KINGSROSE
MINING LIMITED

# HALF YEAR FINANCIAL REPORT
# 31 DECEMBER 2018

## CONTENTS



## CORPORATE DIRECTORY

### Directors

| | |
|---|---|
| Michael Andrews | Non-Executive Chairman |
| John Morris | Non-Executive Director |
| Grant Mills | Non-Executive Director |
| John Carlile | Non-Executive Director |

### Company Secretary

Karen O'Neill

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### Auditors

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### Share Registry

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### Stock Exchange Listing

Australian Securities Exchange (ASX: KRM)

### Australian Business Number

49 112 389 910

# DIRECTORS' REPORT

The Directors of Kingsrose Mining Limited ("Kingsrose" or the "Company") present their report for the half year ended 31 December 2018.

## DIRECTORS

The names of the Company's directors in office during the half year and until the date of this report are set out below.

| | |
|---|---|
| Michael Andrews | Non-Executive Chairman (appointed 5 December 2018, formerly Non-Executive Director) |
| John Morris | Non-Executive Director |
| Grant Mills | Non-Executive Director |
| John Carlile | Non-Executive Director (appointed 4 February 2019) |
| Roderick McIllree | Non-Executive Chairman (ceased 5 December 2018) |
| Paul Jago | Managing Director (ceased 4 February 2019) |

Directors were in office for the entire period unless otherwise stated.

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the reporting period were:

- Production of gold and silver from the Way Linggo Mine and the Talang Santo Mine at the Way Linggo Project in South Sumatra, Indonesia; and
- Exploration and evaluation of gold and silver deposits at the Way Linggo Project.

## MINE OPERATIONS REVIEW

The Company holds an 85% interest in the Way Linggo Project in South Sumatra, Indonesia. The Project, which is held under a 4th generation Contract of Work and its amendment (CoW) with the Indonesian Government, is located on the mineral rich Trans-Sumatran Fault, part of the Pacific Rim of Fire. Kingsrose holds its interest through its 85% owned subsidiary, PT Natarang Mining (PTNM), owner and operator of the Way Linggo Project.

During the half year ended 31 December 2018 the Group produced a total of 5,874 ounces of gold and 61,484 ounces of silver, predominantly sourced from the Way Linggo open pit mine. A total of 5,272 ounces of gold was sold at an average gold price of A$1,695/oz (US$1,228/oz) and A$8,935,402 in revenue was realised.

The cash operating costs[1] for the period were US$1,704/oz and the all-in sustaining costs of production[2] were US$2,010/oz. Unit costs were impacted by planned waste stripping and lower than planned production levels during the period.

| | Unit | 31 December 2018 Six Months | 31 December 2017 Six Months |
|---|---|---|---|
| **Mine Production** | | | |
| **Way Linggo Mine** | | | |
| **Waste** | bcm | 918,059 | 242,784 |
| **Ore Mined** | t | 23,601 | 49,066 |
| **Mine Grade (Gold)** | g/t | 7.1 | 8.3 |
| **Mine Grade (Silver)** | g/t | 94 | 68 |
| **Talang Santo Mine** | | | |
| **Waste** | bcm | 128,038 | - |
| **Ore Mined** | t | 4,603 | 7,904 |
| **Mine Grade (Gold)** | g/t | 6.4 | 6.7 |
| **Mine Grade (Silver)** | g/t | 11 | 17 |
| **Total** | | | |
| **Waste** | bcm | 1,046,097 | 242,784 |
| **Ore Mined** | t | 28,204 | 56,970 |
| **Mine Grade (Gold)** | g/t | 7.0 | 8.1 |
| **Mine Grade (Silver)** | g/t | 80 | 60 |

| | Unit | 31 December 2018 Six Months | 31 December 2017 Six Months |
|---|---|---|---|
| **Ore Processed** | | | |
| **Tonnes Milled** | t | 27,510 | 58,561 |
| **Head Grade (Gold)** | g/t | 7.1 | 8.1 |
| **Head Grade (Silver)** | g/t | 80 | 62 |
| **Recovery (Gold)** | % | 94.0 | 97.1 |
| **Recovery (Silver)** | % | 86.2 | 86.9 |
| **Ounces Produced (Gold)** | oz | 5,874 | 14,868 |
| **Ounces Produced (Silver)** | oz | 61,484 | 102,074 |
| **Costs of Production** | | | |
| **Cash Operating Costs (C1)**[1] | US$/oz | 1,704 | 503 |
| **All-In Sustaining Costs of Production (AISC)**[2] | US$/oz | 2,010 | 712 |

[1] Cash operating costs (C1) are mine production costs less by-product credits, adjusted for inventory movements.

[2] All-in sustaining costs of production (AISC) are cash operating costs plus royalties, capitalised mine development, sustaining capital expenditure and corporate costs.
Note: C1 and AISC are non-IFRS measures and unaudited. These measures are widely used 'industry standard' terms and are presented to provide meaningful information to assist users of the Group's financial information in understanding the results of the Group's operations.

## Safety

There were no Lost Time Injuries for the period. The 12-month moving average Lost Time Frequency Rate continues to reduce and stood at 0.66 as at 31 December 2018.

The Group is committed to conducting its operations to the highest safety standards. A dedicated on-site team of Senior Management and Health and Safety Officers oversee a safe and responsible working environment, identifying and mitigating any potential health and safety risks and ensuring that regular health and safety training is provided to all employees. The total Recordable Injury Frequency Rate at 31 December 2018 was 4.29, which demonstrates the commitment to safety by all personnel on site.

## Way Linggo Mine

Production from the Way Linggo Mine for the period was 23,601 tonnes of ore at 7.1 g/t Au (5,385 mined ounces) and 94 g/t Ag (70,963 mined ounces). Total waste movement was 918k bcm.

Ore mining continued at the base of the pit with waste stripping for the next phase of the mine underway. Ore was won from Stages 2, 3 and 4 in the 6 months ended 31 December 2018. High strip ratios occurred during the period and with the Stage 4 and Stage 5 cutbacks in progress these ratios will continue. In the next quarter ore will come from areas of old underground workings where pockets of higher grade are expected.

Production in the period was impacted by pit stability issues occurring in the first quarter, which impacted the plan in the second quarter. This resulted in 240k bcm of remedial waste movement, outside of design, following slips on the east and west walls. There was 150k bcm of waste material within design but brought forward in the schedule to this period to address stabilisation issues. In the second quarter total material movement was lower than expected with an extreme monsoon season impacting production hours significantly in November and December. A total of 908mm of rain was measured on site for the quarter with 63 days experiencing wet weather causing a total of 644 hours of lost production hours.

