



Interim financial report

For the half-year ended 31 December 2019

Corporate Directory

Director

Rodney Michael Joyce
Non-executive Director

Administrators

Michael Ryan, Kathryn Warwick and Ian Francis
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Company Secretary

Eva O'Malley

Australian Business Number

57 139 522 900

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Stock Exchange Listing

The Company's securities are listed on the Australian Securities Exchange (ASX).
ASX Code: GCY

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Directors' report

On 2 June 2019, Michael Ryan, Kathryn Warwick and Ian Francis of FTI Consulting were appointed as Joint and Several Voluntary Administrators of Gascoyne Resources Limited (In Administration) (Gascoyne or Company) and each of its wholly-owned subsidiaries.

Since this appointment, the Administrators have had control of the Company's business, property and affairs. Rodney Michael Joyce remains the only Director of the Company as at 13 March 2020. Accordingly, this Directors' report, together with the financial statements of the consolidated entity, being Gascoyne Resources Limited (In Administration) and its controlled entities (together, the Group), for the half-year ended 31 December 2019 are presented by the Administrators in their capacity as Joint and Several Voluntary Administrators of the Company and each of its wholly-owned subsidiaries.

Director

The Directors of the Company during the half-year and up to the date of this report were, unless otherwise stated:

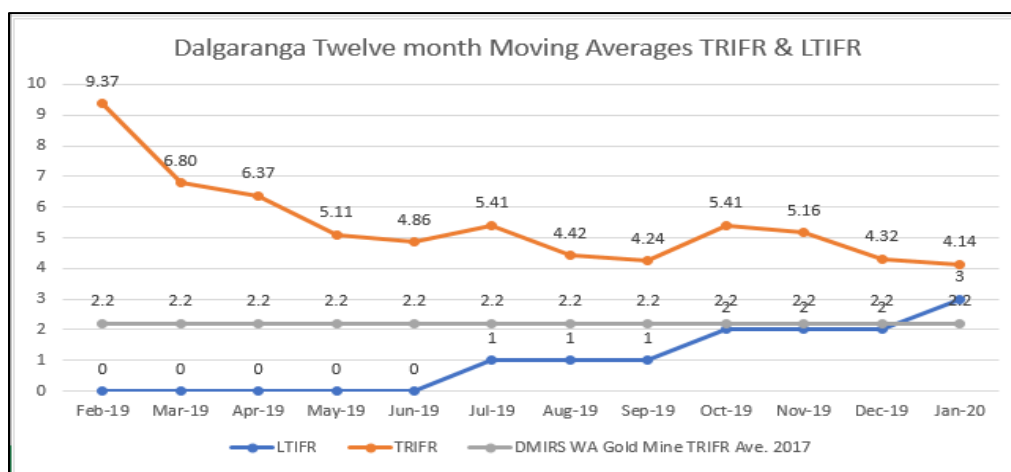
Mr Rodney Michael Joyce

Mr Ian Kerr (resigned 5 July 2019)

Review of operations

Safety

Safety statistics for the calendar year ended 31 December 2019:



An improvement in safety culture and focus on major hazards' management across the Group has contributed to the prevention of major incidents and a decreased Total Recordable Injury Frequency Rate (TRIFR) of 4.14 as at the end of January 2020.

Environment

The Group continued to adhere to good environmental regulatory compliance. No major environmental incidents occurred during the half-year.

Directors' report

Review of operations (continued)

Production

During the half-year, the Dalgaranga Gold Project (Dalgaranga) operations focused on safely achieving adjusted mining rates and ore production from the Gilbey's and Golden Wings pits, along with improving geological processes and models to target steadily increased gold production through the 2.5Mtpa processing facility. This approach was adopted to ensure trade on viability, whilst further technical work on the Mineral Resource and Ore Reserve models was completed to better understand and build confidence in the future of the project. Updated Mineral Resource and Ore Reserve estimates were completed based on the new Localised Uniform Conditioning (LUC) models for Gilbey's and Golden Wings in August and October 2019, respectively. The new models were completed by Cube Consulting Pty Ltd and SD2 Pty Ltd consultants respectively. This work underpinned a new mine design and forms the basis of an updated Life of Mine Plan (LOMP), announced in January 2020. Refer ASX announcement "Quarterly Activities Report" dated 28 January 2020.

Production during the reporting period (H2 2019) improved by 20% compared to the six months ended 30 June 2019 (H1 2019) resulting in a total of 33,670 ounces (oz) of gold produced from a total of 1.50 million tonnes of ore processed at a head grade of 0.78g/t achieving an average recovery of 90.01% for H2 2019.

The improved H2 2019 result was driven by the processing plant achieving significantly above nameplate throughput (2.5Mtpa) with an 11% increase (H1 2019: 1.35Mt versus H2 2019: 1.50Mt) at a marginally increased (+7%) head grade (H1 2019: 0.74g/t versus H2 2019: 0.78g/t) and a 1.1% improvement to average recovery (H1 2019: 89.15% versus H2 2019: 90.01%) underpinned by a much improved average processing recovery of 93.57% achieved in the December 2019 quarter. The improved performance in H2 2019 has demonstrated that the work undertaken to improve the business (whilst still mining the forecasted less reliable gold depleted oxide ore of the Gilbey's deposit), has allowed the business to invest approximately \$10.0 million in the future of the operation by accelerating the cutback to access a substantial length of the total Gilbey's Main Zone (GMZ) by January 2020.

Steady improvement of production results during H2 2019 demonstrates the Group's commitment to delivering consistent results. This improvement has been achieved despite the challenges presented by the majority of the ore mined in H2 2019 being sourced from the less reliable peripheral, gold depleted oxide lodes, whilst the cutback acceleration was progressed to provide access to more substantial quantities of the GMZ from January 2020 onwards.

Mining total material movement during H2 2019 yielded 6.24 million BCM primarily due to the acceleration of the western Stage 1 cutback. An additional 250 tonne excavator, trucks and personnel were mobilised to commence the cutback acceleration in November 2019. The acceleration period continued through to late February 2020.

During H2 2019, processing recoveries averaged 90.01%. Overall recoveries for the December 2019 quarter improved to 93.57%, well above expectations and as a result of operational improvements implemented based on key learnings from investigations into poor recoveries achieved in the September 2019 quarter of 86.52%.

During December, a ProcessIQ™ Cynoprobe cyanide and oxygen auto dosing control system was procured and installed, to be fully commissioned with auto-programming by end of February 2020. It is expected that this new system will not only ensure the highest possible gold recoveries but will also decrease cyanide consumption. This is a further demonstration of the Group's commitment to continuous improvement of the business.

The H2 2019 gravity gold recovery averaged 13.7%. The increase in gravity gold recovery was expected to continue in line with the planned quantities of fresh and transitional ore that would be available to be processed. The gravity gold recovery of 2.3% in H1 2019 versus 13.7% in H2 2019 gives further confidence in the original feasibility study metallurgical test work, which identified a range of 30-50% gravity recoverable gold in the GMZ fresh ore.

