

KBL Mining Limited

ABN 38 129 954 365

Appendix 4D

Half-year ended 31 December 2014

CONTENTS

- **Result For Announcement To The Market**
- **Half-Year Financial Report**
- **Independent Review Report**

Appendix 4D

Half-year Report

Name of entity

KBL Mining Limited

| ABN or equivalent company reference | Half-yearly (tick) | Preliminary final (tick) | Financial year ended ('current period') |
|-------------------------------------|--------------------|--------------------------|---|
| KBL Mining Limited | ✓ | | 6 months ended 31 December 2014 |

Results for announcement to the market

| | | | \$A'000 |
|---|---------------------|---------|-----------------------------|
| Revenue from continuing operations | Down | 20.85% | 13,473 |
| Loss after tax attributable to members | Down | 141.97% | (5,378) |
| Profit from extraordinary items after tax attributable to members | | Nil | Nil |
| Net profit for the half-year attributable to members | Down | 141.97% | (5,378) |
| Dividends (distributions) | | | |
| | Amount per security | | Franked amount per security |
| Final dividend | Nil | | Nil |
| Interim dividend | Nil | | Nil |
| Record date for determining entitlements to the dividend | | | |
| | 31 December 2014 | | 31 December 2013 |
| Net tangible assets per security | -0.31c | | 2.51c |

Brief explanation of any of the figures reported above necessary to enable the figures to be understood.

In the half-year ended 31 December 2014 there were no reversals of impairment or receipts of research and development tax incentives, the impact of these in the half-year ended 31 December 2013 was \$15 million.

On 12 February 2015 the company issued 99,229,880 shares at 2.1 cents per share, raising \$2,083,827 via a Share Purchase Plan.

For further information refer to the Directors' report of the half-year financial report.



KBL Mining Limited

ABN 38 129 954 365

Interim Financial Report - 31 December 2014

KBL Mining Limited
Directors' report
31 December 2014

The directors present their report, together with the financial statements, on the consolidated entity consisting of KBL Mining Limited (referred to hereafter as the 'company' or 'KBL') and the entities it controlled for the half-year ended 31 December 2014.

Directors

The following persons were directors of the company during the whole of the half-year and up to the date of this report, unless otherwise stated:

- James Wall
- Robert Besley
- Greg Starr
- Brian Wesson (appointed 1 July 2014)

Principal activities

During the half-year the principal continuing activities of the consolidated entity consisted of mineral exploration, resource development and mining in Australia.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$5,378,006 (31 December 2013: profit of \$12,813,240).