The high strip ratio, extra material moved and the rain impacts on production has resulted in the unit costs of production being higher than planned. The unit costs are expected to improve over the coming quarters.

Additional trucks were sourced in the second quarter to tackle the unplanned extra material movement and these will be retained in the next quarter to maintain the stripping schedule.

In December an optimisation was run to evaluate the viability of extending the Way Linggo open pit. Following positive results from the optimisation an extension to the current pit is being evaluated and designs and schedules are being finalised to add approximately 16,000 ounces to the Way Linggo reserve. This would allow ore mining to continue into the third quarter of calendar year 2020.

### Talang Santo Mine

The Talang Santo open pit mine is the second operating open pit on the highly prospective Way Linggo Project Contract of Work area. It is similar to the Way Linggo open pit because the mine is located on the previously mined underground ore body. The Talang Santo underground mine was suspended in October 2017.

Construction of an 80-person camp and associated infrastructure was completed in the first quarter. Mine offices, workshops, settlement ponds and waste dumps were completed early in the second quarter. Approval was granted for the commissioning of this mine in late October and waste stripping commenced at Talang Santo in November as planned. All approvals were granted for the Talang Santo open pit during the quarter with final delivery of government decrees in January 2019.

Production from the Talang Santo Mine for the period was 4,603 tonnes of ore at 6.4 g/t Au (952 mined ounces) and 11 g/t Ag (1,700 mined ounces). Total waste movement was 128k bcm.

During waste stripping in November, the identification of ore near surface resulted in higher than planned production in the period. The identification of this ore is assisting the geology department in the interpretation of the ore body. Previously it was presumed that the Mawi-Hanging Wall vein was one vein. From the grade control data, it has been established that there are two veins in the system separated by barren stockworks. It is believed these mineralised zones are continuous down to the previously mined underground workings. A new geological model is currently being prepared to re-estimate the Talang Santo ore body. The new resource model will be used to re-evaluate the Talang Santo pit and assess the potential to resume underground operations at Talang Santo.

The identification of the ore on surface has also led to an extended trenching program to establish the extent of the mineralisation near-surface.

### Processing

The plant throughput for the period was 27,510 dry tonnes at a head grade of 7.1 g/t Au and 80 g/t Ag. Gold recovery was lower than planned for the period due to an area in the Way Linggo pit where the arsenic concentration of the ore increased, resulting in lower recoveries. A study is underway to increase gold recoveries for this ore, and careful blending with other ore sources has shown improved results late in the December 2018 quarter.

The processing plant operated at 42% capacity for the period due to less than planned ore supply from the Way Linggo Mine because planned advancement of the pit was not met for the reasons stated above. It is expected that the plant will begin to operate at full capacity towards the end of the June 2019 quarter when Way Linggo Stage 5 is producing ore and ore production from Talang Santo is more consistent.

### Exploration

The Group continued its systematic and focussed exploration program during the half year, within its large (10,000 hectare) tenement, as part of its strategy to expand activity and define additional high-grade deposits across the broader Project area. During the six months a total of nine prospect areas were worked on. The exploration team completed 3,242m of diamond drilling and 2,719m of auger drilling. The drilling included sterilisation drilling at Talang Santo that confirmed a potential western extension or upgrade to the known Talang Santo ore body and exploration diamond drilling at the Talang Toha Samin and Rawa Gabus prospects.

Other exploration activities included 3,800 X-Ray Diffraction samples and analysis, 1,825 soil and rock chip samples and 23km stream and ridge traverses.

All data collected will be systematically reviewed and as part of the strategy to refine the pipeline of high priority and near-term production targets.

## Environmental Management

The Group continues to conduct its operations in a manner that minimises the environmental footprint of the Project area and in accordance with its obligations under the CoW, its Environmental license (AMDAL), prevailing local laws and environmental regulations.

In compliance with this, regular and comprehensive environmental impact assessments are conducted which form part of the Group's Environmental Management and Monitoring Plan. This Plan aims to identify, assess and minimise environmental risk at all stages of its operations as a fundamental part of the long-term environmental strategy.

The Company is not aware of any material breach of environmental legislation while conducting its operations in Indonesia during the period.

Environmental activities conducted during the period included reclamation, re-vegetation and conducting monitoring programs as well as assisting with sedimentation control, and waste management.

## Community Engagement

The Group is committed to engaging and co-operating with the communities surrounding the Way Linggo Project and the wider Lampung province, and provides on-going support to various health, educational, cultural and economic initiatives.

During the period, education and health care continued to be a focus of the Community Development Team. Assistance to education was provided through donations to numerous community preschools and elementary schools, a scholarship program and maintenance to school buildings. Healthcare assistance included donations of food for children and the elderly in 43 healthcare units, donations of medical equipment for midwives at Atar Lebar and continuing to offer free medical evaluations at our site medical facility.

Local villages were assisted with the construction of a clean water storage at one village and the donation of a solar power generator at another village. Support was provided to the Islamic Women's Group, small business groups in the immediate area, the local police and the donation of a three-wheeler vehicle to the Tanggamus Environmental Department. Assistance was provided to the community to maintain a seeding nursery in Talang Toha and Talang Topa to strengthen the re-forestation program.

In December/January, southern Sumatra was impacted by a tsunami and the Group provided vehicles and rescue assistance to the local community.

The Group's on-site workforce continued to be predominately comprised of local personnel with approximately 73% of employees coming from the nearby Lampung Province, while 99.5% of employees are Indonesian locals.

## FINANCIAL REVIEW

| | 31 December 2018 Six Months ($) | 31 December 2017 Six Months ($) (Restated) |
|---|---|---|
| Sales Revenue | 10,166,986 | 26,898,772 |
| (Loss)/Earnings Before Interest, Tax, Depreciation & Amortisation – EBITDA[1] | (7,103,815) | 5,858,671 |
| (Loss)/Earnings Before Interest & Tax – EBIT[2] | (7,944,461) | 3,707,497 |
| Net (Loss)/Profit After Tax | (8,290,602) | 3,036,872 |
| (Loss)/Earnings Per Share | (0.0115) | 0.0044 |
| | **31 December 2018 $** | **30 June 2018 $ (Restated)** |
| Total Assets | 53,711,046 | 59,785,134 |
| Net Assets | 42,580,215 | 52,113,312 |

[1] EBITDA has been calculated by adding back interest, tax, depreciation and amortisation.