Data collected over the December quarter shows that the reconciliation between Declared Ore Mined (DOM) versus Grade Control model has been very good. The reconciliation of DOM versus the LUC recoverable resource for the quarter was within 10% of ounces at 93%, however the grade comparison was lower at 82%. This is a step change improvement when compared with the H1 2019 results of 66% for grade and 72% for ounces. Refer ASX announcement "Quarterly Activities Report" dated 28 January 2020.

The much improved reconciliation results for H2 2019 has allowed the Group to place far higher confidence in achieving internal forecasts. This is significant as only 10% of the ore processed for H2 2019 came from the wide, continuous and higher grade GMZ. Substantial access to the GMZ was achieved in January 2020 as planned, when approximately 300m of strike length was exposed, resulting in almost 50% of the January ore feed coming from the southern GMZ which underpinned the 6,395oz produced in January. Refer ASX announcement "January 2020 Production Results" dated 6 February 2020. Sufficient data to assess the reconciliation performance of the GMZ versus the LUC model will be available by the end of April 2020.

Directors' report

Review of operations (continued)

Key operating indicators

Key operational information is summarised as follows:

		Quarter				Calendar year	
Production summary	Unit	March 2019	June 2019	September 2019	December 2019	H1 2019	H2 2019
Mining							
Total material movement	Kbcm	4,466	4,849	2,799	3,440	9,315	6,239
Waste	Kbcm	4,155	4,498	2,276	3,020	8,653	5,296
Ore (volume)	Kbcm	310	351	523	420	662	943
Ore (tonnage)	Kt	585	655	737	1,007	1,239	1,744
Mined grade	g/t Au	0.79	0.75	0.83	0.65	0.77	0.72
Processing							
Throughput	Kt	630	716	737	761	1,346	1,497
Feed grade	g/t Au	0.74	0.77	0.83	0.73	0.74	0.78
Recovery	%	89.70	88.71	86.52	93.57	89.15	90.01
Recovered gold	Ounces	12,414	15,787	17,016	16,654	28,200	33,670
Poured fine gold	Ounces	12,088	15,655	17,010	16,781	27,743	33,791
Revenue summary							
Production sold	Ounces	12,814	17,120	16,409	16,939	29,934	33,348
Average price	A\$/oz	1,788	1,822	2,138	2,171	1,805	2,154
Gold sales revenue	A\$'000	22,905	31,144	35,118	36,769	54,049	71,887
Bullion on hand	Ounces	2,995	1,509	2,114	-	1,509	-

Note: Discrepancies in totals are a result of rounding.

Exploration activities

Due to limited exploration budgets while the Dalgaranga operation stabilises, restricted on-ground activities were undertaken during the half-year. Work conducted included the rehabilitation of exploration drill sites at both the Dalgaranga and Glenburgh Gold Projects and a short program of sampling of some historic Aircore drill holes at Glenburgh. Required statutory Annual Technical Reports and applications for Extensions of Term for certain Company tenure were submitted to the Department of Mines, Industry Regulation and Safety.

Planning for future programs at Dalgaranga of near mine exploration and resource drilling have been undertaken as well as the development of exploration targets at both the Glenburgh and Egerton Gold Projects. The Exploration team has also been assisting with hydrological drill programs at the Dalgaranga mine.

Directors' report

Corporate

Financial performance

The net consolidated loss of the Group for the half-year was \$17.8 million (2018: \$47.2 million). During the half-year, the Group sold 33,348 ounces of gold at an average price of \$2,154 per ounce (2018: 26,878 ounces at an average price of \$1,707 per ounce).

Financial position

As at 31 December 2019 the Group has a working capital deficit of \$126.0 million (30 June 2019: \$108.0 million). The increase in the deficit from 30 June 2019 is primarily driven by the investment in accelerating the cutback to access the GMZ. The acceleration has driven improved gravity gold recoveries. Refer to the Review of operations section for further information.

On 11 July 2019, the Commonwealth Bank of Australia and National Australia Bank, the Financiers of the syndicated facility agreement (SFA), refer to note 9, closed the Group's bank accounts held with the Financiers prior to Administration. Funds of \$12.2 million held in those accounts were offset against the outstanding amount of \$58.4 million owed on the SFA at that time and the other financial liability of \$30.3 million that arose from early termination of the gold forward contracts in place with the Financiers (note 10).

Options granted under the 2016 Company's Employee Share Option Plan expired on 15 December 2019.

Voluntary Administration

On 2 June 2019, the Directors determined to place the Company into Administration. Michael Ryan, Kathryn Warwick and Ian Francis of FTI Consulting were appointed as Joint and Several Voluntary Administrators of the Company and each of its wholly-owned subsidiaries. Since this appointment, the Administrators have kept the operation trading whilst progressing a dual track process to achieve either a sale or recapitalisation of the Group or its assets.

The Administrators purchased short-term put options to protect revenue arising from the majority of gold production over the period from 20 December 2019 to 31 July 2020 (put options for 1 October to 20 December now expired). The options have an exercise price of A\$2,050 per ounce for 14,600 ounces from 20 December 2019 to 28 February 2020 (at 1,400 ounces per week), A\$2,000 per ounce for 12,600 ounces from 1 March 2020 to 1 May 2020 (at 1,400 ounces per week), A\$2,200 per ounce for 3,200 ounces from 11 May 2020 to 30 June 2020 (at 400 ounces per week) and A\$2,200 for a further 7,000 ounces from 3 July 2020 to 31 July 2020 (at 1,400 ounces per week).

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached to and forms part of this Directors' report.

Rounding of amounts

The Company has relied on the relief provided by the *ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191*, and therefore the amounts in the interim financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the Administrators (acting in their capacity as Joint and Several Voluntary Administrators of the Company and each of its wholly-owned subsidiaries).



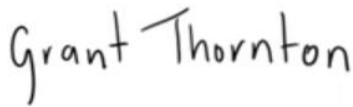
Michael Ryan
Joint and Several Voluntary Administrator
Perth
13 March 2020

Auditor's Independence Declaration

To the Directors of Gascoyne Resources Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Gascoyne Resources Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



L A Stella
Partner – Audit & Assurance

Perth, 13 March 2020

Independent Auditor's Report

To the Members of Gascoyne Resources Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Gascoyne Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Gascoyne Resources Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report, which indicates that the Group incurred a net loss of \$17.8 million during the half year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by \$126.0 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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 Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the 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 Group's financial position as at 31 December 2019 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Gascoyne Resources Limited, 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*



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



L A Stella
Partner – Audit & Assurance

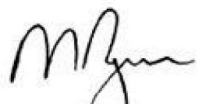
Perth, 13 March 2020

Directors' declaration

In the Administrators' opinion:

- (a) the consolidated financial statements and notes of Gascoyne Resources Limited (In Administration) and its controlled entities are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, including 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 Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) subject to the matters disclosed in note 2, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Administrators (acting in their capacity as Joint and Several Voluntary Administrators of the Company and each of its wholly-owned subsidiaries).



