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

# FINANCIAL STATEMENTS
# FOR THE HALF-YEAR ENDED 30 JUNE 2018

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The directors of KGL Resources Limited submit herewith the financial statements of the consolidated entity consisting of KGL Resources Limited (KGL) and the entities it controlled for the half-year ended 30 June 2018.

## Directors

The names of directors who held office during the half-year and up to the date of this report were:

| Director | Position Held |
|---|---|
| Denis Wood | Executive Chairman |
| Chris Bain | Non-Executive Director (Resigned 30/06/2018) |
| Ferdian Purnamasidi | Non-Executive Director |
| Peter Hay | Non-Executive Director |
| John Gooding | Non-Executive Director (Appointed 12/06/2018) |
| Fiona Murdoch | Non-Executive Director (Appointed 12/06/2018) |

## Principal Activity

The principal continuing activity of the Group during the half year was exploration and development of the Jervois Copper Project in the Northern Territory.

## Review of Operations

In the half year to 30 June 2018, the Company made several significant advances towards the development of the 100% owned Jervois Copper Project in the Northern Territory as a mid-sized multi-metal mine.

The major focus was on improving the quality and size of the mineral resource at Jervois to enhance confidence in the resource ahead of development. Specifically, the Company sought to increase and upgrade the resources at the Rockface and Reward prospects. As a result, the Company was able to announce an increased Mineral Resource Estimate with a significantly higher copper grade.

An intensive infill drilling program continued throughout the half year, and was integrated with other measures including planning, design and the regulatory approval process. The benefits of down hole electromagnetic (DHEM) surveying as a state-of-the-art exploration technique continued to provide benefits in locating and defining conductor zones and identifying cost effective drilling targets to determine the extent and continuity of mineralisation at Rockface and Reward.

**<u>Rockface</u>**

Drilling at Rockface in late 2017 and early 2018 helped to define the extent of the eastern zone and increase knowledge of mineralisation. Drill results announced during the half year included:

| | |
|---|---|
| Hole KJD226W1 increased knowledge of Conductors 6 and 8. It intercepted: | 6.62m @ 3.8% Cu, 0.72% Zn, 33.2g/t Ag, 0.24g/t Au from 590.72m in Conductor 6, and<br>4.18m @ 3.16% Cu, 0.32% Zn, 25.6g/t Ag, 0.25g/t Au from 607.57m in Conductor 8. |

| | |
|---|---|
| Hole KJCD233, discovered high grade copper mineralisation 30m below the bottom edge of Conductor 5 | 7.55m @ 5.43% Cu, 16.5g/t Ag, 0.35g/t Au from 732.72 m,:<br>o including 3.83m @ 8.81% Cu, 25.6g/t Ag, 0.58g/t Au from 734.14m. |

| | |
|---|---|
| Hole KJCD231 the most easterly hole at Rockface to date, indicated the continuity of high grade copper in Conductor 6 with | 6.75m @ 4.66% Cu, 0.94% Zn, 31.2g/t Ag, 0.26g/t Au from 543.99m |

In the western zone of Rockface, drilling results included:

| | |
|---|---|
| Hole KJCD228 targeted western edge of Conductor 5 | 17.37m @ 3.59% Cu, 16.1g/t Ag, 0.24g/t Au from 557.83m |

**<u>Reward</u>**

Drilling at Reward and Reward North in early 2018 was aimed at improving geological understanding ahead of the revised Resource Estimate. Results included, at Reward North:

| | |
|---|---|
| Hole KJCD234 targeted a gap in the existing resource coincident with shallow extension of Conductor R1 with | 14.46m @ 2.52% Cu, 25.2g/t Ag, 0.84g/t Au from 266.54m |

In drilling at Reward Deeps:

| | |
|---|---|
| Hole KJCD241W1 targeted DHEM conductors and intersected a zone of high grade mineralisation in the expected position of Conductor R6. Results included | 9.12m @ 3.55% Cu, 30.1g/t Ag, 0.67g/t Au from 635.85m including:<br>o 2.79m @ 7.49% Cu, 60.7g/t Ag, 1.23g/t Au from 640.29m. |

**<u>Upgraded Mineral Resource</u>**

In May, the Company announced the increased and upgraded Mineral Resource Estimate for Jervois. The new Resource of 25.2 million tonnes contains:

- 384,800 tonnes of copper, an increase of 18%, with the grade increasing significantly by 43% to 1.53%, and
- 23.6 million ounces of silver, up 4%, with the silver grade increasing by 27%.

