# Phoenix Gold Limited

**ABN 55 140 269 316**

## Interim report for the half-year ended 31 December 2014

## Contents



The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Phoenix Gold Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

## Directors' report

Your directors submit their report on the consolidated entity consisting of Phoenix Gold Limited and the entities it controlled ("Phoenix") at the end of, or during, the half-year ended 31 December 2014.

**Directors**
The following persons held office as directors of Phoenix Gold Limited during the whole of the half year and up to the date of this report:

Dale Clark Rogers
Jonathon Paul Price
Stuart Hall

**Operating and financial review**
<u>Financial</u>
Phoenix made a net loss before tax of $11.1 million for the half year (2013: $3.5 million). The net loss included non-cash items for the write off of previously capitalised exploration and evaluation costs of $0.8 million as our non-core tenement holdings are rationalised, and $3.7m of impairment charges relating to the mining operations.

Cash outflow for the consolidated entity for the half year was $3.3 million (2013: $12.8 million) which included operational cash outflows of $3.4 million and investment and development cash outflows of $4.3 million. These outflows were offset by the issue of 36,400,000 shares which raised $4.4 million after transaction costs.

Cash on hand at 31 December 2014 was $6.0 million (30 June 2014: $9.3 million).

Subsequent to the end of the half-year, the company issued 50 million shares at 10 cents per share raising $5 million before transaction costs. The shares were issued under a Placement utilising the company's existing 15% placement capacity under ASX Listing Rule 7.1

In addition to this, on 9th February 2015 the company announced a Share Purchase Plan, under this plan 6,055,000 shares were issued at 10 cents per share to raising $0.6 million before transaction costs.

<u>Mining operations</u>
*Safety & environment*
Safety and environment performance for the half-year was acceptable with no lost time injuries or reportable environmental incidents. There were a number of minor safety incidents reported that have been subsequently investigated and corrective actions put in place.

*Kintore West*
During the period mining at Kintore West commenced with considerable waste development being undertaken to allow access to the lower strip, higher grade ore zones in the second half of the 2015 financial year.

**Operating and financial review (cont'd)**

The key physicals for the half-year are summarised in the table below:

| **Physicals summary – Kintore West mine** | | **6 months ended 31 December 2014** |
|---|---|---|
| **Material moved** | | |
| HG ore mined | k bcm | 83 |
| Waste mined | k bcm | 1,297 |
| Strip ratio | x | 15.5 |
| **Ore mined** | | |
| HG ore mined | kt | 160 |
| Grade | g/t | 1.5 |
| Contained gold | Oz | 7,881 |
| **Ore milled** | | |
| HG ore milled | kt | 109 |
| Grade | g/t | 1.5 |
| Recovery | % | 93 |
| Recovered gold | Oz | 4,865 |

The first of three Kintore West milling campaigns was completed during the period with excellent plant availability, throughput rates and gravity plant performance. In addition to the high grade oxide ore fed to the mill, 35,124 tonnes of lower grade material was processed including remnant stockpiles from previous mining campaigns. In total, 5,639 ounces were recovered with an average realised price of A$1,384 received per ounce.

Cash Costs ("C1") for the period were $1,717 per recovered ounce and the All In Sustaining Costs ("AISC") were $2,622 per recovered ounce inclusive of all ore mining and waste removal costs, royalties, corporate overheads and exploration expenditure. The ounces on stockpile mined awaiting treatment are not included. The C1 and AISC are expected to improve in the coming period as the strip ratio falls and the mining fleet develops the deeper, higher grade or blocks.

Business development

*Norton Joint Venture arrangements*

In 2014 Phoenix delivered to Norton Goldfields Limited ("Norton") separate Feasibility Studies on the Mick Adams/Kiora and Wadi projects ("Castle Hill Stage 1") in accordance with an existing option to mine and treatment agreement.

**Operating and financial review (cont'd)**

Under the terms of the agreement:

- Norton may exercise an option within a 6 month period after the Feasibility Study delivery, expiring mid-August 2014;
- Upfront capital development is funded by Norton;
- Mining, haulage, milling and rehabilitation is conducted by Norton;
- Subject to fleet availability, mining is to commence within 3 months of execution of the formal agreement;
- As the project becomes cash flow positive on a production cost basis, Phoenix receives 50% of the resultant cash surplus.