Michael Ryan
Joint and Several Voluntary Administrator
Perth
13 March 2020

Consolidated statement of comprehensive income

For the half-year ended 31 December 2019

		31 December 2019 \$'000	31 December 2018 \$'000
	Note		
Revenue	4	72,157	41,681
Cost of sales	4	(79,423)	(56,993)
Gross loss		(7,266)	(15,312)
Other income	4	2	619
Impairment loss	8	-	(33,494)
Other expenses	4	(6,963)	(4,578)
Operating loss		(14,227)	(52,765)
Finance income	4	13	118
Finance costs	4	(3,571)	(1,982)
Loss before tax		(17,785)	(54,629)
Income tax benefit	5	-	7,406
Loss after tax for the half-year		(17,785)	(47,223)
Total other comprehensive income		-	-
Total comprehensive loss for the half-year		(17,785)	(47,223)
Loss after tax for the half-year attributable to:			
Owners of the Company		(17,785)	(47,223)
Non-controlling interests		-	-
		(17,785)	(47,223)
Total comprehensive loss for the half-year attributable to:			
Owners of the Company		(17,785)	(47,223)
Non-controlling interests		-	-
		(17,785)	(47,223)
Loss per share			
Basic (cents per share)		(1.8)	(9.7)
Diluted (cents per share)		(1.8)	(9.7)

This statement should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 December 2019

		31 December 2019 \$'000	30 June 2019 \$'000
	Note		
Current assets			
Cash and cash equivalents	6	92	16,729
Trade and other receivables		3,275	3,793
Inventories		10,447	8,139
Other financial assets		633	633
		14,447	29,294
Non-current assets			
Property, plant and equipment	7	170,444	167,598
Exploration and evaluation		29,581	28,971
Other financial assets		379	379
		200,404	196,948
Total assets		214,851	226,242
Current liabilities			
Trade and other payables		39,420	32,956
Borrowings and lease liabilities	9	73,912	71,938
Provisions		2,506	2,052
Other financial liabilities	10	24,655	30,326
		140,493	137,272
Non-current liabilities			
Borrowings and lease liabilities	9	12,383	9,335
Provisions		24,035	23,882
		36,418	33,217
Total liabilities		176,911	170,489
Net assets		37,940	55,753
Equity			
Share capital		171,931	171,931
Non-controlling interests		1,112	1,129
Reserves		871	882
Accumulated losses		(135,974)	(118,189)
Total equity		37,940	55,753

This statement should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half-year ended 31 December 2019

	Share capital \$'000	Share-based payments reserve \$'000	Exploration asset reserve \$'000	Accumulated losses \$'000	Attributable to owners of the parent \$'000	Non- controlling interests \$'000	Total \$'000
At 1 July 2018	125,847	1,447	(764)	(11,084)	115,446	1,076	116,522
Loss for the half-year	-	-	-	(47,223)	(47,223)	-	(47,223)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive loss for the half-year	-	-	-	(47,223)	(47,223)	-	(47,223)
Movement in non-controlling interests' share of net assets	-	-	(27)	-	(27)	27	-
Shares issued during the half-year	24,207	-	-	-	24,207	-	24,207
Share issue costs (net of tax)	(1,016)	-	-	-	(1,016)	-	(1,016)
Share-based payments	-	179	-	-	179	-	179
At 31 December 2018	149,038	1,626	(791)	(58,307)	91,566	1,103	92,669
At 1 July 2019	171,931	1,699	(817)	(118,189)	54,624	1,129	55,753
Loss for the half-year	-	-	-	(17,785)	(17,785)	-	(17,785)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive loss for the half-year	-	-	-	(17,785)	(17,785)	-	(17,785)
Movement in non-controlling interests' share of net assets	-	-	17	-	17	(17)	-
Share-based payments	-	(28)	-	-	(28)	-	(28)
At 31 December 2019	171,931	1,671	(800)	(135,974)	36,828	1,112	37,940

This statement should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half-year ended 31 December 2019

		31 December 2019 \$'000	31 December 2018 \$'000
	Note		
Cash flows from operating activities			
Receipts from customers		72,157	41,681
Payments to suppliers and employees		(58,340)	(35,683)
Other revenue received		2	992
Finance charges paid		(146)	-
Interest received		13	115
Interest paid		(371)	(1,691)
Income tax refund - research and development		-	231
Net cash flows from operating activities		13,315	5,645
Cash flows from investing activities			
Payments for exploration and evaluation		(568)	(1,955)
Payments for property, plant and equipment		(20,068)	(37,722)
Proceeds from the sale of pre-production inventories		-	4,239
Transfer from security deposits		-	50
Net cash flows used in investing activities		(20,636)	(35,388)
Cash flows from financing activities			
Proceeds from issue of shares		-	24,184
Share issue costs		-	(1,451)
Proceeds from borrowings and lease liabilities		-	352
Repayment of borrowings and lease liabilities		(13,912)	(2,761)
Net cash flows (used in)/from financing activities		(13,912)	20,324
Net change in cash and cash equivalents		(21,233)	(9,419)
Effects of exchange rate changes on cash and cash equivalents		-	4
Cash and cash equivalents at 1 July		16,729	25,145
Cash and cash equivalents, net of overdraft, at 31 December	6	(4,504)	15,730

This statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

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Notes to the financial statements

The interim financial report for Gascoyne Resources Limited (In Administration) (Gascoyne or Company) and its controlled entities (together, the Group) for the half-year ended 31 December 2019 was approved and authorised for issue by the Administrators (acting in their capacity as Joint and Several Voluntary Administrators of the Company and each of its wholly-owned subsidiaries) on 13 March 2020.

Basis of preparation

1 Reporting entity

Gascoyne Resources Limited (In Administration) is a listed public company, incorporated and operating in Australia. The address of its registered office and its principal place of business is Level 1, 41 - 47 Colin Street, West Perth, Australia.

2 Basis of preparation

These general-purpose interim financial statements for the half-year reporting period ended 31 December 2019 have been prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the Group's annual financial report for the year ended 30 June 2019 and any public announcements made by Gascoyne Resources Limited (In Administration) during the half-year.

Gascoyne Resources Limited (In Administration) is a for-profit entity for the purpose of preparing financial statements.

Accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's latest annual financial statements for the year ended 30 June 2019, except as described in note 16.

These policies have been applied consistently to all financial periods presented, unless otherwise stated.

Accounting estimates and judgements

The accounting estimates, judgements and assumptions applied in these interim financial statements are in accordance with those that were applied and disclosed in the annual financial statements for the year ended 30 June 2019, except as described in note 16.

Going concern

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

For the half-year ended 31 December 2019 the Group recognised a net loss after tax of \$17.8 million (2018: \$47.2 million) and an operating cash inflow of \$13.3 million (2018: \$5.6 million).

The working capital deficit of \$126.0 million at 31 December 2019 (30 June 2019: \$108.0 million) is primarily due to the reclassification of non-current borrowings to current borrowings on Administration, refer to note 9, a remaining balance due of \$24.7 million following termination of gold forward contracts following Administration, refer to note 10, and the investment in accelerating the Stage 1 cutback to access the GMZ.

As outlined in the Directors' report, on 2 June 2019 the Directors determined to place the Company and each of its wholly-owned subsidiaries into voluntary administration. Michael Ryan, Kathryn Warwick and Ian Francis of FTI Consulting were appointed as Joint and Several Voluntary Administrators of the Company and each of its wholly-owned subsidiaries. The appointment of the Administrators occurred due to the identification of a material short-term cash flow shortage, particularly, in the six months ending 30 November 2019.