This is the first time that the discoveries at the Rockface prospect are included, estimated at more than 90,000 tonnes of copper at close to 3%, the highest average copper grades at Jervois. Also included is the recent high-grade extension at the Reward prospect which is still in early stages of exploration.

Excluding the copper associated with lead-zinc resources which remain unchanged from the previous 2015 Mineral Resource Estimate, the grade is further enhanced:

- 357,200 tonnes of copper, an increase of 19% at an average grade 1.67%, an increase of 49%.

<u>Further drilling</u>

The Company maintained an intensive drilling program with two drill rigs on site. Subsequent to the new Mineral Resource Estimate, the Company announced the results of more infill drilling aimed at further upgrading resources at Rockface and Reward from Inferred to Indicated Resource status.

At Rockface, the overall results were in line with surrounding drill holes in the shallow parts of the Main Lode, although they included a narrow zone of much higher grade:

| | |
|---|---|
| **KJC247** | • 13m @ 1.71% Cu, 11.1g/t Ag, 0.05g/t Au from 222m |
| **KJC248** | • 13m @ 1.67% Cu, 9.5g/t Ag, 0.08g/t Au from 296m |
| **KJCD263** | • 3.31m @ 1.38% Cu, 0.03% Pb, 0.29% Zn, 7g/t Ag, 0.11g/t Au from 213.38m, including<br>0.55m @ 6.91% Cu, 0.1% Pb, 0.97% Zn, 32g/t Ag, 0.01g/t Au from 215.32m |

The last two holes drilled prior to the current resource drilling program targeted the smaller North Lode at Rockface. They are expected to contribute additional copper resources and grade, considering the average grade of the North Lode is 2.4% Cu:

| | |
|---|---|
| **KJCD244** | • 8.4m @ 2.91% Cu, 3.00% Pb, 0.17% Zn, 14.50g/t Ag, 0.43g/t Au from 486m, including<br>• 3.3m @ 5.12% Cu, 0.04% Pb, 0.37% Zn, 26.3g/t Ag, 0.94g/t Au from 486m and<br>• 6.85m @ 1.23% Cu, 0.03% Pb, 0.15% Zn, 7.4g/t Ag, 0.01g/t Au from 506.15m |
| **KJCD245** | • 9.62m @ 4.63% Cu, 0.04% Pb, 1.03% Zn, 31.8g/t Ag, 0.03g/t Au from 578m, including<br>• 4.05m @ 9.91% Cu, 0.04% Pb, 2.15% Zn, 67g/t Ag, 0.02g/t Au from 578.95m |

At Reward, drilling within the planned open pit outline and below the pit's lower outline was completed and is expected to contribute to the extension of the Indicated Resource. The grades significantly exceed the average grade of the current Indicated estimate of 3.3Mt @ 1.11% Cu for the Reward open pit:

| | |
|---|---|
| **KJCD262** | • 4.53m @ 3.57% Cu, 0.07% Pb, 0.21% Zn, 27.3g/t Ag, 0.01g/t Au from 118.67m<br>• 4.4m @ 5.27% Cu, 0.34% Pb, 0.23% Zn, 56.4g/t Ag, 0.01g/t Au from 129.3m |
| **KJD268** | • 19.98m @ 2.95% Cu, 0.18% Pb, 0.22% Zn, 46.2g/t Ag, 0.03g/t Au from 89.02m, including<br>9.29m @ 4.22% Cu, 0.28% Pb, 0.37% Zn, 67.5g/t Ag, 0.82g/t Au from 99.71m |

To the north of the open pit outline, hole KJD270 intersected copper mineralisation in the oxidised zone:

| | |
|---|---|
| **KJD270** | • 4.77m @ 3.82% Cu, 0.01% Pb, 0.03% Zn, 31.6g/t Ag, 0.06g/t Au from 8.23m |

**Project development work**

During the half year, the Company advanced planning for concurrent open cut and underground mining, to produce a blend of the higher grade underground ore with open cut material. The plan is based on a progression of open cut operations from Reward to Bellbird, while underground mining commences at Rockface and then moves to Reward.