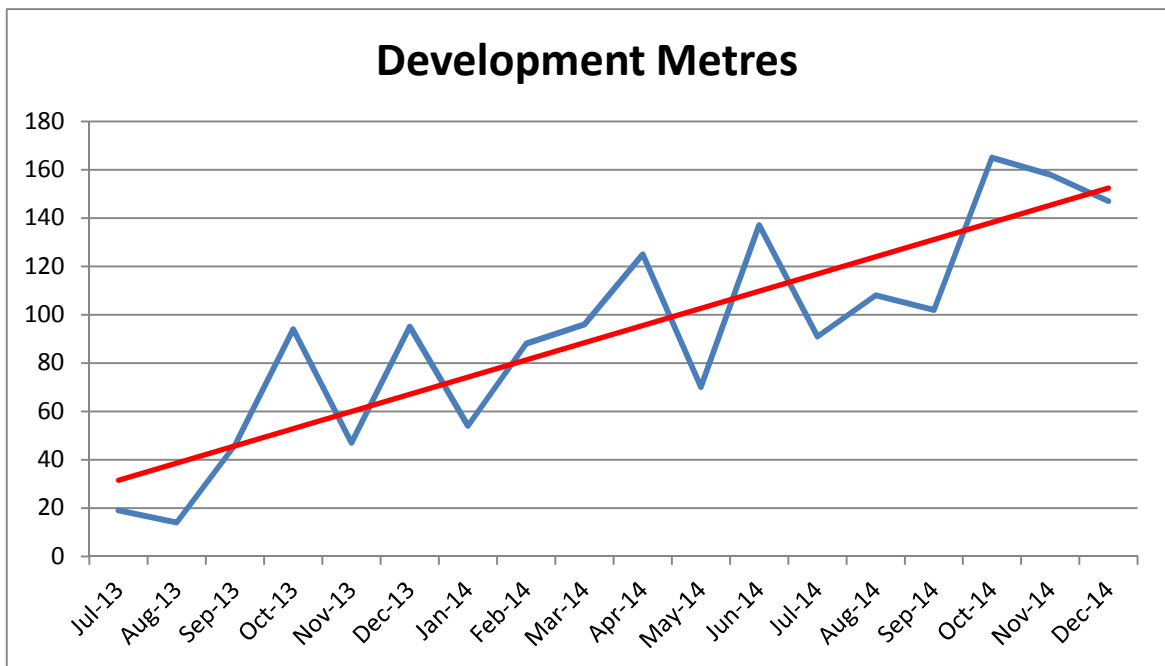
Mineral Hill Mine, NSW

KBL 100% Ownership

Mine and Mill Production

During the half-year KBL continued to develop the underground resources and reserves at the Southern Ore Zone ('SOZ') and implement design modifications to the processing plant to ensure all available metal value is realised. Ore tonnes produced for the period were on budget while ore grades have been below expectations.

During the half-year, mining operations focussed on an intensive development phase (development metres realised a 35% increase from the first half of 2014 – Graph 1 includes historical development rates) to ensure the budgeted ore and production plans for 2015 are achieved.



Graph 1: Increase in development to open up stoping areas for 2015 production

KBL Mining Limited
Directors' report
31 December 2014

Concentrate production for both copper and lead, continued from the sequential flotation process. This process has continued to give the site the flexibility to process both the copper-gold and polymetallic zones within the SOZ and Mineral Hill deposits. Process plant throughputs have continued to be pushed at 42-44 tonnes per hour. Recoveries have also been maximised depending on the ore being fed.

A successful full scale, plant trial was undertaken in December to campaign A Lode ore through the existing process plant to produce both lead and zinc concentrates. Results from this trial allow the plant to be modified to produce three separate concentrate products. The current A lode stopes on 40 level in the SOZ are predominantly lead zinc that is treated through the existing copper and lead flotation plant. However, as we move higher in the A lode system the ore changes to higher grades of copper and lead/zinc at which time the company requires three flotation streams to sequentially treat three metals. Final alterations for the three flotation streams will be carried in parallel to the development of the CIL gold circuit. The new development plan is scheduled to move forward in the second half of 2015. As reported to the market the company is raising US\$21 million in metal streaming contract to fund repayment of the company's \$12.6 million term debt and the development program. The funding is expected to be completed in March.

In line with the life of mine plans, the ores from the Pearse open cut and underground can be campaigned through the expanded process plant to produce separate copper, lead, zinc and gold concentrates as well as gold bullion once the development plan is implemented.

For 2015, the planned mine schedule continues to extract copper and gold ore from the SOZ B, C and D Lodes between 80 and 0RL, along with lead and zinc ore from the SOZ A lodes. The mine plan for SOZ is expected to supply 18kt to 20kt of ore feed to the processing plant on a monthly basis, ramping up to 28kt towards the end of 2015. The commencement of the open cut Pearse pit is scheduled in the second half of 2015, once the CIL is nearing completion.

The Mineral Hill operation has continued to maintain a focus on improving profitability. During the half-year, operating costs were reduced by 3% against budget.

KBL is focused on identifying additional underground copper-gold and copper-lead-zinc-silver-gold Resources, while at the same time, improving the quality of its existing Resource inventory, converting Resources to Reserves to extend the existing life of the Mineral Hill Mine.

6,000m of underground diamond drilling completed at the SOZ in 2013-14 underpins an updated Mineral Resource estimate for the SOZ of 1.985 Mt @ 1.2% Cu, 1.4% Pb, 1.1% Zn, 19g/t Ag & 1.8g/t Au¹ with 28% of the total resource tonnage classified as Measured, 36% Indicated, and the balance Inferred Resource.

Drilling in 2014 also successfully targeted the high grade SOZ A Lode Pb-Zn-Ag (\pm Cu-Au) mineralisation, which was subsequently exposed for the first time in development on the 40 level. Development grades were in line with expectations and the first A Lode stopes are scheduled to be brought online in the March Quarter 2015.

A Lode requires infill drilling to de-risk the mine plan and improve Resource Classification which will enable further conversion of Resources to Reserves. Exploration targets to be tested during 2015 include deep extensions to SOZ G Lode.

Sales Arrangements

KBL shipped approximately 5,200 dry metric tonnes of concentrate containing 1,100 tonnes of copper, 700 tonnes of lead, 70 tonnes of zinc, 1,800 ounces of gold and 43,000 ounces of silver during the half year.