Notes to the financial statements Basis of preparation

2 Basis of preparation (continued)

The ability of the Group to continue as a going concern is primarily dependent upon either or both:

- a recapitalisation of the Group through a capital raising or merger. Such a recapitalisation would be aimed at providing sufficient funding to enable the Dalgara Gold Project (Dalgara) to revise its operational plan and to fully meet its financial obligations; and
- the sale of Dalgara and other assets of the Group.

During the half-year, the Administrators initiated the dual track process to either recapitalise or sell the Group, with Investec Australia appointed as Corporate Advisor.

Based on the above, the Administrators have reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable and the Administrators consider that the going concern basis of preparation to be appropriate for these interim financial statements.

If a suitable bidder cannot be selected or a recapitalisation effected, the Group may be unable to continue as a going concern and it may be required to realise its assets and/or settle its liabilities other than in the ordinary course of business and at amounts different from those stated in the interim financial report.

The interim financial report does not include adjustments to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Group not continue as a going concern.

Rounding of amounts

The Company has relied on the relief provided by the *ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191*, and therefore the amounts in the interim financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

Notes to the financial statements

Financial performance

3 Operating segments

The Group's operating segments are based on the internal management reports that are reviewed and used by the Chief Executive Officer, the Executive team and the Administrators, identified together as the chief operating decision makers, in assessing performance. The Group's business is organised into two operating segments, being gold operations and the exploration, evaluation and development of gold projects, all conducted within Western Australia.

The evaluation of each segment performance is based on revenue, costs and earnings before tax.

Corporate expenditures supporting the business during the period, adjustments and eliminations processed on consolidation and other items that cannot be directly attributed to the reportable operating segments are identified as 'Other' balances. The Group has formed a tax consolidation group and therefore tax balances have been included in the 'Other' grouping.

During the half-year to 31 December 2019, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

The revenues and results generated by each of the Group's operating segments are summarised as follows:

Half-year ended 31 December 2019

	Gold operations \$'000	Exploration, evaluation and development \$'000	Total operations \$'000	Other \$'000	Total \$'000
External revenue	72,157	-	72,157	-	72,157
Segment loss before income tax	(15,095)	(1)	(15,096)	(2,689)	(17,785)
Segment loss includes the following adjustments:					
Depreciation and amortisation	(22,301)	-	(22,301)	(101)	(22,402)
Deferred stripping costs capitalised	16,932	-	16,932	-	16,932
Exploration and evaluation expenditure write-off	-	(1)	(1)	-	(1)
Inventory product movement and provision	2,020	-	2,020	-	2,020
	(3,349)	(1)	(3,350)	(101)	(3,451)

At 31 December 2019

Segment assets	184,459	29,268	213,727	1,124	214,851
Segment liabilities	263,327	17,323	280,650	(103,739)	176,911

Notes to the financial statements Financial performance

3 Operating segments (continued)

Half-year ended 31 December 2018

	Gold operations \$'000	Exploration, evaluation and development \$'000	Total operations \$'000	Other \$'000	Total \$'000
External revenue	41,681	-	41,681	-	41,681
Segment loss before income tax	(51,635)	(5)	(51,640)	(2,989)	(54,629)
Segment loss includes the following adjustments:					
Depreciation and amortisation	(22,830)	-	(22,830)	(42)	(22,872)
Impairment loss	(33,494)	-	(33,494)	-	(33,494)
Deferred stripping costs capitalised	13,137	-	13,137	-	13,137
Inventory product movement and provision	8,295	-	8,295	-	8,295
	(34,892)	-	(34,892)	(42)	(34,934)

At 31 December 2018

Segment assets	168,924	28,200	197,124	14,730	211,854
Segment liabilities	208,345	16,603	224,948	(105,763)	119,185

Notes to the financial statements Financial performance

4 Revenue and expenses

	31 December 2019 \$'000	31 December 2018 \$'000
Gold sales	71,887	41,653
Silver sales	270	-
Other revenue	-	28
Revenue	72,157	41,681
Cash costs of production	(74,391)	(54,559)
Deferred stripping costs capitalised	16,932	13,137
Inventory product movement	1,726	10,161
Inventory product net realisable value provision	294	(1,866)
Depreciation and amortisation	(22,301)	(22,830)
Royalties and selling costs	(1,683)	(1,036)
Cost of sales	(79,423)	(56,993)
Gain on settlement of derivative financial instruments ¹	-	619
Other income	2	-
Other income	2	619
Corporate expenses	(6,346)	(3,095)
Fair value movement in derivative financial instruments ¹	-	(1,262)
Put option expense ²	(543)	-
Exploration and evaluation expenditure write-off	(1)	-
Depreciation and amortisation	(101)	(42)
Share-based payments	28	(179)
Other expenses	(6,963)	(4,578)
Interest income	13	115
Foreign exchange gains	-	3
Finance income	13	118
Interest expense on borrowings	(2,925)	(1,440)
Interest expense on lease liabilities	(344)	(263)
Borrowing costs	(146)	(79)
Unwinding of discount	(156)	(200)
Finance costs	(3,571)	(1,982)
Loss before tax³	(17,785)	(54,629)

1 Relating to diesel swap contracts, terminated on 5 June 2019, measured at fair value through profit or loss.

2 Relating to short-term put options purchased to protect revenue, measured at cost.

3 Loss before tax for half-year ended 31 December 2018 includes impairment loss of \$33.5 million.

Cost of sales

Cash costs of production

Cash costs of production includes ore and waste mining costs, processing costs and site administration and support costs. Cash costs of production includes employee benefits expense of \$6.1 million (2018: \$4.2 million).

Notes to the financial statements Financial performance

4 Revenue and expenses (continued)

Deferred stripping costs capitalised

Deferred stripping costs capitalised represents costs incurred in the development and production phase of a mine and are capitalised as part of the cost of constructing the mine and subsequently amortised over the useful life of the ore body that access is provided to on a units-of-production basis.

Inventory product movement

Inventory product movement represents the movement in inventory ore stockpiles, gold in circuit and bullion on hand.

Inventory product net realisable value provision

Inventory must be measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs to complete processing and to make a sale. The net realisable value provision equals the decrement between the net realisable value and the carrying amount before provision.

Royalties

Royalties are payable based on the amount of gold produced from a mining tenement and are payable quarterly at a fixed rate of 2.5% (2018: 2.5%) of the royalty value of gold sold. The royalty value of gold is the amount of gold produced during the month multiplied by the average gold spot price for the month.

5 Income tax

Notional income tax benefit

The notional income tax benefit at the Australian tax rate of 30% would be greater than the current income tax benefit of \$nil million recorded for the half-year ended 31 December 2019 (2018: \$7.4 million). The difference is primarily due to unrecognised tax losses incurred during the half-year as discussed below.

Unrecognised tax losses

	31 December 2019 \$'000	31 December 2018 \$'000
Unrecognised tax losses	17,841	29,762
Potential tax benefit at 30% (2018: 30%)	5,352	8,929

In accordance with the Group's policies for deferred taxes, a deferred tax asset is recognised only if it is probable that sufficient future taxable income will be generated to offset against the asset.