[2] EBIT has been calculated by adding back interest and tax.

Note: EBITDA and EBIT are non-IFRS measures and unaudited. These measures are used in order to provide more meaningful information for the users of the Group's financial information and to allow users to assess the Group's performance relative to other companies in the industry.

### Income Statement

The Group recorded a net loss after tax for the half year ended 31 December 2018 of $8,290,602 (31 December 2017: net profit after tax of $3,036,872), largely attributable to the following significant items:

- Sales revenue for the half year ended 31 December 2018 was $10,166,986, down from $26,898,772 in the corresponding period in 2017, primarily driven by a decrease of 8,994 ounces of gold sold. This 65% reduction in gold sales volume was due to the impact of the planned high strip ratio, unplanned extra material moved and above 5-year average rainfall on mining productivity at the Way Linggo open pit mine. The reduction in gold sold was partially offset by a 3% increase in realised Australian gold price, which saw an average increase in revenue of $48 per ounce of gold sold in comparison to the corresponding period in 2017.

- In addition to the impact on revenue, the planned high strip ratio and unplanned extra material moved at the Way Linggo open pit mine have a significant impact on total cost of sales for the period. Despite the lower production, total cost of sales increased by $513,614 in comparison to the corresponding period in 2017 largely driven by an increase in load and haul costs.

- Other income increased by $3,457,804 due to a net foreign exchange gain of $3,503,004 being recorded during the half year ended 31 December 2018 compared to a net foreign exchange loss of $998,365 recognised in the corresponding period in 2017 (included in other expenses).

- Other expenses decreased by $2,173,712 as the corresponding period in 2017 included a $998,365 net foreign exchange loss, a $2,594,178 loss recognised on settlement of loans in equity in July 2017 and redundancy costs of $2,659,804 incurred following the suspension of the Talang Santo underground mine operations in October 2017. Other expenses in 2018 included a $4,101,464 write-off of exploration and evaluation expenditure during the period.

## Financial Position

At 31 December 2018, the Group's net assets were $42,580,215 (30 June 2018: $52,113,312).

*Assets*

At reporting date, the Group's total current assets were $13,317,476, which represents a reduction of $4,955,880 for the half year ended 31 December 2018. This movement was primarily driven by a decrease of $4,289,199 in cash and cash equivalents and $1,753,400 in trade and other receivables, partially offset by an increase of $795,752 in inventories held.

Non-current assets of the Group stood at $40,393,570 at balance date, $1,118,208 lower than 30 June 2018, largely due to a decrease in exploration and evaluation assets as a result of the amount written off during the period. This impact was partially offset by an increase in other receivables and foreign exchange translation movements on mine properties.

*Liabilities*

At reporting date, the Group's total liabilities were $11,130,831, which represents an increase of $3,459,009 over the half year ended 31 December 2018. This was primarily driven by an increase in trade and other payables.

## Group Cash Flows and Liquidity

At 31 December 2018 the Group held cash and cash equivalents of $5,778,520 (30 June 2018: $10,067,719) and had trade receivables of $Nil (30 June 2018: $2,586,411) and bullion on hand of $3,597,363 (30 June 2018: $2,261,481). The Group's total cash, trade receivables and bullion balance at 31 December 2018 was $9,375,883 (30 June 2018: $14,915,611).

Cash flow from operating activities for the half year ended 31 December 2018 were a net outflow of $3,350,926, primarily driven by lower gold sales during the period.

Cash flow from investing activities decreased by $977,563 mainly as a result of no expenditure spent on mine development following the suspension of the Talang Santo underground mine operations in October 2017, partially offset by an increase in investment in plant and equipment.

Cash flow from financing activities for the half year ended 31 December 2018 related solely to repayment of hire purchase agreements.

## CORPORATE

*Executive Management Changes*
Susan Hunter was appointed Company Secretary for an interim period from July to December 2018, following the resignation of General Manager - Corporate and Company Secretary, Joanna Kiernan in July 2018.

Karen O'Neill was appointed Chief Financial Officer and Joint Company Secretary on 24 September 2018 and became Chief Financial Officer and Company Secretary following resignation of Susan Hunter in December 2018.

## EVENTS AFTER REPORTING DATE

On 16 January 2019, the Group received approval of its AMDAL, which is the Indonesian equivalent of an Environmental Impact Assessment, from the Indonesian Ministry of Environment and Forestry, which allows ore production from the Talang Santo open pit mine and the continuation of production from the Way Linggo open pit mine.

On 6 March 2019, Mr Stuart Bodey was appointed Chief Executive Officer following resignation of the Managing Director, Mr Paul Jago on 4 February 2019.

## AUDITOR'S INDEPENDENCE DECLARATION

Ernst and Young's independence declaration is set out on page 10 and forms part of the Directors' Report for the half year ended 31 December 2018.

Signed in accordance with a resolution of the Directors.

Michael Andrews
Chairman
15 March 2019

**Caution Regarding Forward Looking Statements and Forward Looking Information**
The information contained in the Directors' Report contains forward looking statements and forward looking information, which are based on assumptions and judgements of management regarding future events and results. Such forward looking statements and forward looking information involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any anticipated future results, performance or achievements expressed or implied by such forward looking statements. Such factors include, among others, the actual market prices of gold, the actual results of current exploration, the availability of debt and equity financing, the volatility in global financial markets, the actual results of future mining, processing and development activities, receipt of regulatory approvals as and when required and changes in project parameters as plans continue to be evaluated.

Except as required by law or regulation (including ASX Listing Rules), Kingsrose Mining Limited undertakes no obligation to provide any additional or updated information whether as a result of new information, future events or results or otherwise. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements.

