KGL RESOURCES LIMTED
AND ITS CONTROLLED ENTITIES
ABN 52 082 658 080

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

KGL RESOURCES LIMITED AND ITS CONTROLLED ENTITIES
ABN 52 082 658 080

Contents	Page

DIRECTORS' REPORT

The directors present their report on the consolidated entity (or the Group) consisting of KGL Resources Limited and the entities it controlled at the end of, or during, the year ended 31 December 2017.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Denis Wood

Executive Chairman

BSc (Geology).

Appointed 28 July 2015

Denis Wood is an Australian and international mining industry director, investor, executive and professional metallurgist and geologist with more than 45 years' experience.

Denis's early career comprised 13 years with BHP as a metallurgist followed by eight years with the mining industry technical services provider CCI Holdings where he reached the position of Managing Director.

Denis then moved to Chicago to join a multinational company which supplied a complete range of services to the mining industry. Responsible for commercial testing and engineering, he managed more than 50 branches in the United States as well as operations in South Africa and South America.

Upon returning to Australia, Denis took up multiple directorships and shareholdings of Australian based resource companies including QCC, Cumnock Coal, Sedgman, Jupiter Mines and Marathon Resources. Denis then accepted the position of Managing Director/CEO of Australian Premium Coals, a subsidiary of Macarthur Coal Limited, and was responsible for the successful development of greenfield sites including the Coppabella and Moorvale coal mines in Central Queensland. Subsequently he spent eight years as the Executive Director of the Talbot Group in the position of Director of Resources.

Following a brief retirement, Denis returned to the industry to restructure and focus the direction of KGL Resources to become a robust, world class copper producer in the Northern Territory.

Managing Director/CEO of APC. Talbot Group, Director of Resources for 8 years.

Mr Wood is member of the Audit and Risk Committee and the Remuneration Committee.

Other Current Directorships of ASX Listed Companies

None

Former Directorships of ASX Listed Companies in last three years

None

Christopher Bain

B APP SC (APP GEO)

GRAD DIP (GEOSC)

MAUSIMM

GAICD

Non-executive Director

Appointed 5 September 2013

Chris has 40 years' experience in the resource sector having worked in mining, exploration, investment research, corporate advisory and funds management roles. He graduated as a geologist from RMIT and initially worked as an underground mine geologist before moving to an exploration role. After completing a Graduate Diploma in Mineral Economics at Macquarie University he joined the finance sector in late 1986 at National Mutual Funds Management and has held senior positions in mining research for funds management and stockbroking. As an Executive Director of Investor Resources Limited he was instrumental in mining project divestitures and acquisitions, evaluations and valuations, capital raisings including managing several initial public offerings and ASX listings. Currently Chris works with companies on both corporate and exploration related assignments and provides investment advice through a Melbourne based stockbroker.

Mr Bain is Chair of the Audit and Risk Committee and a member of the Remuneration Committee.

Other Current Directorships of ASX Listed Companies

Metalicity Limited. (Formerly PLD Corporation Ltd) appointed 19 August 2013. Retired 31 December 2017.
Davenport Resources Ltd (Listed 20 January 2017) appointed 12 November 2015.

Former Directorships of ASX Listed Companies in last three years

None

Ferdian Purnamasidi

BACHELOR OF COMMERCE

DIPLOMA OF BUSINESS MANAGEMENT

Non-executive Director

Appointed 26 April 2016

Ferdian is an Executive at the Salim Group and in charge of Corporate Development and Strategic Acquisitions within the resources sector.

The Salim Group is a diversified conglomerate which owns interests in companies involved in the mining business, dairy products, flour milling, instant noodles, cooking oil, automobile assembly, property, insurance and retail.

Ferdian has spent the past six years facilitating resource development opportunities between Indonesia and Australia. His experiences in Australia include serving as Director at Mach Energy Australia which owns the world-class Mt Pleasant coal operation in the Hunter Valley region in New South Wales. He is also a Director at Robust Resources Limited, a gold & silver exploration company with projects in Indonesia.

In addition, Ferdian also sits at multiple Indonesian projects owned by the wider Salim Group.

Ferdian graduated with Bachelor of Commerce from the Curtin University of Western Australia in 2012 and spent a few years working in Australia within various executive roles.

Building upon his experience in the Corporate sector and previous working exposures in Australia, he has formed strategic relationships with those who rely upon his input for commercial, planning and analytical assessments. His portfolio of work includes evaluating new business cases, monitoring existing businesses and providing support for future investment decisions

Mr Purnamasidi is Chair of the Remuneration Committee and a member of the Audit and Risk Committee.

Other Current Directorships of ASX Listed Companies
None.

Former Directorships of ASX Listed Companies in last three years

Robust Resources Ltd appointed 21 October 2014. Robust delisted on 17 November 2014.

Peter Hay

BENG (MINING)

BACHELOR OF COMMERCE

MEMBER OF INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA

Non-Executive Director

Appointed 02 November 2017

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Mr Hay has a Bachelor of Engineering (Mining) and Bachelor of Commerce and is an associate member of the Institute of Chartered Accountants based in Brisbane. With over 30 years' experience in the mining industry, he has held senior positions in some of Queensland's largest resource companies, including General Manager of Pan Australian Mining Limited, Managing Director of Sedgman Limited and Joint Managing Director of Macarthur Coal Ltd. Mr Hay has extensive experience as a non-executive director of companies including Sedgman Limited and Aston Resources Limited.

Mr Hay is member of the Audit and Risk Committee and the Remuneration Committee.

Other Current Directorships of ASX Listed Companies

None.

Former Directorships of ASX Listed Companies in last three years

None.

COMPANY SECRETARY

Kylie Anderson

BSC. MBA (INT. BUS.) MPA, MAICD

Appointed 2 January 2008

Ms Anderson has held senior financial and company secretarial roles with a number of companies in the resources sector including Felix Resources and Rio Tinto.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

At the date of this report, the interest of the directors in the shares and options of KGL Resources Limited are:

Director	Ordinary shares	Options over ordinary shares
D Wood	22,356,254	-
C Bain	227,272	-
F Purnamasidi	404,848	-
P Hay	1,756,310	

MEETINGS OF DIRECTORS

The number of directors' meetings held during the year and the number of meetings attended by each director while they were a director were as follows:

Directors	Held*	Attended
D Wood	6	6
C Bain	6	6
F Purnamasidi	6	6
P Hay	1	1

*Number of meetings held during the time the director held office during the year.

DIRECTORS REPORT (CONTINUED)

MEETINGS OF DIRECTORS (Continued)

Committee membership and meetings

The members of the Committees are Denis Wood, Chris Bain, Ferdian Purnamasidi and Peter Hay. Mr Chris Bain is the Chairman of the Audit and Risk Committee along with Denis Wood, Peter Hay and Ferdian Purnamasidi as members.

Mr Purnamasidi is the Chairman of the Nomination and Remuneration Committee along with Denis Wood, Peter Hay and Chris Bain as a members'.

A Sustainability Committee was disbanded and is now incorporated into each Board Meeting.

	Audit and Risk Committee		Nominations and Remuneration Committee	
	Held*	**Attended**	**Held***	**Attended**
Directors				
D Wood	2	2	1	1
C Bain	2	2	1	1
F Purnamasidi	2	2	1	1
Peter Hay	1	1	-	-

*Number of meetings held during the time the director was a member of the Committee during the year.

CORPORATE INFORMATION

Principal activity

The principal continuing activity of the Group during the year was exploration and development of the Jervois multi-metal project in the Northern Territory.

Employees

The Group employed 6 employees as at 31 December 2017 (2016: 3 employees).

DIVIDENDS

No dividends in respect of the current year have been paid, declared or recommended for payment.

DIRECTORS REPORT (CONTINUED)

REVIEW OF OPERATIONS

KGL experienced another year of outstandingly successful exploration at the Jervois Copper Project in the Northern Territory as new zones of high grade mineralisation were discovered.

Intensive drilling resulted in multiple high grade intersections at increased depth and laterally at the Rockface Prospect and at the Reward Prospect five kilometres along strike to the north-east. Down hole electromagnetic (DHEM) surveying continued to guide exploration, reliably identifying large mineralised zones and drill targets.

The effective modern technologies employed by KGL ensured that the funds sourced from two equity raisings during the year were applied in the most cost efficient way. Shareholders participated strongly in a $2.48 million shareholder purchase plan in February and a $12.4 million placement and entitlement offer in September. New investors in the placement included RCF Opportunities Fund LP, a fund in the global resources private equity firm Resource Capital Funds, at $3 million the largest subscriber to the placement.