Determination of future taxable profits requires estimates and assumptions as to future events and circumstances including commodity prices, ore reserves, exchange rates, future capital requirements, future operational performance, the timing of estimated cash flows and the ability to successfully develop and commercially exploit resources.

Tax legislation prescribes the rate at which tax losses transferred from entities joining a tax consolidation group can be applied to taxable incomes and this rate is diluted by changes in ownership, including capital raisings.

5 Income tax (continued)

A deferred tax asset has not been recognised for tax losses at the reporting date due to the uncertainty of their recoverability in future periods, because the period over which the losses can be applied to future taxable incomes and the period over which it is forecast that these losses may be utilised, has extended beyond that which management considers prudent to support their continued recognition for accounting purposes. Due to the uncertainty of future taxable income as well as being in voluntary administration, at 31 December 2019, management have derecognised tax losses recognised in prior periods to the extent deferred tax liabilities are available. These tax losses do not expire and can be used to reduce future tax profits.

Capital management

6 Cash and cash equivalents

	31 December 2019 \$'000	30 June 2019 \$'000
Cash at bank and on hand	92	16,729
Bank overdraft	(4,596)	-
Cash and cash equivalents, net of overdraft	(4,504)	16,729

The bank overdraft is a short-term facility used for cash management purposes, refer note 9.

7 Property, plant and equipment

	Right-of-use assets			Owned assets			
	Plant and equipment \$'000	Property \$'000	Mine properties \$'000	Plant and equipment \$'000	Capital work in progress \$'000	Mine properties \$'000	Total \$'000
Cost							
At 1 July 2019 ¹	-	-	-	83,883	6,389	144,376	234,648
Recognised on adoption of AASB 16 ²	5,198	172	394	-	-	-	5,764
Reclassified on adoption of AASB 16 ³	1,492	-	12,786	(1,492)	-	(12,786)	-
Restated at 1 July 2019	6,690	172	13,180	82,391	6,389	131,590	240,412
Additions	-	-	-	-	2,446	17,038	19,484
Transfers	-	-	-	798	(3,839)	3,041	-
At 31 December 2019	6,690	172	13,180	83,189	4,996	151,669	259,896
Accumulated depreciation, amortisation and impairment							
At 1 July 2019 ¹	-	-	-	23,946	-	43,104	67,050
Reclassified on adoption of AASB 16 ³	591	-	3,454	(591)	-	(3,454)	-
Restated at 1 July 2019	591	-	3,454	23,355	-	39,650	67,050
Depreciation and amortisation	716	74	608	4,136	-	16,868	22,402
At 31 December 2019	1,307	74	4,062	27,491	-	56,518	89,452
Net book value	5,383	98	9,118	55,698	4,996	95,151	170,444
At 30 June 2019¹							
Cost	-	-	-	83,883	6,389	144,376	234,648
Accumulated depreciation, amortisation and impairment	-	-	-	(23,946)	-	(43,104)	(67,050)
Net book value	-	-	-	59,937	6,389	101,272	167,598

1 Asset classes as disclosed at 30 June 2019.

2 Recognition of right-of-use assets on adoption of AASB 16 Leases on 1 July 2019, refer to note 15.

3 Finance lease arrangements previously presented within plant and equipment have been reclassified to the right-of-use asset class. There was no change in the amounts recognised.

Property, plant and equipment and mine properties include \$5.8 million of additional assets arising from leasing arrangements during the half-year (2018: \$0.4 million).

No borrowing costs relating to qualifying assets were capitalised during the half-year (2018: \$0.3 million).

8 Impairment of non-current assets

	31 December 2019 \$'000	31 December 2018 \$'000
Dalgaranga gold operations cash-generating unit	-	33,494

Management have undertaken a review of the carrying amount of the non-current assets relating to the Dalgaranga gold operations cash-generating unit (Dalgaranga CGU), as a result of the Group being placed into voluntary administration by the Board of Directors on 2 June 2019 and subsequently being suspended from trading on the ASX.

Impairment testing

Methodology

Impairment is recognised when the carrying amount of an asset exceeds the recoverable amount. The recoverable amount, being the value in use (VIU) of the Dalgaranga CGU, has been estimated using the discounted cash flows method based on the Group's recoverable gold minerals.

VIU is estimated based on discounted cash flows using a market-based commodity price, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements.

The estimates in the VIU calculation are considered to be level 3 measurements as they are derived from calculation techniques that include inputs that are not based on observable market data. The Group considers the inputs and the valuation approach to be consistent with the approach taken by similar market participants.

Estimates of recoverable minerals, production levels, operating costs and capital requirements are sourced from the Group's Life of Mine planning process including mill capacity levels. The current Life of Mine Plan (LOMP) was developed in the context of the current gold price environment.

Key assumptions used in calculations

The table below summarises the key assumptions used in the 31 December 2019 carrying value assessments.

Key assumption	Unit	2019
Gold price	A\$/oz	2,003
Pre-tax discount rate	%	15
Probable reserves	Ounces	501,800
Production capacity per annum	Ounces	70,000 - 80,000

Commodity prices

Commodity prices are estimated with reference to external market forecasts and reviewed at least annually. The price applied has considered observable market data.

Discount rate

A pre-tax discount rate of 15% was used, which equated to a post-tax rate of 10%, reflecting the time value of money, the price for bearing the uncertainty inherent in the asset and other relevant factors.

Production activity and operating and capital costs

Life of mine production activity and operating and capital cost assumptions are based on the Group's latest LOMP. Discounted cash flows include expected cost improvements and sustaining capital requirements. Estimated production is assumed to be consistent with the capacity constraint of the Dalgaranga mill considered while assuming a constant recovery rate.

8 Impairment of non-current assets (continued)

Resources and reserves

Mineral Resource and Ore Reserve ounces were based on the Group's JORC Code compliant Mineral Resource and Ore Reserve updates announced to the market on 28 August 2019 and 3 October 2019, respectively.

Impact

The impairment review conducted indicated a recoverable amount in excess of the current carrying amount of the Dalgara CGU and therefore no impairment loss has been recognised at 31 December 2019 (2018: \$33.5 million).

Sensitivity analysis

Variation in movements in any key assumptions may result in a change to the estimated recoverable amount which may indicate an additional impairment, or a reduction in impairment, of non-current assets.

The assumptions most sensitive to change include, in order of sensitivity:

- Assumptions related to the generation of revenue estimates including:
 - Estimates of commercially recoverable mineral inventories and associated recoveries.
 - Commodity prices and foreign exchange rates are estimated with reference to external market forecasts and are updated at least bi-annually. The rates applied to the valuation have regard to observable market data, including spot and forward values.
- Life of mine operating cost assumptions based on the Group's latest life of mine plans.
- The Group's estimated real post-tax weighted average cost of capital.