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# Auditor's Independence Declaration to the Directors of Kingsrose Mining Limited

As lead auditor for the review of the half-year financial report of Kingsrose Mining Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Kingsrose Mining Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Teale

Philip Teale
Partner
Perth
15 March 2019





PT:CT:KRM:015

## CONSOLIDATED INCOME STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2018

| | Note | 31 December 2018 $ | 31 December 2017 (Restated) $ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 3(a) | **10,166,986** | 26,898,772 |
| **Total revenue** | | **10,166,986** | 26,898,772 |
| Cost of sales | 3(b) | **(15,528,052)** | (15,014,438) |
| **Gross (loss)/profit** | | **(5,361,066)** | 11,884,334 |
| Other income | 3(c) | **3,550,339** | 92,535 |
| Administration expenses | 3(d) | **(1,661,071)** | (1,929,460) |
| Other expenses | 3(e) | **(4,164,214)** | (6,337,926) |
| Finance costs | 3(f) | **(47,833)** | (383,369) |
| **(Loss)/Profit before income tax** | | **(7,683,845)** | 3,326,114 |
| Income tax expense | | **(606,757)** | (289,242) |
| **Net (loss)/profit for the period** | | **(8,290,602)** | 3,036,872 |
| **(Loss)/Profit for the period is attributable to:** | | | |
| Owners of the parent | | **(8,261,190)** | 3,025,792 |
| Non-controlling interest | | **(29,412)** | 11,080 |
| | | **(8,290,602)** | 3,036,872 |

| | Cents | Cents |
|---|---|---|
| Earnings per share attributable to the ordinary equity holders of the parent: | | |
| Basic (loss)/earnings per share – cents per share | **(1.15)** | 0.44 |
| Diluted (loss)/earnings per share – cents per share | **(1.15)** | 0.44 |

The above consolidated income statement should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2018

| | **31 December 2018** | 31 December 2017 (Restated) |
|---|---|---|
| | $ | $ |
| **Net (loss)/profit for the period** | **(8,290,602)** | 3,036,872 |
| | | |
| **Other comprehensive (loss)/income** | | |
| *Items that may be reclassified subsequently to profit or loss in subsequent periods* | | |
| Foreign currency translations attributable to parent entity interest | **(1,289,455)** | 357,426 |
| Income tax effect | **-** | - |
| | **(1,289,455)** | 357,426 |
| *Items that may not be reclassified subsequently to profit or loss in subsequent periods* | | |
| Foreign currency translations attributable to non-controlling interest | **(3,120)** | 27,126 |
| Re-measurement adjustments on defined benefit obligations | **23,115** | (77,997) |
| Income tax effect | **(5,779)** | 27,299 |
| | **14,217** | (23,572) |
| | | |
| **Other comprehensive (loss)/income for the period, net of tax** | **(1,275,238)** | 333,854 |
| | | |
| **Total comprehensive (loss)/income for the period** | **(9,565,840)** | 3,370,726 |
| | | |
| **Total comprehensive (loss)/income for the period is attributable to:** | | |
| Owners of the parent | **(9,533,360)** | 3,340,124 |
| Non-controlling interest | **(32,480)** | 30,602 |
| | **(9,565,840)** | 3,370,726 |

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

| | Note | 31 December 2018 $ | 30 June 2018 (Restated) $ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | | **5,778,520** | 10,067,719 |
| Trade and other receivables | 6 | **2,179,266** | 3,932,666 |
| Inventories | 7 | **4,856,014** | 4,060,262 |
| Other | | **503,676** | 212,709 |
| **Total Current Assets** | | **13,317,476** | 18,273,356 |
| **Non-Current Assets** | | | |
| Trade and other receivables | 6 | **2,647,510** | 2,336,644 |
| Plant and equipment | | **6,228,408** | 6,109,702 |
| Mine properties and development | | **15,135,778** | 14,615,629 |
| Exploration and evaluation assets | 8 | **16,381,874** | 18,449,803 |
| **Total Non-Current Assets** | | **40,393,570** | 41,511,778 |
| **TOTAL ASSETS** | | **53,711,046** | 59,785,134 |
| **Current Liabilities** | | | |
| Trade and other payables | 9 | **7,345,768** | 4,204,092 |
| Interest-bearing liabilities | | **103,914** | 104,704 |
| Income tax payable | | **348,541** | 320,620 |
| Provisions | | **760,202** | 579,170 |
| **Total Current Liabilities** | | **8,558,425** | 5,208,586 |
| **Non-Current Liabilities** | | | |
| Interest-bearing liabilities | | **132,689** | 130,350 |
| Provisions | | **2,439,717** | 2,332,886 |
| **Total Non-Current Liabilities** | | **2,572,406** | 2,463,236 |
| **TOTAL LIABILITIES** | | **11,130,831** | 7,671,822 |
| **NET ASSETS** | | **42,580,215** | 52,113,312 |
| **EQUITY** | | | |
| Equity attributable to equity holders of the parent | | | |
| Contributed equity | | **105,688,558** | 105,688,558 |
| Reserves | | **8,136,305** | 9,393,017 |
| Accumulated losses | | **(72,978,490)** | (64,734,585) |
| | | **40,846,373** | 50,346,990 |
| Non-controlling interest | | **1,733,842** | 1,766,322 |
| **TOTAL EQUITY** | | **42,580,215** | 52,113,312 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

| | Note | 31 December 2018<br>$ | 31 December 2017<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **12,753,436** | 24,918,145 |
| Payment to suppliers and employees | | **(16,031,502)** | (21,363,550) |
| VAT refund received | | **481,744** | 238,800 |
| Interest received | | **50,895** | 1,986 |
| Interest and other finance costs paid | | **(26,050)** | (26,329) |
| Income tax paid | | **(579,449)** | (241,663) |
| **Net cash flows (used in)/from operating activities** | | **(3,350,926)** | 3,527,389 |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment | | **(624,511)** | (328,173) |
| Proceeds from sale of plant and equipment | | **40,959** | 9,334 |
| Payments for mine properties and development | | **-** | (1,395,058) |
| Payments for exploration and evaluation expenditure | | **(455,973)** | (303,191) |
| **Net cash flows used in investing activities** | | **(1,039,525)** | (2,017,088) |
| **Cash flows from financing activities** | | | |
| Transaction costs related to convertible loans | | **-** | (96,612) |
| Repayment of hire purchase agreements | | **(60,965)** | (84,170) |
| Repayment of borrowings | | **-** | (2,250,000) |
| **Net cash flows used in financing activities** | | **(60,965)** | (2,430,782) |
| **Net decrease in cash and cash equivalents** | | **(4,451,416)** | (920,481) |
| Cash and cash equivalents at beginning of the period | | **10,067,719** | 5,933,935 |
| Effects of exchange rate changes on cash and cash equivalents held | | **162,217** | (71,191) |
| **Cash and cash equivalents at end of the period** | 5 | **5,778,520** | 4,942,263 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2018