In August 2014 Norton notified Phoenix it had exercised its option to enter into a mine and ore sale agreement. Phoenix and Norton are currently proceeding with finalising the terms of a formal Licence to Mine and Ore Sale Agreement.

During the half-year a joint mining study was commissioned to re-optimise the Mick Adams/Kiora and Wadi projects using the agreed JORC 12 geological models prepared by Cube Consulting, updated capital and operating costs, and updated mining fleet selection information provided by Norton. The study was released and announced to the ASX on 21 January 2015.

The study indicated the potential for a larger project, delivering 398,200 ounces from mining 8.7 million tonnes at a grade 1.51 g/t and a recovery of 94%. At a A$1,350 gold price the study showed the project could potentially deliver a $91 million cash surplus to be shared equally by Phoenix and Norton. The final mine design and ore schedule is still being finalised with Norton which may result in a different physical and financial outcome from that presented in the study.

The terms of the formal Licence to Mine and Ore Sale Agreement are expected to be agreed in the March 2015 quarter with mining operations expected to commence in the June 2015 quarter.

*Heap Leach Feasibility Study*
During the period Phoenix entered into an agreement with St Ives Gold Mining Company Pty Limited to purchase a standalone 2.3Mtpa heap leach processing facility. The total consideration payable under the agreement is $2 million with a $0.2 million deposit being paid during the half-year.

In line with this acquisition, Phoenix progressed with an updated heap leach feasibility study to integrate the plant with the leach pad design at the Castle Hill project. Como Engineering have been commissioned to deliver a detailed engineering study to a bankable level for relocation, refurbishment, and re-commissioning of the processing plant. Worsley Parsons have been commissioned to redesign the heap leach pads to integrate with the plant. Independent Metallurgical Operations ("IMO") are completing additional test work.

These reports are due for completion in the March 2015 quarter and an updated production profile, capital, and operating costs, development schedule, and financial model will follow thereafter.

The current Mineral Resource for the heap leach project stands at **58.34Mt at 0.60 g/t Au for 1,109,000 ounces**. The current Ore Reserve for the heap leach project stands at **14.96Mt at 0.58 g/t Au for 280,450 ounces**.

**Operating and financial review (cont'd)**

<u>Exploration and evaluation</u>
During the period Phoenix completed infill and extension drilling at its advanced mining projects to improve geological confidence and to test strike and depth extensions beyond the current mining envelope. This work was undertaken at the Castle Hill (Kintore), Burgundy, and Red Dam projects on the highly prospective Kunanalling and Zuleika shear zones in the heart of the Western Australian Goldfields.

In total 15,499 metres of reverse circulation ("RC") drilling was completed with 11,125 metres at Castle Hill (Kintore), 3,126 metres at the Red Dam project, and 1,248 metres at the Burgundy project.

*Castle Hill*
During the period 102 RC holes totalling 11,125 metres were completed at the Kintore project. The aim of the programme was to test further extensions to the mineralisation to the south, north, and east of the deposit, validate historic holes drilled in the 1980s, and infill areas for conversion into the Indicated and Inferred categories for estimation of Resources.

In the half-year Phoenix also released the results of extension drilling completed in the 2014 financial year at Castle Hill Stage 3 which demonstrated the growth potential of the larger Castle Hill gold system.

The aim of the drilling programme was to test lateral and depth extensions to the mineralisation both proximal and between the historic deposits. The drilling was successful in delineating the extent of the mineralisation north along the tonalite contact and defining additional gold mineralisation west internal to the tonalite. The mineralisation remains open in this direction on several drill sections.

The new drill data has been incorporated into the current geological model by independent consulting geologists Cube Consulting Pty Limited to generate an updated JORC 12 Mineral Resource estimate.

*Red Dam*
During the period 29 RC holes totalling 3,126 metres were completed at the Red Dam project. The aim of the programme was to test the short range continuity of the central high grade zone and to test for up-dip extensions of the gold mineralisation in the northern peripheries of the deposit.

Results from this drilling demonstrated the potential for both open pit and underground development that is typical of the Kundana area.

In addition to this drilling programme, work continued ona detailed 4D geological evolution study in conjunction with the University of Western Australia's Centre for Exploration Targeting aimed at providing high priority exploration targets on both the Kunanalling and Zuleika shear zones.