In addition, a $1 million share placement to four parties including KGL's major shareholder KMP Investments funded the Unca Creek exploration project comprising the acquisition of the tenement adjoining Jervois and future exploration on the tenement.

In February 2018, a private placement at a premium price raised $6.73 million, giving KGL the security to complete the 2018 exploration program.

The successful extension and infill drilling at Jervois during the year advanced the Company closer to a new Resource estimate. This, together with progress made in gaining approvals and in metallurgical, processing, infrastructure and commercial studies, contributed to advancement towards the goal of developing a low-cost copper and multi-metal mine at Jervois.

Exploration

Rockface

DHEM surveying and drilling at Rockface discovered high grade copper and broad mineralised zones at increasing depth and extended mineralisation to the east, while infill drilling progressively confirmed the continuity of known mineralised zones to the west. The results continued to confirm the trend of grade increasing with depth.

In the east, hole KJCD201, drilled in late 2016 and announced early in 2017, intersected high grade mineralisation associated with the DHEM-identified Conductor 5, assaying:

- **10.05m @ 8.99% Cu, 45.5g/t Ag, 0.6g/t Au from 645.65 m**

KJCD201 also intersected a zone of weak mineralisation down dip of Conductor 3.

A further nine-hole drilling program in 2017, targeting newly discovered high potential zones in the east as well as infill drilling, had immediate positive results. Assays for hole KJCD205, in Conductor 6, included:

- **5.55m @ 4.11% Cu, 0.59% Zn, 37.4g/t Ag, 0.65g/t Au from 511.11m**

KJCD205 intersected a second zone of mineralisation in Conductor 5, the main zone assaying:

- **5.5m @ 3.54% Cu, 18.5g/t Ag, 0.25g/t Au from 619m**

DIRECTORS REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

A lower grade interval was also intersected and included 12.65m @ 1.03% Cu, 5.2g/t Ag, 0.05g/t Au from 629 m.

Hole KJCD208 intersected zones of copper mineralisation in Conductor 6 assaying:

- **3.25m @ 3.98% Cu, 0.18% Pb, 0.88% Zn, 21.5g/t Ag, 0.16g/t Au from 608.75m**

and, between Conductors 5 & 7, 10.7m @ 1.18% Cu, 4.9g/t Ag, 0.21g/t Au from 662m

Hole KJCD211 intersected chalcopyrite mineralisation in Conductor 6:

- **5.67m @ 5.2% Cu, 0.2% Zn, 30g/t Ag, 0.45g/t Au from 517.38 m**

Another zone of weaker mineralisation was also intersected between Conductors 3 & 5.

Hole KJCD212 was a large step-out both deeper and further east than previous drilling. Assays confirmed continued high grades in the east intersecting Conductor 8:

- **9.62m @ 3.18% Cu, 26g/t Ag, 0.40g/t Au, from 678.98m**
  including 3.36m @ 5.43% Cu, 31g/t Ag, 0.87g/t Au, from 681.14m

Hole KJCD218 was designed to test the up-dip extension of the eastern zone and was the shallowest hole yet drilled into Conductor 6. Although the width is narrowing, the grades of copper, silver and gold remain high, with results including:

- **3.35m @ 5.27% Cu, 31.8g/t Ag, 0.47g/t Au from 421.15 m**

Hole KJD226W1 intersected two intervals of massive sulphide. Intercepts included:

- **6.62m @ 3.8% Cu, 0.72% Zn, 33.2g/t Ag, 0.24g/t Au from 590.72 m (Conductor 6)**
- **4.18m @ 3.16% Cu, 0.32% Zn, 25.6g/t Ag, 0.25g/t Au from 607.57 m (Conductor 8)**

Hole KJD227 intersected chalcopyrite mineralisation. A follow up DHEM survey confirmed this intersection was on the very eastern edge of Conductor 8. Intercepts included 14.23m @ 0.76% Cu, 7.5g/t Ag, 0.11g/t Au from 764.12m

In the west, infill and confirmatory drilling was undertaken. Drill results confirmed continuity of high grade copper across previously undrilled spaces. Drilled in late 2016 and announced in early 2017, hole KJCD203 targeted Conductors 2, 3 and 4 in a 105m zone between previous high grade intersections and encountered further high grade copper mineralisation. Assays included:

- **28m @ 5.08% Cu, 22.4g/t Ag, 0.22g/t Au from 435 m**
  including 14m @ 8.89% Cu, 38.5g/t Ag, 0.38g/t Au from 436 m

Hole KJCD210, while testing the previously undrilled Conductor 1 and shallower regions of Conductor 3, encountered weaker mineralisation, and in Conductor 3 intersected:

- **12m @ 2.55% Cu, 14.1g/t Ag, 0.14g/t Au from 329m**

Several holes were drilled to test the edges of the Conductors identified by DHEM surveying.

DIRECTORS REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

Hole KJCD215, designed to test the western edges of Conductor 3 and 5 in a 100m space between drill holes, delivered assay results that included:

- **8.24m @ 9.21% Cu, 0.19% Zn, 38.1g/t Ag, 0.29g/t Au from 587.5m (Conductor 3) including 4.57m @ 14.00% Cu, 53.6g/t Ag, 0.34g/t Au from 588.48m**
- **14.17m @ 4.74% Cu, 23.0g/t Ag, 0.28g/t Au from 610.09 m (Conductor 5)**

Hole KJCD214 improved understanding of the western edges of conductors 3 and 4, producing assays that included:

- **7.92m @ 1.65% Cu, 8.4g/t Ag, 0.12g/t Au from 405.54m (Conductor 3)**
- **5.04m @ 0.44% Cu, 4.62% Pb, 0.65% Zn, 68g/t Ag, 0.06g/t Au from 413.46m**
- **11.5m @ 1.73% Cu, 7.8g/t Ag, 0.06g/t Au from 420.5m (Conductor 4) including 2.75m @ 4.47% Cu, 21.6g/t Ag, 0.18g/t Au from 420.5m**
- **1.56m @ 1.32% Cu, 4.5g/t Ag, 0.05g/t Au from 439.2m**

Hole KJCD219, designed to test the eastern edge of Conductor 3, intersected a broad zone of low grade copper assaying:

- **29.24m @ 0.35% Cu, 2.1 g/t Ag, 0.06 g/t Au from 319.76m including 1.25m @ 3.6% Cu, 12.3g/t Ag, 0.58g/t Au from 347.75m**

Hole KJCD221 intersected a broad zone in Conductor 3 close to the western edge assaying:

21.67m @ 1.55% Cu, 8.8g/t Ag, 0.08g/t Au from 303.38m
including 5.46m @ 2.35% Cu, 14.2g/t Ag, 0.08g/t Au from 308.54m

Hole KJCD222 intersected a 10.7m interval in Conductor 3:

- **10.7m @ 4.38% Cu, 20.1g/t Ag, 0.47g/t Au from 485.2m including 4.9m @ 7.29% Cu, 33.9g/t Ag, 0.91g/t Au from 488.65m**

and a further 6.45m wide zone of lower grade mineralisation just above Conductor 5.

Hole KJCD225, testing the western edge of Conductors 3 and 5, produced assays including:

- **8.15m @ 1.28% Cu, 0.49% Pb, 0.36% Zn, 16.4g/t Ag, 0.07g/t Au from 362.55m**
- **11.2m @ 0.66% Cu, 5.0% Pb, 2.17% Zn, 30.7g/t Ag, 0.05g/t Au from 371.5m**

Hole KJCD228 intersected broad mineralisation in Conductor 5, significant intercepts including:

- **17.37m @ 3.59% Cu, 16.1g/t Ag, 0.24g/t Au from 557.83m**

Hole KJCD229 intersected mineralisation coincident with the lower and western edge of Conductor 3 and a second narrow zone coincident with the strike extension of Conductor 5. Significant intercepts included:

- **4.63m @ 1.78% Cu, 5.9g/t Ag, 0.06g/t Au from 546.06m**
- **2.12m @ 1.9% Cu, 9.6g/t Ag, 0.08g/t Au from 580.65m**

DIRECTORS REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

Reward

Experience at Rockface proved valuable at the Reward prospect during the year. DHEM surveys undertaken at Reward in late 2014 identified several conductors using the same technology that has been applied successfully at Rockface. What was learned at Rockface about the style, controls on mineralisation and geophysical response was applied at Reward.