| | Issued Capital | Share-Based Payments Reserve | General Reserve | Foreign Currency Translation Reserve | Other Capital Reserve | Accumulated Losses | Owners of the Parent | Non-Controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **At 1 July 2018 (As previously stated)** | 105,688,558 | 8,331,600 | 83,407 | (2,040,906) | - | (57,491,891) | 54,570,768 | (2,457,456) | 52,113,312 |
| Restatement of prior periods (see note 2(f)) | - | - | **14,425** | **(397,999)** | **3,402,490** | **(7,242,694)** | **(4,223,778)** | **4,223,778** | - |
| **At 1 July 2018 (Restated)** | 105,688,558 | 8,331,600 | 97,832 | (2,438,905) | 3,402,490 | (64,734,585) | 50,346,990 | 1,766,322 | 52,113,312 |
| Net loss for the period | - | - | - | - | - | **(8,261,190)** | **(8,261,190)** | **(29,412)** | **(8,290,602)** |
| Other comprehensive (loss)/income for the period | - | - | - | **(1,289,455)** | - | **17,285** | **(1,272,170)** | **(3,068)** | **(1,275,238)** |
| **Total comprehensive (loss)/income for the period** | - | - | - | (1,289,455) | - | (8,243,905) | (9,533,360) | (32,480) | (9,565,840) |
| **Transactions with owners in their capacity as owners:** | | | | | | | | | |
| Share-based payments | - | **32,743** | - | - | - | - | **32,743** | - | **32,743** |
| **At 31 December 2018** | 105,688,558 | 8,364,343 | 97,832 | (3,728,360) | 3,402,490 | (72,978,490) | 40,846,373 | 1,733,842 | 42,580,215 |

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

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

| | Issued Capital | Share-Based Payments Reserve | Convertible Loans Reserve | General Reserve | Foreign Currency Translation Reserve | Other Capital Reserve | Accumulated Losses | Owners of the Parent | Non-Controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **At 1 July 2017 (As previously stated)** | **93,764,241** | **8,310,283** | **192,457** | **83,407** | **(1,302,701)** | **-** | **(63,624,908)** | **37,422,779** | **(3,451,272)** | **33,971,507** |
| Restatement of prior periods (see note 2(f)) | **-** | **-** | **-** | **14,425** | **(311,971)** | **3,402,490** | **(8,459,787)** | **(5,354,843)** | **5,173,364** | **(181,479)** |
| **At 1 July 2017 (Restated)** | **93,764,241** | **8,310,283** | **192,457** | **97,832** | **(1,614,672)** | **3,402,490** | **(72,084,695)** | **32,067,936** | **1,722,092** | **33,790,028** |
| Net profit for the period (Restated – see note 2(f)) | **-** | **-** | **-** | **-** | **-** | **-** | **3,025,792** | **3,025,792** | **11,080** | **3,036,872** |
| Other comprehensive income for the period (Restated – see note 2(f)) | **-** | **-** | **-** | **-** | **357,426** | **-** | **(43,094)** | **314,332** | **19,522** | **333,854** |
| **Total comprehensive income/(loss) for the period** | **-** | **-** | **-** | **-** | **357,426** | **-** | **2,982,698** | **3,340,124** | **30,602** | **3,370,726** |
| **Transactions with owners in their capacity as owners:** | | | | | | | | | | |
| Conversion of loans | **11,731,860** | **-** | **-** | **-** | **-** | **-** | **-** | **11,731,860** | **-** | **11,731,860** |
| Equity portion of loans converted | **192,457** | **-** | **(192,457)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Share-based payments | **-** | **15,627** | **-** | **-** | **-** | **-** | **-** | **15,627** | **-** | **15,627** |
| **At 31 December 2017** | **105,688,558** | **8,325,910** | **-** | **97,832** | **(1,257,246)** | **3,402,490** | **(69,101,997)** | **47,155,547** | **1,752,694** | **48,908,241** |

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE NUMBER

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. CORPORATE INFORMATION

This half year financial report of Kingsrose Mining Limited ("Kingsrose" or the "Company") and its controlled entities (the "Group") for the half year ended 31 December 2018 was authorised for issue in accordance with a resolution of the directors on 15 March 2019.

Kingsrose is a for-profit company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX: KRM).

The nature of the operations and principal activities of the Group are described in the Directors' Report.

The address of the registered office of the Company is 8/150 Hay Street, Subiaco WA 6008.

The Group's corporate structure is:

| Company | Place of Incorporation | Equity Interest Held<br>As at 31 December 2018 | As at 31 December 2017 |
|---|---|---|---|
| | | % | % |
| MM Gold Pty Ltd | Australia | **100** | 100 |
| Natarang Offshore Pty Ltd | Australia | **100** | 100 |
| PT Natarang Mining (PTNM) * | Indonesia | **85**** | 85** |
| Kingsrose Tanggamus Pty Ltd | Australia | **100** | 100 |

* Holder of the Contract of Work for the Way Linggo Project
** This represents the legal ownership in PTNM. The Company's interest in PTNM is adjusted to 99.7% in the financial statements due to the accounting treatment for the limited recourse loan transactions with the minority shareholder of PTNM.

Information on other related party transactions of the Group is provided in Note 11.

### 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

#### (a) Basis of preparation

This half year financial report for the interim period ended 31 December 2018 is a general purpose condensed financial report for the half year ended 31 December 2018 prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

It is recommended that the half year financial report should be read in conjunction with the annual financial report of Kingsrose as at 30 June 2018 and considered together with any public announcements made by the Company during the half year ended 31 December 2018 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and the ASX listing rules.

Except as disclosed below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### (b) New accounting standards and interpretations adopted

The Group has adopted all Accounting Standards and Interpretations effective from 1 July 2018, including:

**AASB 9 *Financial Instruments* (AASB 9)**
The Group has adopted AASB 9 as issued in July 2014 with the date of initial application being 1 July 2018. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated. AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139), bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The accounting policies have been updated to reflect the application of AASB 9 for the period from 1 July 2018 (see note 2(d) for details of the new accounting policy for financial assets).

*Measurement and classification*
Under AASB 9, debt instruments are subsequently measured at fair value through profit and loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets, and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the SPPI criterion).