9 Borrowings and lease liabilities

	31 December 2019 \$'000	30 June 2019 \$'000
Current		
Bank overdraft	4,596	-
Secured bank loan facility	54,237	58,378
Lease liabilities	3,411	2,379
Working capital facility	11,668	11,181
	73,912	71,938
Non-current		
Lease liabilities	12,383	9,335

Bank overdraft

On the 11 December 2019, the Group was provided with a short-term bank overdraft facility of \$5.0 million for cash management purposes by Commonwealth Bank of Australia and National Australia Bank (the Financiers). The facility expires on 30 June 2020 and is repayable in full on this date.

Secured bank loan facility

In December 2017, the Group entered into the SFA with the Financiers for the provision of a secured \$60.0 million Project Finance Facility to fund the development of Dalgara. The loan is interest-bearing with a variable interest rate based on the BBSY rate plus a margin of:

- 2.75% prior to the Project Completion Date;
- 4.50% thereafter to 1 June 2019; and
- 6.50% from 2 June 2019, incorporating an additional overdue rate of 2.00%, on commencement of Administration.

9 Borrowings and lease liabilities (continued)

The loan was fully drawn in the year ended 30 June 2018 and was originally repayable by June 2022. Principal repayments of \$6.1 million (2018: \$1.6 million) were made during the half-year in addition to the scheduled interest payments. The \$6.1 million principal repayments were made from remaining cash available after the equity raising undertaken by the Group in March 2019.

The voluntary appointment of Administrators on 2 June 2019 was considered an event of default under the terms of the SFA, therefore the remaining loan balance due to the Financiers as at 2 June 2019 became due and payable in full on that date. The full amount outstanding has therefore been classified as current.

Lease liabilities

The Group leases power generating and storage facilities, plant and equipment, and property, for which contracts are typically entered into for fixed periods and may include extension options.

Leases entered into during the half-year amounted to \$5.8 million (2018: \$0.4 million).

Principal repayments of \$1.7 million (2018: \$1.1 million) for equipment and infrastructure held under leases were made in accordance with agreed repayment terms during the half-year in addition to scheduled interest payments.

AASB 16 Leases

The Group adopted the new lease accounting standard, AASB 16 *Leases*, on its effective date of 1 July 2019, refer to notes 15 and 16. Additional lease liabilities of \$5.8 million (current: \$1.0 million; non-current: \$4.8 million) were recognised on 1 July 2019. Additional lease interest expense of \$0.1 million and lease principal repayments of \$0.5 million were incurred during the half-year.

Lease payments not recognised as lease liabilities

The following lease payments, not included in the measurement of lease liabilities during the half-year, were recognised as operating expenses in profit or loss as incurred:

- payments of \$1.3 million relating to short-term leases (leases with a lease term of 12 months or less); and
- variable lease payments of \$22.4 million linked to the use of an underlying asset.

Working capital facility

On 21 December 2018 the Group secured a \$12.0 million working capital facility from Dalgara mining contractor NRW Pty Ltd (NRW). The facility was repayable by 31 December 2019 with fees and interest rates set at commercial rates commensurate for this type of facility. Draw down on the facility occurred in January 2019. Subsequently, repayment of the facility was extended by six months to 30 June 2020. The voluntary appointment of Administrators on 2 June 2019 resulted in a suspension of repayments.

10 Other financial liabilities

	31 December 2019 \$'000	30 June 2019 \$'000
Current liabilities		
Commodity forward contracts	24,655	30,326

Commodity forward contracts

The Group entered into gold forward contracts with the financiers of the SFA during 2018 for 176,500 ounces of gold at an average forward price of A\$1,717 per ounce. Following the voluntary appointment of Administrators on 2 June 2019, the gold forward contracts of 135,264 ounces outstanding as at 5 June 2019 were terminated, resulting in an additional liability of \$30.3 million payable to the Financiers at that time. On 11 July 2019, the Financiers closed the Group's bank accounts held with the Financiers prior to Administration. A portion of funds held in those bank accounts was offset against the liability of \$30.3 million.

Fair value measurement

There were no financial assets and financial liabilities measured and recognised at fair value on a recurring basis as at 31 December 2019 or 30 June 2019. The carrying values of financial assets and liabilities recognised in the interim financial statements approximate their fair values.

Notes to the financial statements

Unrecognised items

11 Commitments

Exploration expenditure

In order to maintain current rights of tenure to exploration tenements, the Group is required to meet minimum expenditure commitments required under the lease conditions. Minimum expenditure commitments for the 12 months following the reporting date total \$2.4 million (30 June 2019: \$1.9 million).

These expenditure obligations can be reduced by selective relinquishment of exploration tenure or application for expenditure exemptions.

Capital expenditure

Subsidiary GNT Resources Pty Ltd (In Administration) had commitments for capital expenditures relating to Dalgaranga at the reporting date that were not recognised as liabilities amounting to \$0.9 million (30 June 2019: \$1.8 million).

12 Contingent liabilities

Bank guarantees

The Company has provided bank guarantees in favour of service providers for leased premises and road maintenance responsibilities. The total of these guarantees at the reporting date was \$0.4 million (30 June 2019: \$0.4 million). The bank guarantees are secured by blocked deposits held by the grantor of the guarantee. The deposit accounts are recognised as other financial assets in the consolidated statement of financial position.

Demobilisation costs

The Group has entered into certain contracts relating to Dalgaranga that provide for the payment of demobilisation costs upon termination of the contract. The amount to be paid is contingent upon the timing and basis of contract termination. The Group estimates that the maximum amount payable is not greater than \$1.3 million (30 June 2019: \$1.3 million).

Transfer duty assessment

In December 2016, the Group acquired a joint venture partner's 20% interest in the mineral tenements comprising the Group's Dalgaranga Gold Project. The transfer of tenements is subject to Transfer Duty in Western Australia. At the request of the Office of State Revenue (OSR) the Group commissioned an independent valuation of the tenements transferred in the transaction. On 10 February 2020, the OSR confirmed an additional amount of \$0.6 million payable in respect of transfer duty. The additional transfer duty was assessed based on an independent valuation of the tenements prepared by the OSR's preferred expert, Revaluate. The additional liability relates to transactions completed prior to 2 June 2019, being the appointment date of the Administrators. As such the liability will be treated as a pre-appointment claim and form part of the settlement of unsecured creditors on completion of the Administration period.

13 Events occurring after the reporting date

The Joint and Several Voluntary Administrators of the Company, being Michael Ryan, Kathryn Warwick and Ian Francis of FTI Consulting are not aware of any matter or circumstance that has arisen since the end of the half-year which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Notes to the financial statements

Other information

14 Share-based payments

	2019		2018	
	No. of options	Weighted average exercise price ¹	No. of options	Weighted average exercise price
Employee share options				
Outstanding at 1 July	11,650,000	\$0.48	7,850,000	\$0.55
Granted during the half-year	-	-	4,180,000	\$0.40
Expired during the half-year	(7,850,000)	\$0.53	-	-
Outstanding at 31 December	3,800,000	\$0.38	12,030,000	\$0.50
Exercisable at 31 December²	-	-	12,030,000	\$0.50

1 Options outstanding on 8 May 2019 were repriced in accordance with ASX listing rule 6.22, on issue of shares pursuant to a pro rata non-renounceable entitlement offer. Option exercise prices were reduced from \$0.40 to \$0.38 and from \$0.55 to \$0.53.