**Operating and financial review (cont'd)**

*Burgundy*
A total of 17 RC holes totalling 1,248 metres were completed at the Zinfandel project (2kms immediately south of Burgundy) in the period on top of the 35 RC holes totalling 2,910m completed in the 2014 financial year. The aim of the programme was to test further extension to the mineralisation to the north and south of the deposit, validate historic holes, and covert Inferred material into the Indicated category.

**Auditor's Independence Declaration**
The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

**Rounding of Amounts**
The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

Jon Price
Managing Director

Perth
11 March 2015

# AUDITOR'S INDEPENDENCE DECLARATION

# TO THE DIRECTORS OF PHOENIX GOLD LIMITED

In relation to our review of the financial report of Phoenix Gold Limited for the half year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PKF Mack

PKF MACK

SIMON FERMANIS
PARTNER

11 MARCH 2015
WEST PERTH,
WESTERN AUSTRALIA

| | | Half-year | |
|---|---|---|---|
| | **Notes** | **2014**<br>**$'000** | 2013<br>$'000 |
| Sales revenue | | **7,751** | 9,489 |
| Costs of sales | | **(12,281)** | (9,833) |
| **Gross loss** | | **(4,530)** | (344) |
| Other revenue | | **138** | 122 |
| Exploration and evaluation expenses | | **(523)** | (1,591) |
| Corporate and administrative costs | | **(1,531)** | (1,366) |
| Share based payments | | **(33)** | (327) |
| Exploration costs written off | 7 | **(790)** | - |
| Net loss on financial instruments held at fair value | | **(105)** | - |
| Impairment loss | 2 | **(3,679)** | - |
| **Loss before income tax** | | **(11,053)** | (3,506) |
| Income tax expense | | **-** | - |
| **Loss for the half year** | | **(11,053)** | (3,506) |
| Other comprehensive income | | **-** | - |
| **Total comprehensive income for the half year** | | **(11,053)** | (3,506) |
| **Loss per share** | | **Cents** | Cents |
| Basic loss per share | | **(3.01)** | (1.46) |
| Diluted loss per share | | **(3.01)** | (1.46) |

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

| | Notes | 31 December 2014 $'000 | 30 June 2014 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | **6,026** | 9,323 |
| Trade and other receivables | | **390** | 969 |
| Gold bullion | | **242** | 20 |
| Inventory | 3 | **1,179** | - |
| Other current assets | | **150** | 37 |
| **Total current assets** | | **7,987** | 10,349 |
| | | | |
| **Non-current assets** | | | |
| Financial assets | 4 | **120** | 592 |
| Property, plant, and equipment | 5 | **688** | 74 |
| Mine development | 6 | **1,625** | - |
| Exploration and evaluation assets | 7 | **32,886** | 35,623 |
| Other non-current assets | 8 | **1,311** | 1,500 |
| **Total non-current assets** | | **36,630** | 37,789 |
| | | | |
| **Total assets** | | **44,617** | 48,138 |
| | | | |
| **Current liabilities** | | | |
| Financial liability | | **105** | - |
| Trade and other payables | | **5,305** | 3,292 |
| Provisions | 9 | **633** | 218 |
| **Total current liabilities** | | **6,043** | 3,510 |
| | | | |
| **Non-current liabilities** | | | |
| Provisions | 9 | **550** | - |
| **Total non-current liabilities** | | **550** | - |
| | | | |
| **Total liabilities** | | **6,593** | 3,510 |
| | | | |
| **Net assets** | | **38,024** | 44,628 |
| | | | |
| **Equity** | | | |
| Issued capital | 10 | **65,831** | 61,415 |
| Reserves | | **2,052** | 2,019 |
| Accumulated losses | | **(29,859)** | (18,806) |
| **Total equity** | | **38,024** | 44,628 |