In the second half of the year, KJD216, the first hole drilled at the Reward prospect for more than two years, intersected Conductor R1, 95m below the deepest previous intercept of R1. KJD216 discovered a significant extension of mineralisation and returned high grade copper, silver and gold assays. The intersection assayed:

- **11.63m @ 4.2% Cu, 0.81% Pb, 1.07% Zn, 86g/t Ag, 0.65g/t Au from 636.1m including 2.27m @ 11.14% Cu, 3.46% Pb, 4.75% Zn, 329.3g/t Ag, 1.33g/t Au from 644.4m**

Further drilling at the northern end of Reward, guided by the results of DHEM surveying, continued to intersect high grade copper, silver and gold. Precious metal grades were particularly attractive with one interval greater than 1m assaying 21.52g/t gold (hole KJD223 reported below).

In hole KJD220W1, which targeted DHEM Conductors R1 and R3, significant mineralisation included:

- **9.57m @ 5.11% Cu, 0.4% Pb, 0.31% Zn, 78.5g/t Ag, 2.44g/t Au from 561.82 m**

Modelling from DHEM surveying indicated the presence of a new strong Conductor R6 centred to the south and below KJD216.

Hole KJD223, designed to test conductor R6 coincident with the bottom edge of conductor R1, intersected high grades of copper, silver and gold. Significant mineralisation included:

- **8.16m @ 5.03% Cu, 35.9g/t Ag, 3.35g/t Au from 691.44 m**
  including 1.12m @ 15.24% Cu, 92.2g/t Ag, 21.52g/t Au from 696.18 m

Assays from further drilling were pending at the end of 2017.

Approval processes and other progress at Jervois

KGL's good relationship with the Northern Territory Government was evidenced in March 2017 by the Jervois Project being given Major Project Status by way of a Project Facilitation Agreement between the Government and the Company to facilitate the required government approval processes.

An Indigenous Land Use Agreement (ILUA) was concluded with the traditional owners and the Central Land Council and registered with the National Native Title Tribunal. The registration of the ILUA completed the processes for the application for the mining lease over the area of the Jervois lease not then covered by the existing lease.

Subsequently, the Northern Territory Government granted a further mining lease (ML30829) at Jervois, extending the area beyond the mining leases that the Company already held. KGL's approved mining leases now cover the total area necessary to proceed with all mining and mineral processing currently planned.

DIRECTORS REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

The Northern Territory Environment Protection Authority approved revised Terms of Reference for the Company to address in the Environmental Impact Statement (EIS) for the Jervois Project. The Company had sought revision of the Terms of Reference in order to be consistent with a mining project of larger scale than contemplated in the pre-feasibility study announced in 2015. At year's end, preparation of the EIS by the Company was well under way.

In parallel, initial engineering design work commenced with a particular focus on mining and processing based on the higher-grade underground mineralisation. Separately preliminary discussions were initiated with relevant rail and port operators.

An Aboriginal Areas Protection Authority certificate was received, confirming that no aboriginal heritage matters would impact upon the Jervois project. Work continued towards obtaining a similar certificate in relation to proposed drilling at Unca Creek.

Expanded Jervois area – Unca Creek Exploration Project
KGL expanded the Jervois project area with the acquisition of the adjoining tenement, known as the Unca Creek Exploration Project (EL28082).

Of considerable strategic value to KGL, Unca Creek almost trebled the size of the Jervois Project to 110.8km^2. It has geological similarities to Jervois, and although relatively underexplored, work undertaken by previous tenement holders indicated exploration potential and offered multiple walk-up drill targets.

A review of previous exploration confirmed a strong copper trend extending north into Unca Creek from the Marshall-Reward deposits which represent a substantial part of the current Resource at Jervois. The two-kilometre strike extension has the potential to host economic mineralisation that can be mined by open pit or underground mining methods. Copper can be observed in outcrop and previous drilling has intersected mineralisation at several locations. There is additional potential in the southern area of the tenement.

Following the acquisition, a gravity survey highlighted further exploration potential, providing encouraging correlation between many anomalies revealed in the survey and zones of known mineralisation on both the newly acquired and longer held Jervois tenements. Following the survey, the Company proceeded with a program to identify and prioritise drilling targets.

Continuing work at Jervois
Modelling of the late 2017 drilling results and DHEM surveys continued into the New Year and drilling recommenced in January. The Company now has the funding to complete the total current exploration program at Jervois, enabling two drilling rigs to remain on site for the whole of 2018, and to complete the Environmental Impact Statement, an essential step towards project development at the growing Jervois Copper Project.

The program at both the Rockface and Reward prospects will aim to extend knowledge of the mineralised zones and will include infill drilling to move towards the preparation of a new Resource estimate.

Planning will continue on identifying priority drilling targets in the adjoining Unca Creek tenement.

DIRECTORS REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

Further R & D Tax Incentive refund

KGL received a further R & D Tax Incentive refund of $1.6 million during the year. Under the program the Australian Government reimburses part of eligible research and development expenditure. The refund acknowledges innovative metallurgical and related work by KGL on Jervois. The payment brings total R & D Tax Incentive refunds to KGL to more than $4.6 million.

New director

In November, 2017, KGL announced the appointment of Mr Peter Hay as a director of the Company. Welcoming the appointment, KGL Chairman Denis Wood said that the in-depth mining experience and governance skills of Mr Hay, a mining engineer who has held CEO and other senior executive management roles and board positions in the resources industry, would complement those of other KGL directors and strengthen the Company as the Jervois Project advanced towards development.

FINANCIAL REVIEW

For the year ended 31 December 2017, the KGL Group recorded loss after income tax of $1,264,772 (2016: loss of $2,262,359).

Employee expenses reduced in the year to 31 December 2017 to $721,233 (2016 $1,371,904) resulting from a redundancy program in 2016.

The KGL cash reserve as at 31 December 2017 was $12,474,052, including $4,008,458 in cash and cash equivalents and $8,465,594 classified as financial assets held to maturity. The company's planned operations for 2018 are fully funded.

CAPITAL RAISINGS / CAPITAL STRUCTURE

On the 3 March 2017, the Company announced a share purchase plan (SPP) for eligible shareholders to raise $3m. Eligible shareholders can purchase up to $15,000 KGL shares at a share price of $0.27. On the 14 March 2017 the Company announced it had received SPP applications for 9,188,161 fully paid ordinary shares raising $2,480,850.

During the year the company raised an additional $8,255,454 through the issue of 26,887,548 shares with shares priced between $0.30 and $0.37 via four separate placements. On the 13 September 2017 the company completed a 1:11 rights issue raising $5,141,675 issuing 17,138,917 share at a share price of $0.30

On the 3rd March 2018, the company completed a placement of 16,825,000 shares at a share price of $0.40 raising $6,730,000.

Summary of shares and options on issue

As at the date of this report there were 243,030,484 ordinary shares on issue, no performance rights.

All options expire the earlier of the expiry date or 30 days after termination of the employee's employment. The option holders have no rights to participate in any share or interest issue of the Company or any other entity under the options. On 20th March 2017, the remaining 375,000 performance share were cancelled as they expired without meeting their vesting conditions. No Performance rights were granted during the year.

DIRECTORS REPORT (CONTINUED)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the occurred in the state of affairs during the year.

ENVIRONMENTAL REGULATION

The Group's operations in the Northern Territory are subject to significant environmental regulations under both Commonwealth and State legislation. There have been no breaches by KGL and its subsidiaries.

REMUNERATION REPORT (AUDITED)

Remuneration philosophy

The Company's remuneration policy is to ensure that the remuneration package properly reflects the person's duties and responsibilities, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Nomination & Remuneration committee

The Nomination and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors and executives.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The current aggregate remuneration so determined is $500,000. An amount not exceeding $500,000 is divided between the directors as agreed.

When appropriate the Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. Directors who are called upon to perform extra services beyond the director's ordinary duties may be paid additional fees for those services.

Non-executive directors are and have been encouraged to hold shares in the Company. KGL considers it good governance for directors to have a stake in the Company.

DIRECTORS REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive remuneration

Objective

The Company aims to reward executives with a level of fixed remuneration commensurate with their position and responsibilities within the Company and so as to align the interests of executives with those of shareholders.

Structure

In determining the level and make-up of executive remuneration, the Board may obtain independent advice from external consultants on market levels of remuneration for comparable executive roles. No Remuneration Consultants were engaged in the 2017. It is the Board's policy that employment contracts are entered into with all the senior executives.

The company may, at the absolute discretion of the board, introduce short term and/or long term incentives in the form of cash and/or shares in the Company. Entitlement to these incentives would be based upon your measured contribution to the Company.