At date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been derecognised as at 1 July 2018. In this regard, the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 July 2018 as follows:

| Class of financial instrument presented in the statement of financial position | Original measurement category under AASB 139 (i.e. prior to 1 July 2018) | New measurement category under AASB 9 (i.e. from 1 July 2018) | Carrying value at 30 June 2018 under AASB 139 |
|---|---|---|---|
| Cash at bank and on hand | Loans and receivables | Financial assets at amortised cost | $5,414,722 |
| Short-term deposits | Loans and receivables | Financial assets at amortised cost | $4,652,997 |
| Trade receivables | Loans and receivables | Financial assets at amortised cost | $2,586,411 |
| Other receivables | Loans and receivables | Financial assets at amortised cost | $152,245 |
| Trade and other payables | Financial liabilities at amortised cost | Financial liabilities at amortised cost | $4,204,092 |

The change in classification of financial instruments has not resulted in any re-measurement adjustments at 1 July 2018.

*Impairment of financial assets*
In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss (ECL) if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

At 1 July 2018, the Group reviewed and assessed the existing financial assets for impairment using reasonable and supportable information. In accordance with AASB 9, where the Group concluded that it would require undue cost and effort to determine the credit risk of a financial asset on initial recognition, the Group recognises lifetime ECL. Based on historical and expected losses, the application of the ECL model had no significant impact on the Group.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### (b) New accounting standards and interpretations adopted (continued)

The result of the assessment is as follows:

| Items existing at 1 July 2018 that are subject to the impairment provisions of AASB 9 | Credit risk attributes | Cumulative additional loss allowance recognised on 1 July 2018 ($) |
|---|---|---|
| Cash at bank and short-term deposits | All balances are assessed to have low credit risk as they are either on demand or have short term maturities and held with reputable financial institutions with high credit ratings. | - |
| Trade and other receivables | The Group has applied the simplified approach and concluded that the lifetime ECL for these assets would be negligible due to the short term maturity and therefore no additional loss allowance was required at 1 July 2018. | - |

*Hedge accounting*
The Group has not applied hedge accounting.

**AASB 15 *Revenue from Contracts with Customers* (AASB 15)**
The Group has adopted AASB 15 as issued in May 2014 with the date of initial application being 1 July 2018. In accordance with the transitional provisions in AASB 15, the Group has adopted the standard using the full retrospective approach.

AASB 15 supersedes AASB 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standards establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

At 1 July 2017 and at 1 July 2018 all existing sales contracts were assessed and it was determined that the adoption of AASB 15 had no significant impact on the Group. For bullion sales, most of this is sold under a long term sales contract with the customer. Revenue from bullion sales is recognised at a point in time when control passes to the buyer. This generally occurs after the fine metal is outturned and credited to the metal account, and the Group provides notice to the customer to purchase the outturned fine metal. As all performance obligations are satisfied at that time, there are no remaining performance obligations under the contract. The transaction price is determined when the Group provides the notice to the customer to purchase the outturned fine metal and there are no further adjustments to this price (see note 2(e) for details of the new accounting policy for revenue from contracts with customers).

### (c) Amended accounting standards and interpretations issued but not yet effective

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### (d) Financial assets (new policy applied from 1 July 2018 due to adoption of AASB 9)

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### (d) Financial assets (new policy applied from 1 July 2018 due to adoption of AASB 9) (continued)

or for which the Group has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under AASB 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

*Subsequent measurement*
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

**Financial assets at amortised cost (debt instruments)**
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Interest received is recognised as part of finance income in the statement of profit or loss and other comprehensive income. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

**Financial assets at fair value through profit or loss**
Financial assets that do not meet the criteria for amortised cost are measured at fair value through profit and loss.

**Impairment of financial assets**
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

#### (d) Financial assets (new policy applied from 1 July 2018 due to adoption of AASB 9) (continued)

For trade receivables and other receivables due in less than 12 months, the Group applies the simplified approach in calculating ECLs. In this regard, the Group recognises a loss allowance based on the financial asset's lifetime ECL at each reporting date. The lifetime ECL on these financial assets is estimated based on the Group's historic credit loss experience, adjusted for factors that are specific to the debtor, general economic conditions and an assessment of both the current as well as forecast conditions at the reporting date.

For all other financial assets measured at amortised cost, the Group recognises lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to a 12-month ECL. The determination of the ECL includes both quantitative and qualitative information and analysis, based on the Group's historical experience and forward-looking information.

The Group considers an event of default has occurred when a financial asset is more than 90 days past due or external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

#### (e) Revenue from contracts with customers (new policy applied from 1 July 2018 due to adoption of AASB 15)

The Group is principally engaged in the business of producing gold and silver bullion. Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled under the contract in exchange for those goods or services and the performance obligations of transferring control have been met. The Group has generally concluded that it is the principal in its revenue contracts because it typically controls the goods or services before transferring them to the customer.

Most of Group's bullion is sold under a long term sales contract with the customer. Revenue from bullion sales is recognised at a point in time when control passes to the buyer. This generally occurs after the fine metal is outturned and the Group provides notice to the customer to purchase the outturned fine metal. A trade receivable is recognised at the date of sale and there are only several days between recognition of revenue and payment. The transaction price is determined when the Group provides the notice to the customer to purchase the outturned fine metal by virtue of the deal confirmation and there are no further adjustments to this price. As all performance obligations are satisfied at that time, there are no remaining performance obligations under the contract.

#### (f) Restatement of prior periods

In December 2013 and December 2014, USD loans were extended to a non-controlling interest (minority shareholder) in PTNM. The funds were used to subscribe for new shares in PTNM in order for the minority shareholder to retain his 15% interest pursuant to the governing Shareholder Agreement. The loans are unsecured and repayable by the minority shareholder via the Company's retention of 80% of the minority shareholder's entitlement to PTNM dividends until the loans are repaid in full. Interest is charged at LIBOR plus 5% per annum. Interest not paid on due date is capitalised and bears interest at the same rate as the loans.

On assessing the impact of AASB 9 on the Group, the accounting for these arrangements was reassessed. Given the limited recourse nature of these loans, it was concluded that these transactions are more appropriately accounted for in the scope of AASB 2 *Share-Based Payments*. As a result, the legal loan net of impairment amounted to $Nil at 30 June 2018 ($Nil at 30 June 2017) has been derecognised, associated interest income and foreign exchange movements on the legal loan reversed, share-based payments amounting to $1,815,450 ($1,074,450 at 23 December 2014 and $741,000 at 8 October 2013) recognised and the minority shareholder's interest in PTNM adjusted to reflect the minority shareholder's present ownership interest in PTNM (0.3% from December 2014 and 0.7% from December 2013).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### (f) Restatement of prior periods (continued)

The Group previously classified these loans as loans and receivables under AASB 139 and recognised interest income on the loans and an allowance for impairment loss on the receivables.