*The above consolidated balance sheet should be read in conjunction with the accompanying notes.*

| | Issued Capital $'000 | Share Based Payment Reserve $'000 | Accumulated Losses $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 1 July 2013** | **50,165** | **1,687** | **(9,557)** | **42,295** |
| Loss for the half-year | - | - | (3,506) | (3,506) |
| Other comprehensive income for the half-year | - | - | - | - |
| **Total comprehensive income for the half-year** | **-** | **-** | **(3,506)** | **(3,506)** |
| **Transactions with owners in their capacity as owners:** | | | | |
| Options vesting expense | - | 327 | - | 327 |
| | **-** | **327** | **-** | **327** |
| **Balance at 31 December 2013** | **50,165** | **2,014** | **(13,063)** | **39,116** |
| **Balance at 1 July 2014** | **61,415** | **2,019** | **(18,806)** | **44,628** |
| Loss for the half-year | - | - | (11,053) | (11,053) |
| Other comprehensive income for the half-year | - | - | - | - |
| **Total comprehensive income for the half-year** | **-** | **-** | **(11,053)** | **(11,053)** |
| **Transactions with owners in their capacity as owners:** | | | | |
| Share capital issues (net of costs) | 4,416 | - | - | 4,416 |
| Options vesting expense | - | 33 | - | 33 |
| | **4,416** | **33** | **-** | **4,449** |
| **Balance at 31 December 2014** | **65,831** | **2,052** | **(29,859)** | **38,024** |

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

| | Half-year | |
|---|---|---|
| | **2014** | **2013** |
| | **$'000** | **$'000** |
| **Cash flows from operating activities** | | |
| Receipts from customers (inclusive of GST) | **9,456** | 12,678 |
| Payments to suppliers and employees (inclusive of GST) | **(13,725)** | (15,048) |
| Other income | **718** | - |
| Interest received | **164** | 212 |
| **Net cash used in operating activities** | **(3,387)** | (2,158) |
| | | |
| **Cash flows from investing activities** | | |
| Payment for exploration, evaluation and development | **(2,419)** | (9,795) |
| Payments for property, plant and equipment | **(495)** | (2) |
| Payments for mine development | **(632)** | - |
| Refunds of / (payments for) bonds and guarantees | **472** | (161) |
| Payments for tenement acquisitions | **(502)** | (704) |
| Payments for mill capital contributions | **(750)** | - |
| **Net cash used in investing activities** | **(4,326)** | (10,662) |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from issue of shares | **4,732** | - |
| Payment for costs of issue of shares | **(316)** | - |
| **Net cash provided by financing activities** | **4,416** | - |
| | | |
| Net decrease in cash and cash equivalents | **(3,297)** | (12,820) |
| Cash and cash equivalents at the beginning of the half-year | **9,323** | 15,824 |
| **Cash and cash equivalents at the end of the half-year** | **6,026** | 3,004 |

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

## 1 Segment Information

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance.

Operating segments are identified by management based on the mineral resource and exploration activities in Australia. Discrete financial information about each project is reported to the chief operating decision maker on regular basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the economic characteristics, the nature of the activities and the regulatory environment in which those segments operate.

Operating segments are identified by management based on exploration activities in Australia.

## 2 Impairment of mining assets

| | Note | 31 Dec 2014 $'000 | 31 Dec 2013 $'000 |
|---|---|---|---|
| Impairment of mine development | 6 | **3,679** | - |
| | | **3,679** | - |

Phoenix has reviewed its assets for impairment and considered an impairment of the following assets to be necessary.

**Mine Development**
The recoverable amount of the mine development assets relating to the Kintore West mine has been estimated on the fair value less costs to sell. The fair value less costs to sell has been determined on a forecasted cash flow model based on revised grade control mine plans, existing mining and milling contracts, and committed and spot gold sales. Given the period of time remaining on the Kintore West mine these forecasted cash flows have not been discounted.

The recoverable amount was determined to be below the carrying value of the assets and impairment to the carrying value has been recorded.

*Critical accounting estimates and judgements*
The recoverable amount of the mine development assets is estimated on the basis of future cash flows. The estimates of future cash flows are based on significant assumptions including:

- Estimates of the quantities of remaining ore and contained gold which is expected to be extracted from the Kintore West mine;

- Future gold prices based on current gold commitments and the spot price at the time the financial model was prepared. The use of a spot price is reasonable given the short life remaining for Kintore West;

- Future foreign exchange rates have been based on the spot rate at the time the financial model was prepared. The use of a spot rate is reasonable given the short life remaining for Kintore West;

- Production rates and costs have been based on existing contracts and the cost profile incurred to date.