Planning also proceeded for a smaller processing plant than previously envisaged. The expected higher grades of ore have reduced the required plant throughput from 2.2 million to 1.6 million tonnes a year, while at the same time increased the projected concentrate production both annually and in total.

Mining and processing design and site infrastructure planning proceeded in conjunction with studies for the Environmental Impact Statement (EIS), the only outstanding regulatory approval. Drafting of the EIS is well advanced. The Social Impact Assessment report, completed as part of the EIS, indicates that there is strong community support for the Jervois Project. Rail and port studies are also well under way.

The Company's strategy regarding further exploration was re-affirmed at the Annual General Meeting in May. Once the Jervois Project is up and running, attention will be concentrated on the exploration tenements at Jervois and surrounding Unca Creek where there is high potential to extend the life of the Jervois Project and increase production.

**Strengthening of board and management**

The board of KGL was strengthened with the appointment of Mr John Gooding and Ms Fiona Murdoch as Directors, and Mr Paul Richardson to the executive position of Project Director. Mr Richardson is now based on site at Jervois.

Mr Chris Bain resigned as a director of KGL, Chairman Denis Wood thanking him for his contribution to the Company's strategy and governance during almost five years on the board.

Mr Gooding is a leading Australian mining industry figure who possesses an intense knowledge of the development and operation of copper mines. His distinguished career has included MD of Highlands Pacific Limited, CEO of Xstrata's Australian copper and zinc business, EGM of M.I.M. Holdings Limited's Mount Isa business and EGM Operations for Normandy Mining Limited.

Ms Murdoch has long experience in executive and non-executive roles in mining and infrastructure, including M.I.M. Holdings Limited, Xstrata Queensland and Seqwater, and at AMCI Investments Pty Ltd where she is currently GM Commercial.

Mr Richardson, a mineral processing engineer, is skilled at project development and mining management, attributes needed now for the Jervois project. He has held senior positions in Australian resources companies including St Barbara Mines Limited, Allegiance Metals Pty Ltd, BCD Resources NL and Avenira Limited, and in project feasibility and development including Avebury Nickel in Tasmania and the Wonarah Phosphate Project in the Northern Territory.

**Placement**

The Company raised $6.73 million, with no brokerage costs, through a placement of 12.5 million shares to a company related to international mineral resources identity Mr Ernie Thrasher and 4.32 million shares to KGL's existing major shareholder KMP Investments Pty Ltd (KMP). The shares were priced at 40 cents representing a premium of 5% on the closing price on 14 February 2018 and a 30% premium to the Company's previous placement and entitlement offer last October.

The funds raised are enabling the Company to complete the 2018 exploration program and the EIS at Jervois.

### Financial Review

For the half-year ended 30 June 2018, the KGL group recorded loss after taxation of $547,648 (Loss 2017: $672,976).

In July 2018 the company determined that the certain employees had previously been underpaid due to a misinterpretation of specific awards. The period of the underpayment relates to 1 July 2012 to 30 June 2018. The company obtained legal advice on the correct interpretation and has calculated the adjustment required and is in the process of contacting these employees to arrange payment. The amounts shown above of $653,334 includes an accrual for $486,776 for backpay and superannuation due to these employees. In addition, the Company will pay interest to each employee on the balance outstanding. Of the $486,776, $112,913 relates to this half-year reporting period with the balance of $373,863 relating to prior periods. No adjustments have been made to prior year results as the impact is deemed to be immaterial.

In the half year to 30 June 2018 $6,443,405, was incurred developing the Jervois Project. Employee benefits expenses from continued operations were in the half year to 30 June 2018 $348,301 (2017: $337,014).

The Company raised $6,710,090 after costs through the issue of shares by way of a share purchase plan at $0.40 raising $6,730,000.