Relationship between remuneration and the Company's performance

The earnings of the consolidated entity for the five years to 31 December 2017 are summarised below:

	2017 $	2016 $	2015 $	2014 $	2013 $
Sales revenue	-	-	-	-	5,183,763
EBITDA	(1,273,802)	(2,299,353)	(2,413,004)	3,097,427	(14,901,040)
EBIT	(1,264,772)	(2,290,988)	(2,430,262)	3,006,078	(15,056,518)
Profit/(Loss) after income tax	(1,264,772)	(2,262,359)	(2,430,262)	3,436,689	(14,471,412)
Total KMP remuneration	163,635	558,490	508,755	731,695	1,025,491

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2017	2016	2015	2014	2013
Share price at financial year end ($)	$0.36	$0.265	$0.10	$0.225	$0.105
Total dividends declared (cents per share)	-	-	-	-	-
Basic earnings per share (cents per share)	(0.65)	(1.33)	(1.72)	2.45	(10.33)

Employment contracts

Employment contracts have been entered into by the Group with key management personnel, describing components and amounts of remuneration applicable to their appointment. These contracts do not fix the amount of remuneration increases from year to year. Remuneration levels are reviewed generally each year by the Nomination & Remuneration Committee to align with changes in job responsibilities and market salary expectations.

DIRECTORS REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration of executive director

Denis Wood

By mutual agreement approved by the Board, Mr Denis Wood is engaged to provide services as Chair of the Board, with an annual director's fee of $47,250 plus $4,489 superannuation subject to annual review. This was reflective of a 30% reduction in Mr Wood's fees effective from the 1 January 2016.

Remuneration of non- executive director

Christopher Bain

By mutual agreement approved by the Board, Mr Christopher Bain is engaged to provide services as a Non-executive Director with an annual director's fee of $47,250 plus $4,489 superannuation subject to annual review. This was reflective of a 30% reduction in Mr Bain's fees effective from the 1 January 2016.

Ferdian Purnamasidi (Appointed 26 April 2016)

By mutual agreement approved by the Board, Mr Ferdian Purnamasidi is engaged to provide services as a Non-executive Director with an annual director's fee of $47,250 plus $4,489 superannuation subject to annual review.

Peter Hay (Appointed 02 Nov 2017)

By mutual agreement approved by the Board, Mr Peter Hay is engaged to provide services as a Non-executive Director with an annual director's fee of $47,250 plus $4,489 superannuation subject to annual review.

DIRECTORS REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration of directors and executives

The directors received the following compensation for their services during the year.

	Short-term benefits				Post-employment benefits #			
	Cash salary and fees	Cash bonus	Non-monetary benefits	Termination Payments	Superannuation	Share-based payment options	Total	% total performance related
Year ended 31 Dec 2017 Directors	$	$	$	$	$	$	$	%
D Wood	47,250	-	-	-	4,489	-	51,739	-
C Bain	47,250	-	-	-	4,489	-	51,739	-
F Purnamasidi	47,250	-	-	-	4,489	-	51,739	-
P Hay****	7,689		-	-	730	-	8,419	-
	149,439	-	-	-	14,197	-	163,636	-
Year ended 31 Dec 2016 Directors	$	$	$	$	$	$	$	%
D Wood	47,250	-	-	-	4,489	-	51,739	-
C Bain	47,250	-	-	-	4,489	-	51,739	-
F Purnamasidi*	31,352	-	-	-	2,979	-	34,331	-
B Ellis**	15,750		-	-	1,496	-	17,246	-
S Milroy***	100,000	-	-	274,941	28,494	-	403,435	-
	241,602	-	-	274,941	41,947	-	558,490	-

* Appointed 26 April 2016
** Resigned 21 April 2016
*** Resigned 05 May 2016
****Appointed 02 November 2017
There are no long service leave nor annual leave entitlements to be included in post-employment benefits for any of the directors and executives as none are entitled.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Cash bonuses

There were no Cash bonuses granted in relation to the 2017 or 2016 years any of the KMP.

Options granted as part of remuneration

No options were granted to key management personnel as compensation during the reporting period.

Equity instruments issued on exercise of remuneration options

There were no equity instruments issued during the period to key management personnel as a result of options exercised that had previously been granted as compensation.

Option holdings of directors & key management personnel

31 December 2017	Opening balance 1 January 2017	Granted as remuneration	Options exercised	Cancelled /Forfeited	Closing balance 31 December 2017	Exercisable at 31 December 2017
Directors						
D Wood	-	-	-	-	-	-
C Bain	-	-	-	-	-	-
P Hay	-	-	-	-	-	-
B Ellis	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

Shareholdings of directors & key management personnel

31 December 2017 Ordinary Shares	Balance 1 January 2017	Rights Purchases	On Market Purchases	Cancelled / Forfeited	Balance 31 December 2017	Held nominally at 31 December 2017
Directors						
D Wood	16,771,011	5,585,243	-		22,356,254	-
C Bain	152,777	74,495	-	-	227,272	-
F Purnamasidi	10,000	61,515	333,333	-	404,848	-
P Hay*	1,756,310	-	-	-	1,756,310	-
Total	**18,690,098**	**5,721,253**	**333,333**	**-**	**24,744,684**	**-**

*Opening balance for P Hay at appointment.

All equity transactions with directors other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Other transactions and balances with key management personnel

There were no other transactions with key management personnel (2016: nil). At year end, there were no outstanding amounts receivable from or payable to key management personnel (2016: nil).

This is the end of the audited remuneration report.

DIRECTORS REPORT (CONTINUED)

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has entered into Deeds of Indemnity with the directors and the company secretary, indemnifying them against certain liabilities and costs to the extent permitted by law.

The Company has also agreed to pay a premium in respect of a contract insuring the directors and officers of the Company. Full details of the cover and premium are not disclosed in this report as the insurance policy prohibits the disclosure.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

SUBSEQUENT EVENTS

On the 2nd March 2018 KGL announced a Share Placement to raise $6.73m offering 16,825,000 shares at $0.40. These proceeds will be used to secure the Jervois exploration program through 2018.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The consolidated entity intends to continue its exploration, development and production activities on its existing projects and to acquire further suitable projects for exploration as opportunities arise.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The auditor’s independence declaration is attached to this report.

Non-audit services

BDO provide the Company support around R&D Tax services totalling $8,500, refer note 19.

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

On behalf of the Board,

Denis Wood

Chairman

Brisbane

Dated: 28 March 2018

DIRECTORS REPORT (CONTINUED)

Competent Persons Statement

The following drill holes were originally reported on the date indicated and using the JORC code specified in the table. Results reported under JORC 2004 have not been updated to comply with JORC 2012 on the basis that the information has not materially changed since it was last reported.

Hole	Date originally Reported	JORC Reported Under
KJCD201	09/02/2017	2012
KJCD203	09/02/2017	2012
KJCD205	22/03/2017	2012
KJCD208	30/06/2017	2012
KJCD210	29/06/2017	2012
KJCD211	29/06/2017	2012
KJCD212	30/10/2017	2016
KJCD214	30/10/2017	2012
KJCD215	30/10/2017	2012
KJCD218	14/12/2017	2012
KJCD219	14/12/2017	2012
KJCD221	14/12/2017	2012
KJCD222	14/12/2017	2012
KJCD225	14/12/2017	2012
KJCD228	15/02/2018	2012
KJCD229	15/02/2018	2012
KJD216	25/09/2017	2012
KJD220W1	12/12/2017	2012
KJD223	12/12/2017	2012
KJD226W1	15/02/2018	2012
KJD227	15/02/2018	2012

AUDITOR'S INDEPENDENCE DECLARATION

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Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF KGL RESOURCES LIMITED

As lead auditor of KGL Resources Limited for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of KGL Resources Limited and the entities it controlled during the period.

C R Jenkins
Director

BDO Audit Pty Ltd

Brisbane, 28 March 2018

DIRECTORS' DECLARATION

1. In the opinion of the directors of KGL Resources Limited:

   (a) The consolidated financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and accompanying notes, are in accordance with the *Corporations Act 2001* and:

   (i) comply with Accounting Standards and the *Corporations Regulations 2001*; and

   (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the year ended on that date.

   (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the year ended 31 December 2017.