## 3 Inventory

| | 31 Dec 2014 $'000 | 30 June 2014 $'000 |
|---|---|---|
| Consumables and spares | **80** | - |
| Ore stockpiles | **1,099** | - |
| | **1,179** | - |

Write downs of inventory to net realisable value amounted to $766,000 (30 June 2014 - $Nil).These were recognised as an expense during the period and included in "Cost of sales" in the income statement.

## 4 Financial assets

| | 31 Dec 2014 $'000 | 30 June 2014 $'000 |
|---|---|---|
| Security deposits | **120** | 592 |
| | **120** | **592** |

During the period $472,000 of security deposits held as guarantees provided in favour of the Minister Responsible for the Mining Act 1978 were returned as the Group entered the Mining Rehabilitation Fund ("MRF") regime.

## 5 Property, plant, and equipment

| | Plant & equipment $'000 | Office furniture, equipment & IT $'000 | Total $'000 |
|---|---|---|---|
| **At 30 June 2014** | | | |
| Cost | 33 | 222 | 255 |
| Accumulated depreciation | (23) | (158) | (181) |
| Net book amount | 10 | 64 | 74 |
| | | | |
| **Half year ended 31 December 2014** | | | |
| Opening net book amount | 10 | 64 | 74 |
| Additions | 618 | 34 | 652 |
| Depreciation | (22) | (16) | (38) |
| **Closing net book amount** | **606** | **82** | **688** |

## 5 Property, plant, and equipment (cont'd)

| | Plant & equipment $'000 | Office furniture, equipment & IT $'000 | Total $'000 |
|---|---|---|---|
| **At 31 December 2014** | | | |
| Cost | 651 | 256 | 907 |
| Accumulated depreciation | (45) | (174) | (219) |
| **Net book amount** | **606** | **82** | **688** |

### (a) Assets in the course of construction

The carrying amounts disclosed above include assets that were in the course of construction as at the end of the reporting period. The relevant amounts are as follows:

| | 31 Dec 2014 $'000 | 30 June 2014 $'000 |
|---|---|---|
| Plant & equipment | **430** | - |

## 6 Mine development at cost

| | | |
|---|---|---|
| Balance at the beginning of the half-year | **-** | - |
| Additions | **3,252** | - |
| Transfer from exploration and evaluation expenditure | **3,100** | 1,802 |
| Depreciation and amortisation | **(1,048)** | (1,802) |
| Impairment (see note 2) | **(3,679)** | |
| Balance at the end of the half-year | **1,625** | - |

During the period production commenced at Kintore West. As such, previously capitalised tenement acquisition, exploration and evaluation expenditure was transferred to the "mine development" asset.

## 7 Exploration, and evaluation assets

| | | |
|---|---|---|
| Balance at the beginning of the half-year | **35,623** | 29,926 |
| Acquisition of tenements | **2** | 222 |
| Exploration expenditure capitalised | **1,151** | 10,033 |
| Transfer to mine development (see note 6) | **(3,100)** | (1,802) |
| Transfer to cost of sales | **-** | (368) |
| Exploration expenditure written off | **(790)** | (2,388) |
| Balance at the end of the half-year | **32,886** | 35,623 |

## 8 Other non-current assets

| | 31 Dec 2014 $'000 | 30 June 2014 $'000 |
|---|---|---|
| Balance at the beginning of the half-year | **1,500** | - |
| Capital contributions made under Toll Milling Agreement | **-** | 1,500 |
| Amortisation | **(189)** | - |
| Balance at the end of the half-year | **1,311** | 1,500 |

## 9 Provisions

| | | |
|---|---|---|
| *Current* | | |
| Employee leave provision | **267** | 218 |
| Rehabilitation provision | **366** | - |
| Total current provision | **633** | 218 |
| | | |
| *Non-current* | | |
| Rehabilitation provision | **550** | - |
| Total non-current provision | **550** | 218 |
| | | |
| *Movement in rehabilitation provision* | | |
| | | |
| Carrying amount at beginning of half-year | **-** | - |
| Additional provision charged to mine development | **916** | - |
| Carrying amount at the end of the half-year | **916** | - |