The KGL cash reserve as at 30 June 2018 was $1,017,363 plus $12,037,770 in term deposits.

### Auditor's Independence Declaration

A copy of the independence declaration by the lead auditor under section 307C is included on page 9 to this directors' report.

**Denis Wood**

Executive Chairman

22 August 2018

## JORC Compliance Statement

The Jervois Resources information were first released to the market on 18 May 2018 and complies with JORC 2012. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

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 |
|---|---|---|---|
| KJD | 226W1 | 17/07/2018 | 2012 |
| KJCD | 233 | 17/07/2018 | 2012 |
| KJCD | 231 | 13/04/2018 | 2012 |
| KJCD | 228 | 13/04/2018 | 2012 |
| KJCD | 234 | 13/04/2018 | 2012 |
| KJCD | 241W1 | 13/04/2018 | 2012 |
| KJC | 247 | 17/07/2018 | 2012 |
| KJC | 248 | 17/07/2018 | 2012 |
| KJCD | 263 | 17/07/2018 | 2012 |
| KJCD | 244 | 17/07/2018 | 2012 |
| KJCD | 245 | 17/07/2018 | 2012 |
| KJCD | 262 | 17/07/2018 | 2012 |
| KJCD | 268 | 17/07/2018 | 2012 |
| KJCD | 270 | 17/07/2018 | 2012 |

**AUDITOR'S INDEPENDENCE DECLARATION**

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**DECLARATION OF INDEPENDENCE BY T R MANN TO THE DIRECTORS OF KGL RESOURCES LIMITED**

As lead auditor of KGL Resources Limited for the half-year ended 30 June 2018, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

**T R Mann**
Director

**BDO Audit Pty Ltd**

Brisbane, 22 August 2018

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2018

| | Note | Half-year ended 30 Jun 2018 $ | Half-year ended 30 Jun 2017 $ |
|---|---|---|---|
| Revenue and other income | | **149,481** | 17,602 |
| Employee benefits expense | | **(348,301)** | (337,014) |
| Depreciation and amortisation expense | | **(7,173)** | (1,571) |
| Professional and consultancy fees expense | | **(136,354)** | (174,002) |
| Head office facility overheads expense | | **(84,677)** | (77,277) |
| Business development and investor relations expense | | **(46,590)** | (16,418) |
| Other expenses | | **(74,034)** | (83,707) |
| Impairment of receivables | | **-** | (589) |
| **Loss before income tax** | | **(547,648)** | (672,976) |
| Income tax expense | | **-** | - |
| **Net profit/(loss) for the half-year** | | **(547,648)** | (672,976) |
| Other comprehensive income | | **-** | - |
| **Total comprehensive income for the half-year** | | **(547,648)** | (672,976) |
| **Net profit/(loss) attributable to:-** | | | |
| Non-controlling interests | | **-** | - |
| Owners of KGL Resources Limited | | **(547,648)** | (672,976) |
| | | **(547,648)** | (672,976) |
| **Total comprehensive income attributable to** | | | |
| Non-controlling interests | | **-** | - |
| Owners of KGL Resources Limited | | **(547,648)** | (672,976) |
| | | **(547,648)** | (672,976) |
| **Earnings per share attributable to the owners of KGL Resources Limited** | | | |
| Basic earnings per share (cents per share) | | **(0.23)** | (0.37) |
| Diluted earnings per share (cents per share) | | **(0.23)** | (0.37) |

The financial statements should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2018