2 Options not exercisable at end of half-year due to the Company being in Administration at that time. Share transfers are not permitted during Administration without the consent of the Administrators or the Court.

Share-based compensation benefits are provided to employees via the Group's incentive plans.

15 Significant accounting policies

Accounting policies, estimates, judgements and assumptions

The preparation of financial statements requires the use of accounting estimates, judgements and assumptions that affect the application of accounting policies and the reported net assets and financial results. Actual results may differ from these estimates. Estimates, judgements and underlying assumptions are continually reviewed based on historical experience and reasonable expectations of future events.

The accounting policies, estimates, judgements and assumptions applied in the interim financial statements are in accordance with those that were applied and disclosed in the annual financial statements for the year ended 30 June 2019, except for the changes arising from the adoption of AASB 16 *Leases* (AASB 16) on 1 July 2019, as described below and in note 16.

New standards adopted by the Group

The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. The adoption of new and revised standards and interpretations has had no effect on the amounts reported for prior periods.

The Group applied AASB 16 from the initial date of application, 1 July 2019. AASB 16 replaces AASB 117 *Leases* (AASB 117) and related interpretations, and is effective for financial periods beginning on or after 1 January 2019.

AASB 16 introduces a single lessee on-balance sheet accounting model, eliminating the distinction between operating and financing leases under AASB 117, and requires recognition of a right-of-use asset (ROU asset) and a lease liability for most lease contracts with a lease term of more than 12 months, unless the underlying asset is of low value.

AASB 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset.

15 Significant accounting policies (continued)

Transition approach on adoption of AASB 16

The Group adopted AASB 16 on the date of initial application, 1 July 2019, applying the modified retrospective approach permitted by the standard. Under this approach, comparative information is not restated and any cumulative effect of initially applying AASB 16 is recognised as an adjustment to the opening balance of retained earnings on 1 July 2019. The comparative information continues to be reported under AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease* (IFRIC 4).

Recognition of ROU assets and lease liabilities on the date of initial application

On adoption of AASB 16 on 1 July 2019, ROU assets of \$5.8 million were recognised in property, plant and equipment and lease liabilities of \$5.8 million were recognised in borrowings, with no cumulative effect recognised in accumulated losses.

For leases previously classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted using asset and company-specific incremental borrowing rates at the date of initial application, 1 July 2019. The weighted average incremental borrowing rate applied was 5.53%.

The related ROU assets recognised were measured at an amount equal to the related lease liability recognised on 1 July 2019.

For leases previously classified as finance leases, the carrying amounts of the lease assets and lease liabilities immediately before transition on 30 June 2019, as measured under AASB 117, were carried forward as the carrying amounts of the ROU asset and lease liability at the date of initial application, 1 July 2019. The measurement principles of AASB 16 are applied to these leases from the date of initial application.

The reconciliation of the lease liabilities recognised on initial application of AASB 16 at 1 July 2019 to the total operating lease commitments recognised under AASB 117 as disclosed on 30 June 2019 is summarised below:

	\$'000
Operating lease commitments disclosed as at 30 June 2019	5,919
Less: Components excluded from lease liability ¹	(139)
Add: Extension options reasonably certain to be exercised	946
Operating lease liabilities before discounting	6,726
Impact of discounting future lease cash flows at the incremental borrowing rate at 1 July 2019	(962)
Additional lease liabilities recognised on adoption of AASB 16	5,764
Finance lease liabilities recognised as at 30 June 2019	11,714
Total lease liabilities recognised under AASB 16 at 1 July 2019	17,478
Of which:	
Current	3,393
Non-current	14,085
	17,478

1 Including non-lease components.

15 Significant accounting policies (continued)

Practical expedients applied

The Group has used the following practical expedients permitted by the standard when applying AASB 16 on the date of initial application to leases previously classified as operating leases:

- applying the optional exemptions to not recognise ROU assets and lease liabilities for leases with a remaining lease term of less than 12 months (short-term lease) as at 1 July 2019, or for leases for which the underlying asset is of low value. The lease payments will continue to be treated as operating expenses accounted for on a straight-line basis over the remaining lease term;
- the exclusion of the initial direct costs of obtaining a lease from the measurement of ROU assets at the date of initial application; and
- the use of hindsight in determining the lease term when considering options to extend or terminate leases.

Definition of a lease

For existing contracts on 1 July 2019, the Group elected to apply the practical expedient which allows AASB 16 to only be applied to contracts which were previously identified as leases under AASB 117 and IFRIC 4. Contracts that were not identified as leases before the date of initial application were not reassessed to determine whether a lease existed. The Group has applied AASB 16 to contracts entered into, or changed, on or after 1 July 2019.

Use of judgement and estimates

Judgement has been applied in determining the transition adjustments which includes assessing the variability of future lease payments, and the determination of the lease term, incremental borrowing rates, and which contractual arrangements represent a lease. Refer to note 16 for further details on accounting judgements and estimates related to lease accounting.

Impact of adoption of AASB 16

The nature and timing of lease-related expenses change under AASB 16, as operating lease expenses, typically accounted for on a straight-line basis over the lease term, are replaced by the depreciation expense for ROU assets and the interest expense on lease liabilities.

Cash flows from operating activities increase as the principal portion of the lease liability will move from operating cash flows to financing cash flows, with the net increase/decrease in cash and cash equivalents remaining unchanged.

Summary of the additional amounts recognised during the half-year following adoption of AASB 16:

	\$'000
Consolidated statement of financial position	
Lease liabilities initially recognised on 1 July 2019	5,764
Additional lease principal repayments during the half-year	(504)
Additional lease liabilities at 31 December 2019	5,260
ROU assets initially recognised on 1 July 2019	5,764
Additional depreciation and amortisation during the half-year	(659)
Net book value of additional ROU assets at 31 December 2019	5,105
Consolidated statement of comprehensive income	
Additional lease interest expense during the half-year	(129)
Additional depreciation and amortisation during the half-year	(659)
Operating lease payments replaced	633
Impact on loss before tax	(155)
Impact on income tax	47
Impact on loss after tax	(108)

16 Changes in significant accounting policies

The Group leases power generating and storage facilities, plant and equipment, and property, for which contracts are typically entered into for fixed periods and may include extension options.

The following lease accounting policy is applicable to contracts entered into, or changed, on or after 1 July 2019.

Recognition and measurement

Lease assessment

Applying the definition of a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease, by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Control is considered to exist if the Group has the right to obtain substantially all of the economic benefits from the use of an explicitly or implicitly identified asset over which the supplier does not have a substantive substitution right, and the right to direct the use of that asset throughout the period of use.

Lease term

The lease term is the non-cancellable term of the lease and any periods covered by an extension option, if that option is reasonably certain to be exercised, and a termination option, if that option is reasonably certain not to be exercised.

Non-lease components

At inception or on reassessment of a contract that contains a lease component, the consideration in the contract is allocated to each lease component on the basis of their relative stand-alone prices, unless an election is made to account for the lease and non-lease components as a single lease component.

