group has a reasonable expectation that these losses can be carried forward to future years for income tax purposes.

Note 13 Trade and Other Payables

	31 December 2019 \$'000	30 June 2019 \$'000
Current liabilities		
Trade and other payables	24,106	26,082
Accrued expenses	25,018	17,872
	49,124	43,954

Note 14 Provisions

	31 December 2019 \$'000	30 June 2019 \$'000
Current liabilities		
Employee leave liabilities	1,282	1,151
	1,282	1,151
Non-current liabilities		
Employee leave liabilities	218	213
Rehabilitation provision	20,273	18,395
	20,491	18,608

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 15 Borrowings and Finance Costs

	31 December 2019 \$'000	30 June 2019 \$'000
Current:		
Insurance premium funding liability	1,119	1,989
Lease Liabilities	2,359	2,106
Bank Loans	51,700	33,300
	55,178	37,395
Non-Current:		
Lease Liabilities	12,523	13,445
Bank Loans	43,000	72,200
	55,523	85,645

a) Project Debt Facility

At 31 December 2019 the MMGO Project Debt Facility held with a syndicate of financiers, comprising Westpac Banking Corporation, Australia and New Zealand Banking Group Limited and BNP Paribas, was fully drawn to \$94.7 million (2018: \$150.0 million).

Repayments under the project debt facility are classified as current or non-current in the financial statements with reference to the fixed repayment schedule. Fixed repayments are scheduled on a quarterly interval and are determined based on the cash flow forecast from the approved bank financial model with the repayment amount set to achieve financial ratio compliance in each quarter. Fixed repayments are scheduled over the period to 30 June 2022, being the full tenor of the project debt facility. The information in the following table has been prepared on this basis and reflects the agreed fixed repayment schedule as at 31 December 2019.

	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-3 years \$'000
Bank Loan	29,400	22,300	27,400	15,600

During the period ended 31 December 2019, the Group and its Financiers initiated and completed a review of certain terms under the Syndicated Facility Agreement that resulted in the following changes.

- Fixed debt repayment schedule was modified to better align these repayment obligations with the cash flow forecast over the facilities remaining tenor to 30 June 2022. This included the deferral of the 31 December 2019 debt repayment to 31 March 2020 totalling \$7.05 million. In the period, cash totalling \$7.05 million was set aside to a restricted cash account to part fund the 31 March 2020 debt repayment amount of \$24.7 million.
- A new variable debt repayment schedule was agreed that has the potential to increase debt repayments from June 2020. The variable repayment each quarter is up to a capped amount and is subject to a 'pay if you can' condition. Variable repayments are made only when working capital funding levels and quarterly cash flows (after the payment of non-discretionary corporate and exploration costs) exceed certain minimum levels. The actual cashflows of the MMGO will be a function of gold price achieved (including hedging), gold production (including grade and recoveries) and the achievement of forecast operating and capital expenditure. There is no certainty that the Group will be required to pay these variable repayment amounts and non-payment does not result in a breach of facility terms. The facility has been classified in the Statement of Financial Position based on its contractual payment terms as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 15 Borrowings and Finance Costs (continued)

a) Project Debt Facility (continued)

- The Group implemented an interim hedging program during the Financier review period. The purpose of this hedging was to give the Group and Financiers future gold price certainty ahead of finalising the review. The interim hedging comprised deferred premium gold put options covering 150,000 ounces at a strike price of \$2,100 per ounce expiring on 28 February 2020. This allowed the Group to lock in a minimum gold price floor whilst retaining upside participation in higher spot gold prices, which enabled Financiers to agree changes to the debt repayment schedule (noted above) and approve an updated bank financial model.
- A final hedging program was to be undertaken on or before 28 February 2020 being the expiry date for the gold put options. This hedging was to comprise a combination of forward sale contracts and deferred premium put options executed with a delivery profile over the period to 30 June 2021. Hedge volumes and timing (up to a maximum 150,000 ounces) are to align with the forecast metal production in the approved bank model. Further details of this hedging program are disclosed in Note 3.
- The requirement to achieve compliance with the Project Completion Test under the Syndicated Debt Facility by 31 December 2019 was permanently removed as a condition.