| | Note | 30 Jun 2018 | 31 Dec 2017 |
|---|---|---|---|
| | | **$** | $ |
| **Current assets** | | | |
| Cash and cash equivalents | | **1,017,363** | 4,008,458 |
| Trade and other receivables | 4 | **423,953** | 99,695 |
| Term deposits | | **12,037,770** | 8,465,594 |
| Prepayments | | **51,806** | 85,192 |
| **Total current assets** | | **13,530,892** | 12,658,939 |
| **Non-current assets** | | | |
| Term deposits | | **157,431** | 145,445 |
| Property, plant and equipment | **2** | **122,378** | 66,785 |
| Exploration and evaluation assets | **3** | **38,830,480** | 32,387,075 |
| Intangible assets | | **17,387** | 17,833 |
| **Total non-current assets** | | **39,127,676** | 32,617,138 |
| **TOTAL ASSETS** | | **52,658,568** | 45,276,077 |
| **Current liabilities** | | | |
| Trade and other payables | **5** | **2,131,389** | 911,340 |
| **Total current liabilities** | | **2,131,389** | 911,340 |
| **TOTAL LIABILITIES** | | **2,131,389** | 911,340 |
| **NET ASSETS** | | **50,527,179** | 44,364,737 |
| **Equity** | | | |
| Contributed equity | **6** | **166,789,377** | 160,079,287 |
| Accumulated losses | | **(116,262,198)** | (115,714,550) |
| **Total equity** | | **50,527,179** | 44,364,737 |

The financial statements should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE HALF-YEAR ENDED 30 JUNE 2018

| | Note | Half-year ended 30 Jun 2018 $ | Half-year ended 30 Jun 2017 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| GST refunded | | **546,004** | 206,199 |
| Payments to suppliers and employees | | **(1,521,269)** | (879,634) |
| Interest received | | **124,213** | 15,097 |
| **Net cash used in operating activities** | | **(851,052)** | (658,338) |
| **Cash flows from investing activities** | | | |
| Receipts from R&D Refunds | | **-** | 1,639,990 |
| Payments for exploration and evaluation assets | | **(5,200,816)** | (1,660,927) |
| Payments for property, plant and equipment | | **(65,156)** | (52,198) |
| Payments for tenement acquisition | | **-** | (523,933) |
| Payments for intangible assets | | **-** | (21,400) |
| Movement in term deposits | | **(3,584,161)** | (9,067) |
| **Net cash used in investing activities** | | **(8,850,133)** | (627,535) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of shares | **6** | **6,710,090** | 3,408,149 |
| **Net cash used in financing activities** | | **6,710,090** | 3,408,149 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(2,991,095)** | 2,122,276 |
| Cash and cash equivalents at the beginning of the period | | **4,008,458** | 2,099,580 |
| **Cash and cash equivalents at end of period** | | **1,017,363** | 4,221,856 |

The financial statements should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE HALF-YEAR ENDED 30 JUNE 2018

| | Contributed Equity $ | Accumulated losses $ | Share-based payments reserve $ | Total parent equity $ | Total equity $ |
|---|---|---|---|---|---|
| **Balance at 1 January 2018** | **160,079,287** | **(115,714,550)** | **-** | **44,364,737** | **44,364,737** |
| Profit/(loss) for the half-year | **-** | **(547,648)** | **-** | **(547,648)** | **(547,648)** |
| **Other comprehensive income** | | | | | |
| **Total comprehensive income for the half-year** | **-** | **(547,648)** | **-** | **(547,648)** | **(547,648)** |
| **Transactions with owners in their capacity as owners** | | | | | |
| Issue of Share Capital, net of share issue costs | **6,710,090** | **-** | **-** | **6,710,090** | **6,710,090** |
| **Balance at 30 June 2018** | **166,789,377** | **(116,262,198)** | **-** | **50,527,179** | **50,527,179** |

The financial statements should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
## FOR THE HALF-YEAR ENDED 30 JUNE 2018

| | Contributed Equity | Accumulated losses | Share-based payments reserve | Total parent equity | Total equity |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance at 1 January 2017** | 144,478,912 | (118,150,852) | 3,701,075 | 30,029,135 | 30,029,135 |
| Profit/(loss) for the half-year | - | (672,976) | - | (672,976) | (672,976) |
| **Other comprehensive income** | | | | | |
| **Total comprehensive income for the half-year** | - | (672,976) | - | (672,976) | (672,976) |
| **Transactions with owners in their capacity as owners** | | | | | |
| Issue of Share Capital, net of share issue costs. | 3,408,149 | - | - | 3,408,149 | 3,408,149 |
| **Balance at 30 June 2017** | 147,887,061 | (118,823,828) | 3,701,075 | 32,764,308 | 32,764,308 |

The financial statements should be read in conjunction with the accompanying notes.