3. The directors draw attention to Note 1 to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

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

On behalf of the Board

Denis Wood
Chairman

Brisbane

Dated: 28 March 2018

KGL RESOURCES LIMITED AND ITS CONTROLLED ENTITIES
ABN 52 082 658 080

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

		Consolidated	
		2017	2016
	Note	**$**	$
Revenue and other income	2	**83,389**	151,820
Employee benefits expense	3(b)	**(721,233)**	(1,371,904)
Depreciation and amortisation expense		**(9,030)**	(8,365)
Professional and consultancy fees expense		**(283,557)**	(447,820)
Corporate overheads expense	3(a)	**(162,571)**	(396,768)
Investor relations expense		**(42,909)**	(71,349)
Other expenses		**(128,272)**	(58,824)
Impairment write back / (expense)	3(c)	**(589)**	(566)
Loss on sale of tenements	15	**-**	(58,583)
Loss before income tax		**(1,264,772)**	(2,262,359)
Income tax benefit	4	**-**	-
Net profit / (loss) for the year		**(1,264,772)**	(2,262,359)
Other comprehensive income			
Total comprehensive income for the year		**(1,264,772)**	(2,262,359)
Earnings per share for profit / (loss) from attributable to the owners of KGL Resources Limited			
Basic earnings per share (cents per share)	5	**(0.65)**	(1.33)
Diluted earnings per share (cents per share)	5	**(0.65)**	(1.33)

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

KGL RESOURCES LIMITED AND ITS CONTROLLED ENTITIES
ABN 52 082 658 080

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	Consolidated 2017 $	2016 $
Current assets			
Cash and cash equivalents	16(b)	**4,008,458**	2,099,580
Trade and other receivables	6	**99,695**	115,972
Financial assets held to maturity	7	**8,465,594**	459,939
Prepayments		**85,192**	72,110
Total current assets		**12,658,939**	2,747,601
Non-current assets			
Financial assets held to maturity	7	**145,445**	137,664
Property, plant and equipment	8	**66,785**	35,126
Exploration and evaluation assets	9	**32,387,075**	27,619,482
Intangible assets	10	**17,833**	604
Total non-current assets		**32,617,138**	27,792,877
Total assets		**45,276,077**	30,540,478
Current liabilities			
Trade and other payables	12	**911,340**	511,343
Total current liabilities		**911,340**	511,343
Total liabilities		**911,340**	511,343
Net assets		**44,364,737**	30,029,135
Equity			
Contributed equity	13	**160,079,287**	144,478,912
Reserves	14	**-**	3,701,075
Accumulated losses		**(115,714,550)**	(118,150,852)
Total equity		**44,364,737**	30,029,135

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

KGL RESOURCES LIMITED AND ITS CONTROLLED ENTITIES
ABN 52 082 658 080

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated **2017** **$**	2016 $
Cash flows from operating activities			
Receipts in the course of operations		587,419	89,574
Payments to suppliers and employees		(1,899,210)	(2,470,785)
Interest received		45,052	28,629
Net cash used in operating activities	16(a)	(1,266,739)	(2,352,581)
Cash flows from investing activities			
Receipts from R&D refunds		1,639,990	3,063,482
Payment for exploration and evaluation assets		(5,440,338)	(2,432,712)
Payment for property, plant and equipment		(64,899)	(29,283)
Payment for intangible assets		(17,230)	-
Movement in held to maturity financial assets		(8,013,436)	462,121
Acquisition Tenement		(528,844)	-
Net cash provided by / (used in) investing activities		**(12,424,757)**	1,063,608
Cash flows from financing activities			
Proceed from issue of shares		15,600,374	2,906,005
Loans provided to associates		-	-
Net cash provided by / (used in) financing activities		**15,600,374**	2,906,005
Net increase/ (decrease) in cash and cash equivalents		**1,908,878**	1,617,032
Cash and cash equivalents at the beginning of the year		**2,099,580**	482,548
Cash and cash equivalents at the end of the year	16(b)	**4,008,458**	2,099,580

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

KGL RESOURCES LIMITED AND ITS CONTROLLED ENTITIES
ABN 52 052 658 080

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

Consolidated	Contributed equity	Accumulated losses	Share-based payments reserve	Total equity
	$	$	$	$
Balance at 1 January 2017	**144,478,912**	**(118,150,852)**	**3,701,075**	**30,029,135**
Loss for the year	**-**	**(1,264,772)**	**-**	**(1,264,772)**
Other comprehensive income				
Total comprehensive income for the year	**-**	**(1,264,772)**	**-**	**(1,264,772)**
Transactions with owners in their capacity as owners				
Issue of share capital (net of costs)	**15,600,374**	**-**	**-**	**15,600,374**
Transfer to/from reserves	**-**	**3,701,075**	**(3,701,075)**	**-**
Balance at 31 December 2017	**160,079,286**	**(115,714,550)**	**-**	**44,364,737**

Consolidated	Contributed equity	Accumulated losses	Share-based payments reserve	Total equity
	$	$	$	$
Balance at 1 January 2016	**141,572,907**	**(115,888,493)**	**3,701,075**	**29,385,489**
Loss for the year	**-**	**(2,262,359)**	**-**	**(2,262,359)**
Other comprehensive income				
Total comprehensive income for the year	**-**	**(2,262,359)**	**-**	**(2,262,359)**
Transactions with owners in their capacity as owners				
Issue of share capital (net of costs)	**2,906,005**	**-**	**-**	**2,906,005**
Balance at 31 December 2016	**144,478,912**	**(118,150,852)**	**3,701,075**	**30,029,135**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Note Contents

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

KGL Resources Limited is a listed public company, limited by shares, incorporated and domiciled in Australia.

The financial statements cover the consolidated entity, KGL Resources Limited, and its subsidiaries. Separate financial statements for KGL Resources Limited as an individual entity have not been presented. The registered office and principal place of business is Level 7, 167 Eagle Street, Brisbane, Queensland, 4000, Australia. However, limited financial information for KGL Resources Limited as the ultimate parent entity is included in Note 28.

The financial statements were authorised for issue in accordance with a resolution of the directors on 28 March 2018.

1. Summary of significant accounting policies

Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. KGL Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial statements are presented in Australian dollars. The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

(a) Adoption of new and revised Accounting Standards

In the current period, the Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2017. The adoption of these new and revised Standards and Interpretations has resulted in no changes to the Group’s financial results.

(b) New and amended Accounting Standards and Interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018 to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is

1. Summary of significant accounting policies (continued)

(b) New and amended Accounting Standards and Interpretations not yet adopted (continued)

intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 January 2018. The impact of its adoption will not result in any changes to net assets but will require amendments to disclosures.

AASB 16 Leases

AASB 16 is effective for Annual reporting periods beginning on or after 1 January 2019. AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117. The company will adopt this standard from 1 January 2019 onwards, but the impact of its adoption is yet to be accessed by the consolidated entity.

(c) Basis of consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of KGL Resources Limited and its subsidiaries ("the group"). Subsidiaries are entities (including structured entities) over which the group has control. The group has control over an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to use its power to affect those returns. Subsidiaries are consolidated from the date on which control is transferred to the group and are deconsolidated from the date that control ceases.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income and statement of financial position respectively. Total comprehensive income is attributable to owners of KGL Resources Limited and non-controlling interests even if this results in the non-controlling interests having a debit balance.

(d) Revenue and other income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Other income

Other revenue is recognised at the completion of the transaction when the Company's right to receive payment has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(e) Income tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

1. Summary of significant accounting policies (continued)

(e) Income tax (continued)

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right to set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

The Group has not adopted the tax consolidation legislation.

(f) Share-based payments

Equity settled share-based payments with employees and directors are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model and/or monte carlo simulation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The fair value determined at the grant date of the share-based payments is expensed on a straight line basis over the vesting period with a corresponding increase in equity.

(g) Share-based payments

No expense is recognised for awards that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met. Where options are cancelled, they are treated as if it had vested on the date of cancellation and any unrecognised expenses are taken immediately to profit or loss. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement option are treated as if they were a modification.

Equity settled share-based payment transactions with other parties are measured at fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date goods or services were obtained.

(h) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

1. Summary of significant accounting policies (continued)

(h) Goods and services tax (GST) (continued)

Cash flows are included in the statement of cashflows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(i) Foreign currency

Functional and presentation currency

The functional currency of each of the Group's entities is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

(j) Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily converted to cash, net of outstanding bank overdrafts.

(k) Financial assets and liabilities

Initial recognition and measurement

Financial assets and liabilities are recognised when the entity becomes party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial assets and liabilities are measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial assets and liabilities are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment and adjusted for any cumulative amortisation of the difference between the initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

1. Summary of significant accounting policies (continued)

(k) Financial assets and liabilities (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Loans and receivables are included in current assets, where they are expected to mature within 12 months.

Financial Assets held to maturity

Held-to-maturity financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale equity instruments, a significant or prolonged decline in the value of the instrument below its cost is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where there related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(l) Exploration and evaluation assets

The Group applies AASB 6 *Exploration For and Evaluation of Mineral Resources.* Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against operating results in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are transferred to mine development and amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Where incidental income and other R&D grants are received that relate to capitalised exploration and evaluation expenditure, these amounts are offset against the amounts capitalised.

(m) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

1. Summary of significant accounting policies (continued)

(m) Impairment of non-financial assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and accumulated impairment losses. The carrying amount of property, plant and equipment is reviewed to ensure it is not in excess of the recoverable amount from these assets.