The error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

**Impact on the consolidated income statement – increase/(decrease) in profit**

| | 31 December 2017 |
|---|---|
| | $ |
| Interest income | **(196,676)** |
| Net loss on foreign exchange | **73,686** |
| **Net impact on profit for the period** | **(122,990)** |
| Attributable to: | |
| Owners of the parent | 419,921 |
| Non-controlling interest | (542,911) |

**Impact on basic and diluted earnings per share (EPS) – increase/(decrease) in EPS**

| | 31 December 2017 |
|---|---|
| | $ |
| Earnings per share attributable to the ordinary equity holders of the parent: | |
| Basic earnings per share | **0.06** |
| Diluted earnings per share | **0.06** |

**Impact on the consolidated statement of comprehensive income – increase/(decrease) in other comprehensive income**

| | 31 December 2017 |
|---|---|
| | $ |
| *Items that may be reclassified subsequently to profit or loss in subsequent periods* | |
| Foreign currency translations attributable to parent entity interest | **44,398** |
| *Items that may not be reclassified subsequently to profit or loss in subsequent periods* | |
| Foreign currency translations attributable to non-controlling interest | **(44,398)** |
| **Net impact on other comprehensive income** | **-** |
| Attributable to: | |
| Owners of the parent | **44,398** |
| Non-controlling interest | **(44,398)** |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### (f) Restatement of prior periods (continued)

**Impact on the consolidated statement of financial position – increase/(decrease)**

| | 30 June 2018 | 31 December 2017 | 1 July 2017 |
|---|---|---|---|
| | $ | $ | $ |
| Reserves | | | |
| - Foreign currency translation reserve | (397,999) | (267,573) | (311,971) |
| - General reserve | 14,425 | 14,425 | 14,425 |
| - Other capital reserve | 3,402,490 | 3,402,490 | 3,402,490 |
| Accumulated losses | (7,242,694) | (8,039,868) | (8,459,787) |
| Non-controlling interest | 4,223,778 | 4,586,055 | 5,173,364 |
| **Net impact on equity** | - | (304,471) | (181,479) |

The change did not have an impact on the Group's operating, investing and financing cash flows.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. REVENUE AND EXPENSES

| | | 31 December 2018 | 31 December 2017 (restated) |
|---|---|---|---|
| | | $ | $ |
| (a) | **Revenue** | | |
| | Revenue from contracts with customers | | |
| | - Sale of gold | 8,935,402 | 24,889,198 |
| | - Sale of silver | 1,231,584 | 2,009,574 |
| | **Total revenue from contracts with customers** | 10,166,986 | 26,898,772 |
| | Timing of revenue recognition: | | |
| | Goods transferred at a point in time | 10,166,986 | 26,898,772 |
| | **Total revenue from contracts with customers** | 10,166,986 | 26,898,772 |
| (b) | **Cost of sales** | | |
| | Mine production costs | 14,964,714 | 11,192,179 |
| | Royalties | 375,239 | 537,975 |
| | Depreciation of plant and equipment | 838,022 | 917,572 |
| | Amortisation of mine properties | - | 1,231,186 |
| | Inventory movements | (649,923) | 1,135,526 |
| | **Total cost of sales** | 15,528,052 | 15,014,438 |
| (c) | **Other income** | | |
| | Interest income | 37,968 | 1,986 |
| | Net gain on foreign exchange | 3,503,004 | - |
| | Gain on disposal of plant and equipment | - | 9,334 |
| | Gain on early repayment of loan | - | 61,434 |
| | Sundry income | 9,367 | 19,781 |
| | **Total other income** | 3,550,339 | 92,535 |
| (d) | **Administration expenses** | | |
| | Corporate costs | 1,625,704 | 1,911,417 |
| | Depreciation of equipment | 2,624 | 2,416 |
| | Share-based payments | 32,743 | 15,627 |
| | **Total administration expenses** | 1,661,071 | 1,929,460 |
| (e) | **Other expenses** | | |
| | Net loss on foreign exchange | - | 998,365 |
| | Loss on disposal of plant and equipment | 125,593 | - |
| | Plant and equipment written off | - | 52,007 |
| | Exploration and evaluation assets written off | 4,101,464 | - |
| | Re-measurement adjustments on VAT receivables | 18,278 | (183,245) |
| | Consumables written (back)/down | (81,121) | 216,817 |
| | Loss on settlement of loans in equity | - | 2,594,178 |
| | Non production mine site costs | - | 2,659,804 |
| | **Total other expenses** | 4,164,214 | 6,337,926 |
| (f) | **Finance costs** | | |
| | Borrowing costs | 9,916 | 18,877 |
| | Finance charges payable under finance leases | 16,134 | 7,452 |
| | | 26,050 | 26,329 |
| | Unwinding of discount on rehabilitation provision | 21,783 | 12,608 |
| | Unwinding of discount on loans | - | 344,432 |
| | **Total finance costs** | 47,833 | 383,369 |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4. DIVIDENDS PAID AND PROPOSED

No dividends have been paid, declared or recommended by the Company for the half year ended 31 December 2018.

### 5. CASH AND CASH EQUIVALENTS

For the purpose of the half year consolidated statement of cash flows, cash and cash equivalents comprised the following:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | $ | $ |
| **Current** | | |
| Cash at bank and on hand | **4,778,520** | 4,942,263 |
| Short-term deposits | **1,000,000** | - |
| | **5,778,520** | 4,942,263 |

### 6. TRADE AND OTHER RECEIVABLES

| | 31 December 2018 | 30 June 2018 |
|---|---|---|
| | $ | $ |
| **Current** | | |
| Trade receivables (a) | **-** | 2,586,411 |
| Other receivables (b) | **2,179,266** | 1,346,255 |
| | **2,179,266** | 3,932,666 |
| **Non-Current** | | |
| Other receivables (b) | **2,647,510** | 2,336,644 |
| | **2,647,510** | 2,336,644 |

(a) Trade receivables from gold and silver sales are to be settled within four trading days from date of invoice. They are neither past due nor impaired at balance date.

(b) Other receivables consist primarily of value added tax (VAT) recoverable from PTNM's operations that can be recovered between 3 to 24 months.