Subsequent to the period end, the Company announced two material changes to its business and future plans, being a reduction to its Mineral Resources and Reserves and to immediately suspend capital development at the Westralia underground mine resulting in current underground mining activities to be completed during the period to December 2020. As a consequence of these changes, the Group sought and received a number of approvals, waivers and concessions from Financiers in relation to these changes. A further re-sculpting of debt repayment schedules has been agreed with Financiers to align debt repayments with the updated forecast mine plan and cash flow including the deferral of the \$24.7 million debt repayment from 31 March 2020 to on or before 30 April 2020, so as to align the Company's funding plans with the repayment. An updated bank financial model has been prepared by the Group and approved by the Financiers. For further discussion refer to the going concern disclosure in the Basis of Preparation and Accounting Policies note.

The following table shows the updated fixed debt repayment schedule approved by the financiers subsequent to period end. The final repayment date in this schedule is 31 March 2022.

	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-3 years \$'000
Bank Loan	28,600	25,800	26,100	14,200

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 16 Issued Capital

	31 December 2019 No.	30 June 2019 No.	31 December 2019 \$'000	30 June 2019 \$'000
Issued share capital	227,775,121	225,713,403	245,323	244,765
<i>Share movements during the year</i>				
Balance at the start of the period	225,713,403	205,844,814	244,513	195,187
Share issue	-	17,948,339	-	48,429
Exercise of options (cash)	-	1,700,000	-	1,670
Exercise of options (non-cash)	1,767,184	-	265	458
Exercise of performance rights	294,534	220,250	796	637
Less share issue costs	-	-	-	(1,948)
Deferred tax on share issue costs	-	-	(251)	80
Balance at the end of the period	227,775,121	225,713,403	245,323	244,513

Subsequent to the period end, a further 191,856 shares were issued to Mr Leigh Junk pursuant to the terms and conditions of his Executive Services Agreement ("ESA"). Subject to continuing employment, 6 months after his commencement date, a further 191,856 shares will be issued.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 17 Share-Based Payments

The Group provides benefits to employees (including Executive Directors) of the Group through share-based incentives.

Options over Unissued Shares

During the half-year ended 31 December 2019 no options over unissued shares were granted pursuant to the Group's Employee Share Option Plan (31 December 2018: \$Nil). The share-based payments expense for the period of \$0.02 million (31 December 2018: \$0.07 million) relates to the fair value of options apportioned over their respective vesting periods.

a) Reconciliation of movement of options over unissued shares during the period including weighted average exercise price (WAEP)

	31 December 2019		31 December 2018	
	No.	WAEP	No.	WAEP
Options outstanding at the start of the period	5,250,000	\$1.10	6,950,000	\$1.07
Options granted during the period	-	-	-	-
Options exercised during the period	(2,500,000)	\$0.43	(1,400,000)	\$1.06
Options outstanding at the end of the period	2,750,000	\$1.70	5,550,000	\$1.07

b) Subsequent to the reporting date

Subsequent to the period end, 460,298 shares were issued on the cashless exercise of 1,500,000 options exercisable at \$1.16 each pursuant to the cashless exercise provisions of the Dacian Gold Limited Employee Plan. No options have been granted subsequent to the reporting date and to the date of signing this report.

c) Weighted average contractual life

The weighted average contractual life for vested and un-exercised options is 13 months (31 December 2018: 18 months).

Performance Rights

During the half-year ended 31 December 2019, 1,601,019 (31 December 2018: \$Nil) were granted to employees, pursuant to the terms of the Dacian Gold Limited Employee Share Option Plan. The share-based payments expense for the period includes \$0.3 million (31 December 2018: \$0.3 million) relating to the fair value of performance rights apportioned over the respective vesting period.

a) Reconciliation of movement of performance rights during the period including weighted average fair value.

	31 December 2019		31 December 2018	
	No.	WAFV	No.	WAFV
Rights outstanding at the start of the year	299,893	\$2.24	711,068	\$2.64
Rights granted during the year	1,601,019	\$1.04	-	-
Rights vested during the year	(129,534)	\$1.95	-	-
Rights forfeited during the year	(100,658)	\$2.13	(21,229)	\$2.57
Rights outstanding at the end of the year	1,670,720	\$1.12	689,839	\$2.64

b) Subsequent to the reporting date

Mr Junk is entitled to an initial allocation of 460,455 performance rights under the terms of his Executive Services Agreement. The issue of these rights is subject to Board and shareholder approval.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 17 Share-Based Payments (continued)

c) Fair value of performance rights granted

The fair value of the 1,601,019 performance rights granted were determined using Monte Carlo simulation, a review of historical share price volatility and correlation of the share price of the Company to its Peer Group. Further details of the basis of valuation of currently outstanding performance right appear below.