The depreciable amount of all fixed assets, excluding freehold land, is depreciated on a straight line or declining balance basis to allocate their cost, net of their residual values, over their estimated useful lives to the Group commencing from the time the asset is held ready for use, as follows:

Plant and equipment	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(o) Intangible assets

Software
Items of computer software which are not integral to the computer hardware owned by the Group are classified as intangible assets with a finite life. Computer software is amortised on a straight line basis over the expected useful life of the software being 3 years.

(p) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

(q) Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

(r) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Group.

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

1. Summary of significant accounting policies (continued)

(s) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(t) Fair Values

Fair values may be used for asset and liability measurement as well as for sundry disclosures.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The principal or most advantageous market must be accessible to, or by, the group.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

In measuring fair value, the group uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

(u) Earnings per share (“EPS”)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(v) Significant accounting judgements, estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities made within the next annual reporting period are:

<u>Exploration and Evaluation</u>

The directors determine when an area of interest should be abandoned. When a decision is made that an area of interest is not commercially viable, all costs that have been capitalised in respect of that area of interest are written off. The directors’ decisions are made after considering the likelihood of finding commercially viable outcomes balanced with acceptable political and environmental assessments. The directors have not decided to abandon any of the tenements held.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Summary of significant accounting policies (continued)

(w) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

2. Revenue and Other Income	Notes	Consolidated 2017 $	Consolidated 2016 $
Revenue and other income from continuing operations			
Other revenue			
Leasing income		**-**	119,191
Interest		**75,389**	28,629
Total other revenue		**75,389**	147,820
Other income			
Profit on sale of assets		**8,000**	4,000
Total other income		**8,000**	4,000
Total revenue and other income		**83,389**	151,820

3. Expenses		Consolidated 2017 $	Consolidated 2016 $
	Loss before income tax from continuing operations includes the following specific expenses:		
(a)	**Head office facilities overheads expense**		
	Rental expense – minimum lease payments	**104,975**	132,558
	Other expenses	**57,596**	264,210
		162,571	396,768
(b)	**Employee benefits**		
	Salaries, wages, and related costs (including executive directors)	**662,099**	1,270,611
	Superannuation contributions (defined contribution)	**59,134**	101,293
		721,233	1,371,904
(c)	**Impairment (write back) / expense**		
	Impairment of Receivables	**(589)**	(566)
		(589)	(566)

4. Income Tax

		Consolidated	
		2017	2016
(a)	**The components of tax expenses comprise**	**$**	$
	Deferred tax arising from origination and reversal of temporary differences	**-**	**-**
	Total income tax expense in profit and loss	**-**	**-**
(b)	**Reconciliation**		
	Profit / (loss) from continuing operations before income tax	**(1,264,772)**	**(2,262,359)**
	Income tax expense/ (benefit) calculated at 27.5% (2016: 30%)	**(347,812)**	**(678,708)**
	Effect of expenses that are not deductible in determining taxable profit or loss	**445**	**17,575**
	Deferred tax assets arising from temporary differences not recognised	**347,367**	**661,133**
	Total income tax benefit in profit and loss	**-**	**-**
(c)	**Unrecognised deferred tax assets**		
	Prior year tax losses brought forward	**110,851,982**	**105,883,075**
	Prior year losses utilised – loan forgiveness		
	Losses recognised	**(32,234,249)**	**(27,521,732)**
	Current year tax losses	**7,615,661**	**4,968,907**
	Unrecognised tax losses	**86,223,394**	**83,330,250**
	Deferred tax assets not taken up	**23,711,433**	**24,999,075**

This future income tax benefit will only be obtained if:

(i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
(ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
(iii) no changes in tax legislation adversely affect the Group in realising the benefit.

		Consolidated	
		2017	2016
(d)	**Recognised net deferred tax assets**	**$**	$
	Deferred tax liabilities		
	Exploration and prospecting	**(8,906,446)**	**(8,285,845)**
	Foreign exchange		
		(8,906,446)	**(8,285,845)**
	Deferred tax assets		
	Tax losses	**8,864,418**	**8,256,520**
	Business related costs		
	Provisions/accruals	**42,027**	**29,325**
		8,906,446	**8,285,845**
	Net deferred tax asset recognised	**-**	-

(e) There are no franking credits available.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	Consolidated	
	2016	2015
5. Earnings per share	**$**	$
Profit /(loss) attributable to the owners of KGL Resources Limited:		
Profit /(loss)	**(1,264,772)**	**(2,262,359)**
	(1,264,772)	**(2,262,359)**
	Cents per/share	**Cents per/share**
Basic profit / (loss) per share (cents per share)	**(0.65)**	**(1.33)**
	(0.65)	**(1.33)**
Diluted profit / (loss) per share (cents per share)	**(0.65)**	**(1.33)**
	(0.65)	**(1.33)**
	# Shares	**# Shares**
Weighted average number of ordinary shares used in the calculation of basic and diluted per share	**193,872,294**	**170,091,106**

At 31 December 2017, the Company had no options (2016 375,000 options) over unissued shares and has incurred a net profit. As at 31 December 2016 these options were anti-dilutive and therefore, the diluted loss per share is the same as the basic loss per share.

6. Trade and other receivables – current	Consolidated	
	2017	2016
	$	$
GST receivable (net)	**92,010**	99,461
Other receivables	**7,685**	16,511
	99,695	115,972

(i) Other receivables are non-interest bearing and have repayment terms between eight and ninety days.
(ii) No receivables are past due or impaired at year end.

	Consolidated	
7. Financial assets held to maturity	**2017**	2016
Current		
Term Deposits	**8,465,594**	**459,939**
	8,465,594	**459,939**
Non-current		
Term Deposits	**145,445**	**137,664**
	145,445	**137,664**

Rolling one year interest bearing term deposits to support environmental bank guarantees with the department of mines and other guarantees. Guarantees of $145,445 (2016: $137,664) have been provided to the Department of Mines and other suppliers.

8. Property, plant and equipment

		Consolidated
	2017	2016
	$	$
Cost	**639,292**	555,649
Accumulated depreciation, amortisation and impairment	**(572,507)**	(520,523)
Net carrying amount	**66,785**	35,126
At 1 January, net of accumulated depreciation	**35,126**	80,198
Additions	**103,921**	29,283
Depreciation and amortisation	**(51,984)**	(67,844)
Disposals	**(20,278)**	(6,511)
At 31 December, net of accumulated depreciation	**66,785**	35,126

9. Exploration and evaluation assets

		Consolidated
	2017	2016
	$	$
Deferred exploration and evaluation assets	**32,387,075**	27,619,482
Deferred exploration and evaluation assets		
Balance at beginning of the year	**27,619,483**	28,016,918
Current year expenditure	**6,407,582**	2,666,047
R&D Tax Credit	**(1,639,990)**	(3,063,482)
Balance at end of the year	**32,387,075**	27,619,483

Ultimate recovery of the exploration and evaluation assets is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

10. Intangible assets

		Consolidated
	2017	2016
	$	$
Software at cost	**322,227**	300,827
Accumulated amortisation and impairment	**(304,394)**	(300,223)
Net carrying amount	**17,833**	604
At 1 January, net of accumulated depreciation	**604**	1,266
Additions	21,400	-
Amortisation	**(4,171)**	(662)
At 31 December, net of accumulated depreciation	**17,833**	604

11. Subsidiaries

Interests in subsidiaries

Information relating to the group's interests in principal subsidiaries at 31 December 2017 is set out below.

(i) Details of investment in domestic controlled entities are:

Name	Country of Incorporation	**2017 % Held**	2016 % Held
Jinka Minerals Ltd	Australia	**100**	100
Kentor Minerals (Aust) Pty Ltd	Australia	**100**	100
Kentor Minerals (NT) Pty Ltd	Australia	**100**	100
Kentor Minerals (WA) Pty Ltd	Australia	**100**	100

Different reporting dates

Jinka Minerals Ltd has a reporting date of 30 June 2017. This entity is an unlisted public company and had this reporting date when it was acquired in 2011. The reporting date has not been changed to coincide with the remainder of the group since acquisition.

	Consolidated	
12. Trade and other payables – current	**2017 $**	2016 $
Unsecured trade payables	**803,645**	168,589
Employee benefits	**107,695**	342,754
	911,340	511,343

(i) Trade payables are non-interest bearing and are usually settled on 30 day terms.

(ii) Contractual cashflows from trade and other payables approximate their carrying value because these are non-interest bearing.