## 10 Issued Capital

| | | |
|---|---|---|
| Fully paid ordinary shares | **65,831** | 61,415 |

| | 31 Dec 2014 $'000 | 31 Dec 2014 No. | 30 June 2014 $'000 | 30 June 2014 No. |
|---|---|---|---|---|
| **(a) Movements in ordinary shares on issue at the beginning of the half-year** | | | | |
| Balance at the beginning of the half-year | **61,415** | **333,632,330** | 50,165 | 240,397,255 |
| Rights issue | **-** | **-** | 4,321 | 33,235,075 |
| Share placement | **4,732** | **36,400,000** | 7,800 | 60,000,000 |
| Less: transaction costs arising from share issues | **(316)** | | (871) | |
| Balance at the end of the half-year | **65,831** | **370,032,330** | 61,415 | 333,632,330 |

## 10 Issued Capital (cont'd)

| | 31 Dec 2014 $'000 | 31 Dec 2014 No. | 30 June 2014 $'000 | 30 June 2014 No. |
|---|---|---|---|---|
| **(b) Movements in options on issue at the beginning of the period** | | | | |
| Balance at the beginning of the period | **2,019** | **54,183,350** | 1,687 | 53,983,350 |
| Issue of options during the period | **26** | **10,500,000** | 12 | 500,000 |
| Vesting expense of options already issued | **7** | **-** | 320 | - |
| Options lapsed | | **(42,808,350)** | - | (300,000) |
| | **2,052** | **21,875,000** | 2,019 | 54,183,350 |

### Fair value of options granted

The assessed fair value at grant date of options granted during the half-year ended 31 December 2014 was 2.3 cents per option (2013 – 3.5 cents). The fair value at grant date is independently determined using a Black-Scholes and Monte Carlo option pricing models that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option, and non-market based vesting conditions (where relevant).

The model inputs for options granted during the half-year ended 31 December 2014 included:

(a) options are granted for no consideration
(b) exercise price: $0.15 (2013 – $0.33)
(c) grant date: 28 Nov 2014 (2013 – 11 Oct 2013)
(d) expiry date: 28 Nov 2017 (2013 – 10 Oct 2016)
(e) share price at grant date: $0.10 (2013 – $0.16)
(f) expected price volatility of the company's shares: 71% (2013 – 75%)
(g) expected dividend yield: 0% (2013 – 0%)
(h) risk-free interest rate: 2.81% (2013 – 2.40%)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

## 10 Issued Capital (cont'd)

The options issued during the year under the terms of the Employee Share Option Plan are subject to the achievement of a number of milestones (which additionally impact the fair value of the options granted) as follows:

| Milestone | Milestone date | Number of options | Key vesting condition |
|---|---|---|---|
| 1 | 28 Nov 2017 | 1,000,000 | Market capitalisation of $80 million and 2 years service |
| 2 | 28 Nov 2017 | 1,000,000 | Market capitalisation of $80 million and 1 year service |
| 3 | 28 Nov 2017 | 1,000,000 | Market capitalisation of $100 million and 18 months service |
| 4 | 28 Nov 2017 | 1,000,000 | Market capitalisation of $120 million and 2 years service |
| 5 | 30 June 2015 | 1,250,000 | Successful delivery of internal budget for the financial year ending 30 June 2015 |
| 6 | 30 June 2015 | 500,000 | Achieving a cost per ounce 10% below the internal budget for the financial year ending 30 June 2015 |
| 7 | 30 June 2016 | 250,000 | Achieving mining dilution and ore loss parameters for the two years ended 30 June 2016 |
| 8 | 30 June 2015 | 125,000 | Delivery of $2m in cost savings from the internal budget for the financial year ending 30 June 2015. |
| 9 | 31 Dec 2016 | 1,250,000 | Receiving aggregate payments of $17,500,000 pursuant to the Norton licence to mine agreement |
| 10 | 31 Dec 2015 | 1,000,000 | Successful delivery of a heap leach processing facility |
| 11 | 28 Nov 2017 | 250,000 | Exploration spend of $2m per annum with a discovery cost of less than $10 / ounce |
| 12 | 30 June 2015 | 250,000 | Resources increased to greater than 4.5 million ounces and Reserves replaced plus 20% |
| 13 | 30 June 2016 | 250,000 | Successful divestment of non-core tenure and consolidation of further tenure in the 2015 and 2016 financial years |
| 14 | 30 June 2016 | 250,000 | Completion of Broads Dam / Kundana North exploration programme |
| 15 | 31 March 2015 | 250,000 | Successful debt facility/prepay of $20 million |
| 16 | 30 June 2015 | 250,000 | Successful hedging strategy and price risk protection on current mine plan |
| 17 | 28 Nov 2017 | 250,000 | Successful management and contractual outcomes from the toll treatment agreement and 2 years service |
| 18 | 28 Nov 2017 | 125,000 | Implementation of financial reporting for mining operations |
| 19 | 28 Nov 2017 | 125,000 | Delivery of financial model supporting external funding and hedging lines |
| 20 | 28 Nov 2017 | 125,000 | Management and coordination of key supply contracts and 2 years service |

