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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Wilton Resources Corporation Limited

Security: Wilton Resources Corporation Limited

Meeting details:
Date: 30 October 2018
Time: 10.00 a.m.
Venue: Kensington Ballroom II, Serangoon Gardens Country Club, 22 Kensington Park Road, Singapore 557271

Company Description

Wilton Resources Corporation Limited, an investment holding company, engages in the exploration, mining, and production of gold ores in Indonesia. It holds interest in the Ciemas gold project comprising two concession blocks covering a total area of 3,078.5 hectares located in Sukabumi Regency, West Java Province of Indonesia. The company is also involved in general trading, transportation, construction, real estate, logging, farming, plantation, forestry, electrical, mechanical, computer, workshop, and printing and services businesses. Wilton Resources Corporation Limited is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5F7)

1. As noted in the Chairman's statement, FY2018 was an exciting year for the company as the group recorded its maiden sale of gold in June 2018. The group's two other major milestones were the commencement of the construction of its 500 tonnes per day ("tpd") Flotation and Carbon-In-Leach processing plant and the completion of the feasibility study of a 1,500 tpd production plant and the Independent Qualified Person's Report.

In FY2018, 15 kg of gold was produced and the projected output for FY2019 is approximately 25 kg of gold, barring unforeseen circumstances and adverse weather conditions.

Loss attributable to owners of the company was Rp(78.9) billion in 2018, up from Rp(45.9) billion in 2017.

(i) What is the scale needed for the group to achieve breakeven? Was the group operating at its optimal capacity? How much gold can be produced under optimal operating conditions given the physical capacity of the processing and production plants?

(ii) Is the group able to further reduce its production costs and its overhead costs?

(iii) Has the board/management reviewed the capital expenditure needed in the next 1-3 years? How is the group going to fund the further development of the mines and the continued exploration?

Even with the maiden sale of gold in June 2018, the cash out flow due to operating activities in the year was Rp(96.2) billion. This increased from Rp(37.0) billion in 2017 (page 55). The group has cash and cash equivalents of Rp127.6 billion as at 30 June 2018 (page 56).

(iv) Would the board help shareholders understand if the current operations are sustainable? Would it be prudent to scale down its exploration/development activities and to focus on production?

2. The group entered into a project financing arrangement with Karl Hoffman Mineral Pte Ltd ("KHM") with variable repayment terms. During the financial year, the group drew down US$10 million.

As at 30 June 2018, the loan liability amounted to Rp153 billion and is classified as a financial liability accounted for at amortised cost and the fair value of the options had been assessed to be immaterial (page 48).

During FY2018, the US Dollar appreciated significantly against the Indonesia Rupiah.

As a result of the USD-denominated project financing arrangement from KHM, the group recognised higher unrealised foreign exchange losses of Rp2.9 billion in FY2018.

(i) **Would the company confirm that revenue generated from the sale of gold dore would be denominated in USD?**

(ii) **In addition, does the company have costs denominated in IDR for its local staff in the mines?**

(iii) **Would the board/management help shareholders understand if there is a significant risk in obtaining a USD denominated loan due to the currency mis-match?**

(iv) **Has the company evaluated its currency risks, given that the IDR has weakened considerably against the USD?**

(v) **Overall, can management confirm that a strong USD is not advantageous for the group?** As shown in Note 31 (b) (page 93 - Financial risk management objectives and policies: Foreign currency risk), the group's losses before tax is shown to increase by Rp(3.9) billion if the USD strengthens by 4%.

3. As at 30 June 2018, the group's non-financial assets pertaining to the mining operation consists of exploration and evaluation assets, mine properties, property, plant and equipment, intangible assets, prepayments and prepaid leases (collectively, the "non-financial assets pertaining to the mining operation"), which is carried in the books at Rp339 billion, representing 72% of the group's total assets.

This forms part of the key audit matter that was highlighted in the independent auditor's report. Key audit matters are those matters that, in the professional judgement of the independent auditor, were of most significance in the audit of the financial statements of the current period.

In determining whether the group's non-financial assets pertaining to mining operation is impaired requires an estimation of value in use. The value in use calculation requires the management to estimate future cash flows and a suitable discount rate in order to calculate the present value of cash flows. The key assumptions used in value in use calculation are as follows (page 72):

	2018	2017
Gold prices	USD 1,220/oz – USD 1,300/oz	USD 1,250/oz
Gold grade	3.00 - 7.71 g/t	3.00 - 8.00 g/t
Average operating expenses	USD 305 - 569/oz	USD 500 – 736/oz
Capital expenditure	USD 84 million	USD 93 million
Discount rate	18%	18%
Maintenance capital expenditure	2% of revenue	5% of revenue

The company has also stated that the value in use calculation is most sensitive to discount rate and operating expenses. If discount rate were to increase by 4% and operating expenses increased by 35% with all other factors remaining constant, an impairment loss of Rp88 billion would have been recognised.

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In FY2018, the key assumptions were revised. For instance, the average operating expenses projection was lowered to USD 305-569/oz when it was USD 500-736/oz last year.

(i) Can the audit committee (AC) help shareholders understand their level of involvement in the calculation of the value in use of the non-financial assets pertaining to mining operation?

(ii) In particular, can the AC elaborate further on the basis for the changes in assumptions? Please provide the justification where the assumptions are supported by actual data from operations.

(iii) Specifically, what was the average operating expense achieved by the group in FY2018 as the new assumption is substantially lower than the level used in the 2017's calculation?

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Wilton%20Resources%20Corporation%20Ltd

The company's response could be found here: -----