### 7. INVENTORIES

| | 31 December 2018 | 30 June 2018 |
|---|---|---|
| | $ | $ |
| **Current** | | |
| Ore stockpiles at cost or net realisable value | **168,943** | 90,272 |
| Gold in circuit at cost or net realisable value | **131,396** | 207,440 |
| Gold dore and bullion at cost or net realisable value | **2,636,213** | 1,869,450 |
| Consumables and spares at cost or net realisable value | **1,919,462** | 1,893,100 |
| | **4,856,014** | 4,060,262 |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8. EXPLORATION AND EVALUATION ASSETS

| | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|
| **Non-Current** | | |
| At cost | **16,381,874** | 18,449,803 |
| | | |
| **Movements in Exploration and Evaluation Assets:** | | |
| Opening balance | **18,449,803** | 17,360,619 |
| Additions | **1,238,905** | 508,545 |
| Write off (i) | **(4,101,464)** | (144,219) |
| Foreign exchange translation gain | **794,630** | 724,858 |
| **Closing balance** | **16,381,874** | 18,449,803 |

(i) At each reporting date, the Group undertakes an assessment of the carrying amount of its exploration and evaluation assets. During the period, the Group identified indicators of impairment on certain exploration and evaluation assets. As a result of this review, a write off of $4,101,464 has been recognised in the income statement in relation to areas of interest where no future exploration and evaluation activities are expected.

### 9. TRADE AND OTHER PAYABLES

| | 31 December 2018 $ | 30 June 2018 $ |
|---|---|---|
| **Current** | | |
| Trade creditors | **4,610,140** | 2,806,108 |
| Accruals | **2,505,772** | 1,105,773 |
| Sundry creditors | **229,856** | 292,211 |
| | **7,345,768** | 4,204,092 |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 10. SHARE-BASED PAYMENTS

The expense arising from share-based payment transactions recognised for employee services received during the period was as follows:

| | **31 December 2018** | 31 December 2017 |
|---|---|---|
| | **$** | $ |
| Options | **27,600** | 15,627 |
| Share performance rights | **5,143** | - |
| | **32,743** | 15,627 |

On 26 November 2018, 1,200,000 options and 789,115 share performance rights were granted to senior management under the Company's Incentive Option and Performance Rights Plan. The terms and conditions applicable to the options and share performance rights granted are set out below.

***Options***

The 1,200,000 options were issued at a price of $0.06 each. The options vested immediately and have an expiry date of 26 November 2021. The fair value of the options was $0.023 per option and was estimated on the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| Grant date | 26 November 2018 |
|---|---|
| Dividend yield | - |
| Share price at grant date | $0.056 |
| Exercise price | $0.06 |
| Expected volatility | 63.1% |
| Risk-free interest rate | 2.08% |
| Expiration period | 3 years |
| Expiry date | 26 November 2021 |

***Share Performance Rights***

The exercise price of the 789,115 share performance rights granted is nil. The number of share performance rights to vest is subject to the satisfaction of performance conditions, along with continued employment with the Company.

The performance condition is determined by reference to the Company's total shareholder return (TSR) performance compared with the TSR performance of a group of comparable ASX listed gold mining companies (Peer Group) over the period from 1 July 2018 to 30 June 2021 (the Performance Period). The Company's TSR ranking within the Peer Group at the end of the Performance Period determines the number of performance rights that will vest. Share performance rights that do not vest will automatically lapse.

The fair value of the share performance rights was $0.039 per right and was estimated on the date of grant using a Monte Carlo simulation model with the following assumptions:

| Grant date | 26 November 2018 |
|---|---|
| Dividend yield | - |
| Share price at grant date | $0.056 |
| Exercise price | - |
| Expected volatility | 67.8% |
| Risk-free interest rate | 2.09% |
| Expected life | 3 years |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11. RELATED PARTY DISCLOSURES

*Drilling Services*
PT Promincon Indonesia, an entity related to Dr Andrews (Non-Executive Chairman), received $822,310 fees for drilling services provided to the Company's subsidiary, PTNM during the period. These fees are payable at competitive commercial rate per drill metre compared to other tender companies. At 31 December 2018, $779,193 was owing to PT Promincon Indonesia (30 June 2018: $45,881).

### 12. COMMITMENTS AND CONTINGENT LIABILITIES

*Divestment*
The Company is obligated to offer for sale equity tranches in PTNM which if taken up would result in the Company's share of PTNM reducing down to 49% over a ten year period in accordance with a divestment schedule outlined in PTNM's CoW with the Indonesian government. Each tranche is to be offered for sale at a fair market price to either an Indonesian government body or an Indonesian national.

On 28 August 2018 PTNM submitted to the Indonesian Mines Department its offer for sale a 15% equity in PTNM in accordance with the divestment schedule in the CoW. At balance date, PTNM had not received confirmation from the Indonesian Mines Department that it intends to exercise its option to purchase the 15% equity.

Other than the above, there have been no other significant changes to commitments and contingent liabilities since the last reporting date.

### 13. EVENTS AFTER REPORTING DATE

On 16 January 2019, the Group received approval of its AMDAL, which is the Indonesian equivalent of an Environmental Impact Assessment, from the Indonesian Ministry of Environment and Forestry, which allows ore production from the Talang Santo open pit mine and the continuation of production from the Way Linggo open pit mine.

On 6 March 2019, Mr Stuart Bodey was appointed Chief Executive Officer following resignation of the Managing Director, Mr Paul Jago on 4 February 2019.

### 14. CHANGE IN COMPOSITION OF THE GROUP

Since the last annual reporting date, there have been no changes in the composition of the Group.

## DIRECTORS' DECLARATION

In the opinion of the Directors:

(a) The financial statements and notes of the consolidated entity for the half year ended 31 December 2018 are in accordance with the *Corporations Act 2001*, including:

  (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and

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

(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.

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

Michael Andrews
Chairman
15 March 2019

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working world

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# Independent auditor's review report to the members of Kingsrose Mining Limited

## Report on the half-year financial report

### Conclusion

We have reviewed the accompanying half-year financial report of Kingsrose Mining Limited (the Company), and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and

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

### 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, anything has come to our attention that causes us to 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 consolidated financial position as at 31 December 2018 and its consolidated 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*.

Ernst & Young

Ernst & Young

Philip Teale
Partner
Perth
15 March 2019





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