**Notes to the Financial Statements for the Half-Year Ended 30 June 2018**

## Note 1. Basis of preparation

These general purpose financial statements for the half-year reporting period ended 30 June 2018 have been prepared in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001.

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.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 31 December 2017 and any public announcements made by KGL Resources Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in these half-year financial statements as compared with the most recent annual financial statements except for the adoption of new and amended standards as set out below.

### New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies as a result of adopting the following standards:

- AASB 9 *Financial Instruments*; and
- AASB 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

### a) AASB 15 *Revenue from Contracts with Customers* – Impact of adoption

The group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 January 2018. In accordance with the transition provisions in AASB 15, the group has adopted the new rules retrospectively however there was no material impact on the amounts disclosed previously and as a result there has been no restatement required as a result of reclassification or remeasurement and no change to the previously disclosed accounting policies.

### b) AASB 9 *Financial Instruments* – Impact of adoption

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in note below. In accordance with the transitional provisions in AASB 9(7.2.15) and (7.2.26), comparative figures have not been restated.

*(i) Classification and Measurement*
On 1 January 2018 (the date of initial application of AASB 9), the group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate AASB 9 categories. The main effects resulting from this reclassification was the classification of 'Financial assets held to maturity' to 'Term deposits'. There was no change to the measurement of these assets.

**Notes to the Financial Statements for the Half-Year Ended 30 June 2018 (Continued)**

**c) AASB 9 *Financial Instruments* – Impact of adoption (Continued)**

*(ii) Impairment of financial assets*
The group has one type of financial asset that is subject to AASB 9's new expected credit loss model, being trade and other receivables.

The group was required to revise its impairment methodology under AASB. There was no material impact of the change in impairment methodology on the group's retained earnings and equity.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, there was no material impairment loss identified.

**AASB 9 *Financial Instruments* – Accounting policies applied from 1 January 2018**

*(i) Investments and other financial assets*

*Classification*
From 1 January 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

*Measurement*
At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

**AASB 9 *Financial Instruments* – Accounting policies applied from 1 January 2018 (Continue)**

*Debt instruments*
Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Again or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

*Impairment*
From 1 January 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

**Impact of standards issued but not yet applied by the entity**

*AASB 16 Leases*
AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of $38,857. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The group does not intend to adopt the standard before its effective date.

**Notes to the Financial Statements for the Half-Year Ended 30 June 2018 (Continued)**

**Going Concern**

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the financial report, the consolidated entity incurred a net loss of $547,648 and net operating cash outflows of $851,052 for the period ended 30 June 2018. As at 30 June 2018 the consolidated entity has cash of $1,017,363.

The ability of the consolidated entity to continue as a going concern is principally dependent upon one or more of the following:

- the ability of the Company to raise capital as and when necessary, and/or
- the successful exploration and subsequent exploitation of the consolidated entity's tenements.

These conditions give rise to material uncertainty which may cast significant doubt over the consolidated entity's ability to continue as a going concern.

The Directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- the consolidated entity has a proven history of successfully raising funds which included during the period raising $6,710,090 through a share placement plan in March 2018; and
- The Directors believe there is sufficient cash available for the consolidated entity to continue operating until it can raise further capital to fund its ongoing activities.

Should the consolidated entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial report.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the consolidated entity be unable to continue as a going concern.

**Segment information**

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

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. There were no changes in identified reportable segments during the period since the last annual financial statements.

## Note 2. Property, plant and equipment

| | **Plant & Equipment 30 Jun 2018 $** | Plant & Equipment 31 Dec 2017 $ |
|---|---|---|
| **At the start of the period, net of accumulated depreciation** | **66,785** | 35,126 |
| Additions | **62,766** | 103,921 |
| Disposals | **-** | (20,278) |
| Depreciation and amortisation | **(7,173)** | (51,984) |
| **At the end of the period, net of accumulated depreciation** | **122,378** | 66,785 |
| Cost | **702,058** | 639,292 |
| Accumulated depreciation | **(579,680)** | (572,507) |
| Net carrying amount | **122,378** | 66,785 |

## Note 3. Exploration and evaluation assets

| | **30 Jun 2018 $** | 31 Dec 2017 $ |
|---|---|---|
| Deferred exploration and evaluation assets | **38,830,480** | 32,387,075 |
| *Deferred exploration and evaluation assets* | | |
| Balance at beginning of the period | **32,387,075** | 27,619,483 |
| Current period expenditure | **6,443,405** | 6,407,582 |
| R&D Tax Credit | **-** | (1,639,990) |
| Balance at end of the period | **38,830,480** | 32,387,075 |

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.