Non-lease components are excluded from future lease payments and recognised separately as incurred as operating expenses on a straight-line basis in profit or loss.

Initial recognition

Leases are recognised as a right-of-use asset (ROU asset) and a corresponding lease liability at the commencement date, which is the date the leased asset is available for use by the Group.

Short-term leases and leases of low-value assets

All leases are accounted for by recognising an ROU asset and a lease liability except for short-term leases (defined as leases with a lease term of 12 months or less and which do not contain a purchase option) and leases of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as incurred as operating expenses on a straight-line basis over the lease term in profit or loss.

Lease liabilities

Initial measurement

Lease liabilities are initially measured at the present value of lease payments to be paid after the commencement date over the lease term, discounted using the lessee's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined.

The lessee's incremental borrowing rate is the rate the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

16 Changes in significant accounting policies (continued)

Lease payments included in the measurement of the lease liabilities comprise:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts payable under residual value guarantees; and
- payments arising from purchase, extension or termination options reasonably certain to be exercised by the Group.

Variable lease payments not dependent on an index or a rate, for example, variable lease payments linked to the use of an underlying asset, are not included in the measurement of lease liabilities, and are recognised as operating expenses in profit or loss as incurred.

Subsequent measurement

The lease liability is subsequently measured at amortised cost using the effective interest method, where the lease liability is increased to reflect the accretion of interest and reduced by the lease payments made.

Interest expense is recognised as 'interest on lease liabilities' in profit or loss over the lease term, on the remaining lease liability balance for each period.

Remeasurement

Lease liabilities are remeasured if:

- there is a lease modification that is not accounted for as a separate lease; or
- there are changes in: the lease term; the assessment to exercise a purchase option; amounts payable under a residual guarantee; in-substance fixed payments; or future lease payments arising from a change in an index or rate.

A revised discount rate is applied when there is a change in the assessment to exercise a purchase option, the lease term or floating interest rates. A corresponding adjustment is recognised in the ROU asset, or in profit or loss if the carrying amount of the ROU asset has been reduced to nil.

ROU assets

ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Initial measurement

The initial cost of ROU assets includes:

- the initial measurement of the related lease liabilities recognised;
- any lease payments made on or before the commencement date, less any lease incentives received;
- initial direct costs incurred; and
- restoration cost estimates, recognised and measured applying AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Subsequent measurement

ROU assets are subsequently depreciated, in accordance with the Group's existing depreciation accounting policy, over the shorter of the estimated useful life of the underlying asset and the lease term. If it is reasonably certain that the Group will either obtain ownership of the underlying asset by the end of the lease term or exercise a purchase option, the ROU asset is depreciated over its estimated useful life.

ROU assets are assessed for any impairment in accordance with the Group's existing impairment accounting policy.

16 Changes in significant accounting policies (continued)

Accounting estimates and judgements

The application of AASB 16 *Leases* requires judgements that affect the valuation of lease liabilities and ROU assets. In addition to the critical judgements and areas of estimation uncertainty discussed below, the following judgements and estimations need to be considered when assessing leases:

- determination of stand-alone prices of lease and non-lease components, whether remeasurement or a separate lease is required following a change in lease terms and conditions, and whether variable payments are in-substance fixed or not to be included in the calculation of the lease liability; and
- assessments of whether a purchase option will be exercised or an ROU asset is impaired.

Identifying a lease

Identifying whether a contract is, or contains, a lease involves the exercise of judgement about whether:

- the contract depends on a specified asset;
- the Group obtains substantially all of the economic benefits from the use of the asset and has the right to direct the use of the asset; and
- the contract is perpetual or for a period of time over which the underlying assets are to be used.

Determining the lease term

The following assessments impact the lease term which may significantly affect the amount of lease liabilities and ROU assets recognised.

Extension and termination options

The Group applies judgement in determining whether it is reasonably certain to exercise extension or termination options, by considering all relevant factors that could provide an economic incentive to exercise these options.

Non-cancellable period

In determining the lease term, the assessment of a contract following the contractual non-cancellable period needs to consider the substance of the contract and whether any economic penalties exist which may affect the term of the non-cancellable period.

Determining the incremental borrowing rate

Where the Group (or Group entity) cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. Therefore, as the IBR reflects what the Group would have to pay, estimation is required when no observable rates are available or when observable rates need to be adjusted to reflect the terms and conditions of the lease.

Tenement schedule

Tenement	Tenement name	Mineral targeted	Location	Ownership interest
ELA09/2352	Bassit Bore	Gold	Gascoyne Region	100% Gascoyne Resources
EL21/195	Dalgaranga	Gold	Murchison Region	80% Gascoyne Resources
EL59/1709	Dalgaranga	Gold	Murchison Region	80% Gascoyne Resources
EL59/1904	Dalgaranga	Gold	Murchison Region	80% Gascoyne Resources
EL59/1906	Dalgaranga	Gold	Murchison Region	80% Gascoyne Resources
L59/141	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
L59/142	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
L59/151	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
L59/152	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
L59/153	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
L59/167	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
L59/168	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
L59/169	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
L59/170	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
ML59/749	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
EL59/2150	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
EL59/2053	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
EL59/2289	Dalgaranga	Gold	Murchison Region	100% Gascoyne Resources
EL52/3531	Mumbakine Well	Gold	Pilbara Region	100% Gascoyne Resources
EL09/1325	Glenburgh	Gold	Gascoyne Region	100% Gascoyne Resources
EL09/1764	Glenburgh	Gold	Gascoyne Region	100% Gascoyne Resources
EL09/1865	Glenburgh	Gold	Gascoyne Region	100% Gascoyne Resources
EL09/1866	Glenburgh	Gold	Gascoyne Region	100% Gascoyne Resources
EL09/2025	Glenburgh	Gold	Gascoyne Region	100% Gascoyne Resources
EL09/2148	Glenburgh	Gold	Gascoyne Region	100% Gascoyne Resources
L09/56	Glenburgh	Gold	Gascoyne Region	100% Gascoyne Resources
L09/62	Glenburgh	Gold	Gascoyne Region	100% Gascoyne Resources
ML09/148	Glenburgh	Gold	Gascoyne Region	100% Gascoyne Resources
EL51/1648 ¹	Murchison	Gold	Murchison Region	100% Gascoyne Resources
EL51/1681	Murchison	Gold	Murchison Region	100% Gascoyne Resources
EL52/2117	Mt Egerton	Gold	Gascoyne Region	100% Gascoyne Resources
EL52/2515	Mt Egerton	Gold	Gascoyne Region	100% Gascoyne Resources
EL52/3574	Mt Egerton	Gold	Gascoyne Region	100% Gascoyne Resources
ML52/343	Mt Egerton	Gold	Gascoyne Region	100% Gascoyne Resources
ML52/567	Mt Egerton	Gold	Gascoyne Region	100% Gascoyne Resources
EL52/3490	Mt James	Gold	Gascoyne Region	100% Gascoyne Resources

1 Doray Minerals Limited (ASX: DRM) earning into the project.

Abbreviations used in Tenement Schedule:

EL Exploration Licence
 ELA Exploration Licence Application
 L Miscellaneous Licence
 ML Mining Lease