13. Contributed equity

	Consolidated	
	31 Dec 2017	31 Dec 2016
(a) Issued and paid up capital		
Ordinary shares fully paid	**160,079,287**	**144,478,912**

(b) Movements in shares on issue

Details	**2017 Number of shares issued**	**2017 Issued capital $**	2016 Number of shares issued	2016 Issued capital $
Beginning of the financial year	**172,990,858**	**144,478,912**	**141,540,563**	**141,572,907**
Exercise of options	**-**	**-**	**-**	**-**
Rights Issue	**53,214,626**	**15,877,979**	**31,450,295**	**2,987,778**
Share issue Costs	**-**	**(277,604)**	**-**	**(81,773)**
Closing balance	**226,205,484**	**160,079,287**	**172,990,858**	**144,478,912**

(c) Terms and conditions of issued capital

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) Share options

Options over ordinary shares

At the end of the financial year, there were zero (31 December 2016: 375,000) unissued ordinary shares in respect of which the following options were outstanding.

14. Reserves

Share based payments reserve
The share-based payments reserve is used to recognise the fair value of options issued to employees or service providers.

15. Disposal of the tenements

	Consolidated	
	2017 $	2016 $
KGL Resources Limited disposed of the assets and liabilities of Kentor Energy on 24 August 2016.		
Non-controlling interest in:		
Cash consideration	-	1
Net cash consideration	-	1
Represented by:		
Investment in Kentor Energy (Equity Accounted)	-	58,584
Net assets	-	-
Loss on sale of Kentor Energy	-	58,583

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

16. Notes to the statement of cash flows

(a) **Reconciliation of loss after tax to net cash flows from operations**

	2017	2016
	$	$
Net profit/(loss) for the year	**(1,264,772)**	(2,262,359)
Non cash flows in operating result		
Loss on sale of tenements	**-**	58,583
Depreciation and amortisation expense	**9,030**	68,506
Loss on sale of fixed assets	**-**	6,511
Loss on sale of CJSC Kentor	**-**	-
Share of equity accounted profit	**-**	-
Impaired Receivables	**-**	-
Change in operating assets and liabilities		
Share Capital – Capital raising costs	**-**	-
(Increase)/Decrease in receivables	**16,277**	(33,616)
(Increase)/Decrease in capital items	**(414,190)**	-
(Increase)/Decrease in prepayments	**(13,083)**	18,441
Increase/(Decrease) in payables	**399,999**	(208,648)
	(1,266,739)	(2,352,582)

		Consolidated
	2017	2016
	$	$
(b) Cash on hand and at call	**4,008,458**	**2,099,580**
Term deposits	**-**	**-**
	4,008,458	**2,099,580**

(c) **Facilities with banks**

There are no facilities at balance date (2016: Nil).

(d) **Non-cash financing and investing activities**

There are no non-cash financing and investing activities for the 2017 and 2016 years.

17. Share based payments

There were no share based payments expense recognised in the year.

Employee options

In the past employee options are granted at the discretion of the Board based on a formal employee review process. Information with respect to the number of options granted is as follows:

	2017		2016	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Balance at beginning of year	**375,000**	**-**	2,475,000	0.90
- granted	**-**	**-**	**-**	**-**
- forfeited	**375,000**	**-**	**(2,100,000)**	**(1.09)**
- exercised	**-**	**-**	**-**	**-**
Balance at end of year	**-**	**-**	**375,000**	**-**

17. Share based payments (continued)
Employee options (Continued)

Options held at the beginning of the year have expired on 24 February 2017.

No. of options	Grant date	Vesting date	Expiry date	Weighted average exercise price	Fair value at grant date	Tranche
At 31 December 2016				$	$	
375,000	10 Feb 2014	10 Feb 2014 to 31 Dec 2016	24 Feb 2017	Nil	0.1150	C
375,000						

At 2016 year end only Trance C options were exercisable. Directors had taken the view that these options pertaining to Tranche C are highly unlikely to vest by the expiry date and therefore directors deem these options to have no value.

The fair value of the options were determined using a Monte Carlo (MC) simulation approach or the binomial model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

Key inputs used in the calculation of the value of options issued during the year ended 31 December 2015 are:

Tranche	Grant date	Expiry date	Spot price $	Volatility %	Risk free rate %
C	10 Feb 2014	24 Feb 2017	0.115	75	2.62

Expected volatility was determined based on historic volatility adjusted for any expected changes to future volatility based on publicly available information. All options granted during the year had vesting conditions attached.

The following sets out the conditions attached to each tranche.

Tranche	Conditions	Estimated Vesting Date
C	The completion of the Jervois Definitive Feasibility Study	Highly unlikely condition will be satisfied by 24 Feb 2017

18. Key management personnel

Information regarding the identity of Key Management Personnel and their compensation can be found in the audited Remuneration Report contained in the Directors' Report. The directors are the only key management personnel.

Key management personnel compensation	Consolidated **2017**	2016
	$	$
Short-term employee benefits	**149,439**	241,602
Termination payments	**-**	274,941
Post-employment benefits	**14,197**	41,948
Share-based payments	**-**	-
	163,636	558,489

	Consolidated	
	2017	2016
	$	$
19. Auditors' remuneration		
Amounts paid or payable to BDO Audit Pty Ltd for:		
• audit or review of the financial statements of the entity and any other entity in the Group	**41,025**	38,500
Non-audit services were provided by the auditors.		
• R & D Tax Services	**8,500**	20,000

20. Segment information

The Group now identifies only one operating segment, based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Group does not yet have any products or services from which it derives an income.

Accordingly, management currently identifies the Group as having only one reportable segment, being exploration at the Jervois site in the Northern Territory. The financial results from this segment are equivalent to the financial statements of the Group.

All assets are located in Australia

21. Financial instruments

Financial risk management objectives and policies

Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks. These risks include market risk (including interest rate risk, foreign currency risk and commodity price risk), credit risk, and liquidity risk.

The primary responsibility for identification and control of financial risks rests with the Board. The Group's financial and commodity risk management program supports the achievement of the Group's objectives by enabling the identification and evaluation of risks, setting acceptable risk thresholds, identifying and mapping controls against these risks and implementing policies and procedures to manage and monitor the risks.

These written policies establish the financial and commodity risk management framework and define the procedures and controls for the effective management of the Group's risks that arise through the Group's current exploration and development activities and those risks which may arise through other mining activities in the future.

The policy ensures all financial and commodity risks are fully recognised and treated in a manner consistent with:

- The Board's management philosophy;
- Commonly accepted industry practice and corporate governance; and
- Shareholders expectations of becoming a gold and copper producer.

The policies are reviewed by the Board annually, at a minimum, as the Group's financial and commodity risks are likely to change over time.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from the previous period.

The Group's principal financial instruments comprise cash at bank, trade and other receivables, trade and other payables and borrowings.

Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments for speculative purposes.

21. Financial instruments (continued)

(a) Capital risk management

The capital structure of the Group consists of equity as disclosed in the statement of financial position. Management controls the capital of the Group in order to generate long-term shareholder value, maximising the return to shareholders and ensuring that the Group can fund its operations and continue as a going concern.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

(b) Categories of financial instruments

	Consolidated	
	2017	2016
	$	$
Financial assets		
Loans and receivables (including cash)	**12,719,193**	2,813,156
Financial liabilities		
Measured at amortised cost	**(803,645)**	(168,589)

(c) Credit risk exposures

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises principally from cash on deposit and trade and other receivables. The objective of the Group is to minimize risk of loss from credit risk exposure.

The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date, is the carrying amount of those assets, net of any impairment, as disclosed in the statement of financial position and notes to the financial statements.

In the 2017 and 2016 years there are no concentration of credit risk in trade and other receivables as the Group did not have customers at year end.

At year end the Group has two material exposures of $541,632 (2016: $383,011) to National Australia Bank Limited and $11,923,507 (2016: $2,174,288) to ANZ relating to funds on deposit and cash at bank. The Group manages its credit risk associated with funds on deposit and cash at bank by only dealing with reputable financial institutions.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices (commodity price risk); foreign exchange rates (foreign currency risk) or interest rates (interest rate risk).

The objective of market risk management is to manage and control risk exposure within acceptable parameters whilst optimising returns.

It is the policy of the Group to manage the foreign currency risk on highly probable forecast capital expenditure by utilising foreign currency hedging where appropriate.

At the end of the reporting periods for 2017 and 2016 there was no foreign currency that was being held as a hedging instrument.

The Group has no exposure to foreign currency risk at reporting date.

i) Interest rate risk

The Group has established a number of policies and processes for managing interest rate risk. These include monitoring risk exposure continuously and utilising fixed rate facilities where required.