**Notes to the Financial Statements for the Half-Year Ended 30 June 2018 (Continued)**

## Note 4. Trade and other receivables

| | **30 Jun 2018** | 31 Dec 2017 |
|---|---|---|
| | **$** | $ |
| GST Receivable (net) | **327,337** | 92,010 |
| Other Receivables | **96,616** | 7,685 |
| | **423,953** | 99,695 |

(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 half-year end.

## Note 5. Trade and other payables

| | **30 Jun 2018** | 31 Dec 2017 |
|---|---|---|
| | **$** | $ |
| Unsecured trade payables | **1,478,055** | 803,645 |
| Employee benefits | **653,334** | 107,695 |
| | **2,131,389** | 911,340 |

(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 as these are non-interest bearing.
(iii) Employee benefits – In July 2018 the company determined that the certain employees had previously been underpaid due to a misinterpretation of specific awards. The period of the underpayment relates to 1 July 2012 to 30 June 2018. The company obtained legal advice on the correct interpretation and has calculated the adjustment required and is in the process of contacting these employees to arrange payment. The amounts shown above of $653,334 includes an accrual for $486,776 for backpay and superannuation due to these employees. In addition, the Company will pay interest to each employee on the balance outstanding. Of the $486,776, $112,913 relates to this half-year reporting period with the balance of $373,863 relating to prior periods. No adjustments have been made to prior year results as the impact is deemed to be immaterial.

**Note 6. Contributed equity**

| | | **30 Jun 2018** | 31 Dec 2017 |
|---|---|---|---|
| | | **$** | $ |
| (a) | Issued and paid up capital | | |
| | Ordinary shares fully paid | **166,789,377** | 160,079,287 |

(b) Movements in shares on issue

| | **30 Jun 2018** | | 31 Dec 2017 | |
|---|---|---|---|---|
| **Details** | **Number of Shares issued** | **Issued capital $** | Number of Shares issued | Issued capital $ |
| Beginning of the half-year | **226,205,484** | **160,079,287** | 172,990,858 | 144,478,912 |
| Exercise of options | **-** | **-** | - | - |
| Issue Shares | **16,825,000** | **6,730,000** | 53,214,626 | 15,877,979 |
| Share Issue Costs | **-** | **(19,910)** | - | (277,604) |
| **Closing balance** | **243,030,484** | **166,789,377** | 226,205,484 | 160,079,287 |

(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.

**Notes to the Financial Statements for the Half-Year Ended 30 June 2018 (Continued)**

**Note 7. Fair value measurement**

The fair values of the Group's financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

**Note 8. Contingent liabilities and assets**

There have been no material changes to contingent liabilities and assets since the 31 December 2017 financial report.

**Note 9. Events subsequent to reporting date**

There are no significant matters or circumstances that have arisen since the end of the financial period which significantly affected or could significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future periods.

**Note 10. Related Party Transactions**

During the half-year to 30th June 2018 there were no related party transactions requiring disclosure.

**Directors' Declaration**

The directors of the company declare that in their opinion:

1. The financial statements, comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and accompanying notes, are in accordance with the Corporations Act 2001 and:

   a) Comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

   b) Give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date.

2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

**Denis Wood**
Executive Chairman

Brisbane

22 August 2018

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# INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of KGL Resources Limited

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the half-year financial report of KGL Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

### Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

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

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

**Auditor's responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

**Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

**BDO Audit Pty Ltd**

BDO

TMann

**T R Mann**
Director

Brisbane, 22 August 2018