## 11 Subsequent Events

On 9th February 2015 the company issued 50 million shares at 10 cents per share raising $5 million before transaction costs. The shares were issued under a Placement utilising the company's existing 15% placement capacity under ASX Listing Rule 7.1

On 9th February 2015 the company announced a Share Purchase Plan, under this plan 6,055,000 shares were issued at 10 cents per share to raising $0.6 million before transaction costs.

## 12 Dividends

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

## 13 Contingent liabilities

Westpac hold nil security tenement bonds (30 June 2014: $469,000) in favour of the Minister Responsible for the Mining Act 1978 (refer to note 4). In the opinion of the directors there were no contingent liabilities at 31 December 2014, and the interval between 31 December 2014 and the date of this report.

## 14 Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2014 has been prepared in accordance with Accounting Standard AASB *134 Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Phoenix 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, unless otherwise stated.

**Adoption of new or revised accounting standards and interpretations**
The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year. The Group has not early adopted any accounting standards or interpretations.

The adoption of all the new and revised standards and interpretations has not resulted in any changes to the Groups accounting policies and has no effect on the amounts reported for the current or prior half-years.

## 14 Basis of preparation of half-year report (cont'd)

**Estimates**
The preparation of this condensed consolidated interim financial report requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2014 except for the following:

*Inventories*
Net realisable value tests are performed at each reporting date and represent the estimated future sale price of the product based on prevailing spot/committed gold price at the reporting date, less estimated costs to complete production and bring the product to sale.

Stockpiles are measured by estimating the number of tonnes added and removed, the number of contained gold ounces based on assay data, or actual processing data if that ore had been processed post reporting date, and the estimated recovery percentage. Stockpile tonnages are verified by monthly surveys.

*Rehabilitation obligations*
The Group assesses site rehabilitation liabilities at each reporting date. The provision recognised is based on an assessment of the estimated cost of closure and reclamation of the areas using internal information concerning environmental issues in the exploration and previously mined areas, together with input from various environmental consultants, discounted to present value. Significant estimation is required in determining the provision for site rehabilitation as there are many factors that may affect the timing and ultimate cost to rehabilitate sites where mining and/or exploration activities have previously taken place. These factors include future development/ exploration activity, changes in the cost of goods and services required for restoration activity and changes to the legal and regulatory framework. These factors may result in future actual expenditure differing from the amounts currently provided.

*Impairment testing*
Additional judgements were applied in estimating the recoverable amount of mine development assets and other non-current assets. Further information can be found at Note 2.

## Directors' declaration

In the directors' opinion:

(a) The financial statements and notes as set out on pages 9 to 20 are in accordance with the *Corporations Act 2001* including:

i. complying with the Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and

ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date and

(b) there are reasonable grounds to believe that Phoenix Gold Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of directors.

Jon Price
Managing Director

11 March 2015

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Chartered Accountants & Business Advisers

# INDEPENDENT AUDITOR'S REVIEW REPORT

# TO THE MEMBERS OF

# PHOENIX GOLD LIMITED

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phoenix Gold Limited (the Company) and controlled entities (consolidated entity) which comprises the consolidated balance sheet as at 31 December 2014, the consolidated income statement and other comprehensive income, the consolidated statement of changes in equity and the 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 and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at 31 December 2014, or during the half year.

## Directors' Responsibility for the Half-Year Financial Report

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

## Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year 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 half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporation Regulations 2001. As the auditor of Phoenix Gold Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. In accordance with the Corporations Act 2001, we have given the directors' of the company a written Auditor's Independence Declaration.

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## Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

PKF Mack

PKF MACK

SIMON FERMANIS
PARTNER

11 MARCH 2015
WEST PERTH,
WESTERN AUSTRALIA