Tranche	Date of grant	Measurement date	Number of rights at start of year	Date of vesting	Share price on grant date	Fair value at grant date	Expected share price volatility	Expected dividend yield	Expected risk free rate
1	23 August 2019	1 July 2020	1,072,683	1 July 2021	\$1.09	\$1.01	55%	0%	0.73%
2	23 August 2019	1 July 2020	528,336	1 July 2021	\$1.09	\$1.09	55%	0%	0.73%
Total			1,601,019						

d) Vesting conditions of performance rights issued during the period

Vesting conditions of the performance rights issued in the half-year period are detailed below:

Tranche	Measurement Date	Date of vesting	Number of rights at start of year	Metric	Achieved LTI
1	1 July 2020	1 July 2021	1,072,683	67% - TSR performance to peers above 50 th percentile (measured over the 1 year period to 1 July 2020)	-
2	1 July 2020	1 July 2021	528,336	33% - Reserve Growth (measured over the 1 year period to 1 July 2020)	-
Total			1,601,019		

The above performance rights are subject to a 12 month service condition and vest one year from the measurement date. On vesting, each right automatically converts to one ordinary share. If the employee ceases employment before the rights vest, the rights will be forfeited, except in limited circumstances that are approved by the board.

Note 18 Commitments & Contingencies

There have been no significant changes to commitments and contingencies disclosed in the most recent financial report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Note 19 Events Subsequent to the Reporting Date

Subsequent to 31 December 2019, the following events occurred.

On 6 January 2020 new hedging was undertaken to protect 117,396 ounces of production, refer to Note 8. The hedging comprised;

- Gold forward sale contracts covering 49,788 ounces at an average delivery price of A\$2,266/oz over the period September 2020 to June 2021.
- Gold put options (deferred premium basis) covering 67,608 ounces at a strike price of \$2,100/oz over the period of April 2020 to June 2021.

On 3 February 2020 the Company requested a voluntary suspension be applied to trading in the Company's securities on ASX. The suspension was requested by the Company to allow sufficient time to complete work on the update to the Company's Mineral Resource and Ore Reserve estimate and the consequential changes to the Company's life-of-mine plan, as well as to progress the development of a recapitalisation proposal to reduce the Group's debt, improve the working capital position and accelerate near-term production sources.

On 27 February the Company announced an updated Mineral Resource and Ore Reserve estimate which included a 40% reduction in Mineral Resource at the MMGO from 3.5 million to 2.1 million ounces. The resource reduction related primarily to the Westralia underground mine where the Mineral Resource estimate decreased by 52% from 1.5 million ounces to 0.7 million ounces.

On 27 February the Company further announced that underground production from Westralia is now only scheduled to continue until December 2020, with studies being conducted throughout the remainder of CY2020 to determine whether optionality exists for underground production to continue beyond December 2020. The announcement also provided an updated three year production outlook that is pre-dominantly underpinned by open pit ore sources (96%) with only a minimal underground contribution (4%).

As a result of the changes announced on 27 February 2020 (detailed above), the Group sought and received a number of approvals, waivers and concessions from its Financiers in respect to its Syndicated Facility Agreement. This resulted in changes to the debt repayment schedules including the deferral of the \$24.7 million debt repayment subject to conditions from 31 March 2020 to on or before 30 April 2020, so as to align the Company's funding plans with the repayment. Refer to the Notes to the Financial Statements for further discussion of going concern.

Other than the matters noted above, there has not arisen in the interval between the end of the reporting period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

DIRECTORS' DECLARATION

In the opinion of the Directors of Dacian Gold Limited (the 'Company'):

- a. The interim financial statements and notes of the Group are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year then ended; and
 - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.
- b. There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable. Refer to the Basis of Preparation Note to the financial statements for further discussion of going concern.

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

DATED at Perth this 13th day of March 2020.



Leigh Junk

Managing Director & CEO



Independent Auditor's Review Report

To the shareholders of Dacian Gold Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Dacian Gold Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Dacian Gold Limited is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the **Group's** financial position as at 31 December 2019 and of its performance for the Half-year ended on that date; and
- Complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2019.
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date.
- Notes comprising a summary of significant accounting policies and other explanatory information.
- The Directors' Declaration.

The **Group** comprises Dacian Gold Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Material uncertainty related to going concern – emphasis of matter

We draw attention to the "Going Concern Basis of Preparation of Financial Statements" Note in the Interim Financial Report. The conditions disclosed in the Going Concern Basis of Preparation of Financial Statements Note, indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Interim Financial Report. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- The preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*.
- Such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Dacian Gold Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

Graham Hogg
Partner
Perth
13 March 2020