21. Financial instruments (continued)

(d) Market risk (continued)

i) Interest rate risk (continued)

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out in the following table:

CONSOLIDATED	Weighted average interest rate	Floating interest rate $	Fixed interest maturing in: 1 year or less $	over 1 to 5 years $	5 years or more $	Non-interest bearing $	**Total $**
31 December 2017							
Financial assets							
Cash	0.93%	**3,999,545**	**-**	**-**	**-**	**8,913**	**4,008,458**
Deposits	0.40%	**-**	**8,465,594**	**-**	**-**	**145,445**	**8,611,039**
Trade and other receivables	N/A	**-**	**-**	**-**	**-**	**99,695**	**99,695**
		3,999,545	**8,465,594**	**-**	**-**	**254,053**	**12,719,192**
Financial liabilities							
Trade and other payables	N/A	**-**	**-**	**-**	**-**	**(803,645)**	**(803,645)**
Borrowings	N/A	**-**	**-**	**-**	**-**	**-**	**-**
		-	**-**	**-**	**-**	**(803,645)**	**(803,645)**
		3,999,545	**8,465,594**	**-**	**-**	**(549,592)**	**11,915,547**

CONSOLIDATED	Weighted average interest rate	Floating interest rate $	Fixed interest maturing in: 1 year or less $	over 1 to 5 years $	5 years or more $	Non-interest bearing $	**Total $**
31 December 2016							
Financial assets							
Cash	0.73%	**2,082,220**	**475,079**	**-**	**-**	**2,220**	**2,559,519**
Deposits	1.13%	**-**	**-**	**137,664**	**-**	**-**	**137,664**
Trade and other receivables	N/A	**-**	**-**	**-**	**-**	**115,972**	**115,973**
		2,082,220	**475,079**	**137,664**	**-**	**118,192**	**2,813,156**
Financial liabilities							
Trade and other payables	N/A	**-**	**-**	**-**	**-**	**(168,589)**	**(168,589)**
Borrowings	N/A	**-**	**-**	**-**	**-**	**-**	**-**
		-	**-**	**-**	**-**	**(168,589)**	**(168,589)**
		2,082,220	**475,079**	**137,664**	**-**	**(50,396)**	**2,644,567**

N/A – not applicable for non-interest bearing financial instruments.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. At 31 December 2017, if interest rates had moved, as illustrated in the table below, with all other variables held constant, net loss and other comprehensive income would have been affected as follows:

Consolidated	**Net loss Higher/(Lower) 2017 $**	**2016 $**	**Other comprehensive income Higher/(Lower) 2017 $**	**2016 $**
+0.5% (50 basis points)	**92,355**	**48,016**	**-**	-
-0.5% (50 basis points)	**(92,355)**	**(48,016)**	**-**	-

21. Financial instruments (continued)

(e) Liquidity risk

Liquidity risk is the risk that the entity will not be able to meet its financial obligations as they fall due.

The objective of managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due.

Working capital primarily comprises of cash. The Group has established a number of policies and processes for managing liquidity risk:

- Monitoring actual against budgeted cashflows;
- Regularly forecasting long term cashflows and stress testing; and
- Regularly monitoring the availability of equity capital and current market conditions.

Maturity Analysis
The table shows the periods in which the financial liabilities mature. Contractual cash flows shown in the table are at undiscounted values (including future interest expected to be paid). Accordingly, these values may not agree to the carrying amount.

CONSOLIDATED	**<12 Months $**	**1-5 Years $**	**>5 years $**	**Total cashflows $**	**Carrying amount $**
31 December 2017					
Financial assets					
Cash	**3,993,318**	**0**	**0**	**3,993,318**	**4,008,458**
Deposits	**8,626,179**	**0**	**0**	**8,626,179**	**8,611,040**
Trade and other receivables	**99,695**	**0**	**0**	**99,695**	**99,695**
	12,719,192	**0**	**0**	**12,719,192**	**12,719,193**
Financial liabilities					
Trade and other payables	**-593,740**	**0**	**0**	**-593,740**	**-593,740**
	-593,740	**0**	**0**	**-593,740**	**-593,740**
Net maturity	**12,125,452**	**0**	**0**	**12,125,452**	**12,125,453**
31 December 2016					
Financial assets					
Cash	2,559,519	-	-	2,559,519	2,559,519
Deposits	137,664	-	-	137,664	137,664
Trade and other receivables	115,973	-	-	115,973	115,973
	2,813,156	-	-	2,813,156	2,813,156
Financial liabilities					
Trade and other payables	(168,589)	-	-	(168,589)	(168,589)
	(168,589)	-	-	(168,589)	(168,589)
Net maturity	2,644,567	-	-	2,644,567	2,644,567

(f) Fair values

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

22. Fair value measurement

Due to their short-term nature the net fair values of financial assets and liabilities approximate their carrying value as disclosed in the statement of financial position. No financial assets or liabilities are readily traded on organised markets in standardised form.

23. Commitments

	Consolidated 2017 $	2016 $
Capital expenditure commitments		
No longer than 1 year	**150,000**	**97,333**
Between 1 and 5 years	**64,583**	**175,000**
Greater than 5 years	**-**	**-**
	214,583	**272,333**
Non-cancellable operating lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
No longer than 1 year	**67,251**	**34,530**
Between 1 and 5 years	**44,287**	**11,889**
Greater than 5 years	**1,513**	**3,190**
	113,051	**49,609**

Capital commitments

There are capital and rental commitments on tenements ranging from $3,333 to $60,000 per annum with expiry terms of between 1 to 15 years.

Non-cancellable operating lease commitments

Operating lease commitments comprise the corporate office operating lease rental in Brisbane Australia. The annual rental commitments on these leases 38,857 per annum with expiry terms of between 1 month to 5 years.

24. Contingent liabilities and contingent assets

There are no contingent assets or contingent liabilities as at 31 December 2017.

25. Subsequent events

In February 2018 KGL completed a Share Placement to raise $6.73m offering 16,825,000 shares at $0.40. These proceeds will be used to secure the Jervois exploration program through 2018.

26. Parent entity information

The *Corporations Act 2001* requirement to prepare parent entity financial statements where consolidated financial statements are prepared has been removed and replaced by regulation 2M.3.01 which requires the following limited disclosure in regards to the parent entity KGL Resources Limited. The consolidated financial statements incorporate the assets, liabilities and results of the parent entity in accordance with the accounting policy described in Note 1.

Parent entity	**2017**	**2016**
	$	**$**
Current assets	**12,353,287**	**2,439,456**
Non-current assets	**32,355,754**	**27,697,188**
Total assets	**44,709,041**	**30,136,644**
Current liabilities	**(161,038)**	**(135,210)**
Total liabilities	**(161,038)**	**(135,210)**
Net assets	**44,548,003**	**30,001,434**
Contributed equity	**160,079,287**	**144,478,912**
Share-based payments reserve	**-**	**3,701,075**
Retained earnings/(accumulated losses)	**(115,531,284)**	**(118,178,553)**
Total shareholders' equity	**44,548,003**	**30,001,434**
Profit/(loss) for the year	**(1,306,299)**	**(2,970,010)**
Other comprehensive income	**-**	**-**
Total comprehensive income for the year	**(1,306,299)**	**(2,970,010)**

Guarantees

No guarantees have been entered into by the parent entity in relation to debts of its subsidiaries.

Contractual commitments

There were no contractual commitments for the acquisition of property, plant and equipment entered into by the parent entity at 31 December 2017 (2017 - $nil).

Contingent liabilities

The parent entity has no known contingent liabilities.

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INDEPENDENT AUDITOR'S REPORT

To the members of KGL Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of KGL Resources Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of exploration and evaluation assets

Key audit matter	*How the matter was addressed in our audit*
The company carries significant exploration and evaluation assets of $32,387,075 as at 31 December 2017 as disclosed in note 9 to the financial statements. The recoverability of exploration and evaluation assets are a key audit matter due to: • The significance of the total balance (72% of total assets); and • The level of procedures undertaken to evaluate management's application of the requirements of AASB 6 *Exploration for and Evaluation of Mineral Resources* ('AASB 6') in light of any indicators of impairment that may be present.	Our procedures included, but are not limited to the following: • Obtaining evidence that the Group has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditure by obtaining supporting documentation such as licence agreements and also considering whether the Group maintains the tenements in good standing. • Making enquiries of management with respect to the status of ongoing exploration programs in the respective areas of interest and assessing the Group's cashflow forecast for the level of budgeted spend on exploration projects. • Enquiring of management, reviewing ASX announcements and reviewing directors' minutes to ensure that the Group had not decided to discontinue activities in any applicable areas of interest and to assess whether there are any other facts or circumstances that existed to indicate impairment testing was required.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's financial report for the year ended 31 December 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of KGL Resources Ltd, for the year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

C R Jenkins
Director

Brisbane, 28 March 2018