¹ Resource Estimate released 19 August 2014. Reported at a 1.5% copper equivalent cut-off

Strategic Production Plan

Under the current plan, Mineral Hill will process at yearly rates up to 350,000t of ore per annum for the foreseeable future, with it dependent on the timing of mining of open pit Reserves and Resources. Underground mining alone supplies between 18,500–21,000 tonnes per month of ore, while production of +28,000 tonnes per month is anticipated from both underground and open pit mining with the commissioning of the CIL plant in conjunction with the existing concentrate circuits.

The SOZ ore supply will remain the primary underground sulphide feed for the next 4–5 years. In parallel, mining of the open cut deposits at Pearse supply oxide and later sulphide ore feed to the CIL plant which commences in late 2015. Resources identified at Parkers Hill and Pearse North are expected to support a life of mine plan out to 2024.

Works on the Pearse CIL design and implementation program were ongoing during the period. Construction is expected to commence on the completion of the funding in early 2015.

Sorby Hills, WA

KBL: 75% Ownership

Project and Approvals

The Sorby Hills Project, located in the East Kimberley Region of Western Australia, is a joint venture between KBL 75% (Manager) and Henan Yuguang Gold & Lead Co., Limited 25% (Yuguang). Yuguang was established in 1957; listed on the Shanghai Stock Exchange in 2002 (exchange code: 600531), and is the biggest electrolyzed lead and silver producer in China.

The Project consists of nine shallow high grade deposits within a linear north-south mineralised trend extending over a 10 kilometre strike length. To date, the total Resource of the trend, as defined by KBL stands at 16.7 Mt at 4.5% Pb, 0.7% Zn and 52 g/t Ag₁, which has the potential to support a multi decade operation.

In late 2013, KBL announced a maiden Ore Reserve estimate for the Sorby Hills DE deposit. The Probable Ore Reserve of 2.4 Mt @ 5% lead and 54g/t silver₂ (applying a cut off of 2% lead), underpins the plan for an initial 10 year open cut operation, processing over 400ktpa. In conjunction with the Reserve, a new Mineral Resource estimate for DE Deposit totalled 5.8 Mt @ 3.5% lead, 0.4% zinc and 41g/t silver₃ (applying a cut off of 1% lead). The Mineral Resource is inclusive of the Ore Reserve and consists of both Indicated and Inferred Mineral Resources.

While the Company is focused on the Mineral Hill mine for short to medium term production the Sorby Hills project is the focus for development of new long life lead-silver production. A recent gap analysis indicated that there are no significant issues for the project to progress to a full feasibility study.

KBL expects a range of funding options will be available for its share of the development costs due to the robust project economics, the low risk of development and operating parameters, well developed infrastructure, proximity to port, and strong international demand for the off take. The development task will be assisted by the Company's operating experience and expertise already in place with the Mineral Hill operation and the support of its 25% Joint Venture partner, Yuguang with its large lead, zinc and copper smelting facilities in China.

The receipt of environmental approval for the project from the WA Minister for Environment; Heritage in April 2014 has opened the way for the completion of licensing and an accelerated development program.

Additional Information

Additional information in relation to the company's operations during the half year and the results of those operations are available on the company's website www.kblmining.com.au.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the half-year.

¹ Resource Estimate released 22 December 2011

² Reserve estimate released 29 November 2013

³ Updated Resource estimate released 29 November 2013

KBL Mining Limited
Directors' report
31 December 2014

Events after the reporting period

The following matters have arisen since the end of the interim half-year reporting period:

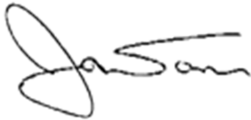
1. On 6 January 2015 the company announced that noteholders had approved an extension to the maturity date of the company's convertible notes by 6 months to 16 February 2017. Necessary changes to the Trust Deed have been deferred pending resolution of legal proceedings by Kidman Resources Limited in the Victorian Supreme Court.
2. On 12 February 2015 the company issued 99,229,880 shares at 2.1 cents per share, raising \$2,083,827 via a Share Purchase Plan.
3. On 18 December 2014 the company announced it had commenced proceedings in the NSW Supreme Court against Kidman Resources Limited, Kidman Mining Pty Ltd and RIKID511 Pty Ltd ("RPL") for certain declarations and orders in connection with claimed "Events of Default" under the loan arrangements between the company and RPL. In February 2015 the proceedings were amended by the company to seek orders from the Court that the amount payable on the repayment date of the loan due to RPL was \$12.6 million. The Court will hear the latter issue through an interlocutory proceeding on 10 March 2015.
4. On 13 February 2015 the company announced that the Quintana transaction documents were in final negotiation for the funding of US\$21 million in a pre purchased metal agreement and an announcement on 27 February 2015 confirmed that arrangements with Quintana were progressing satisfactorily towards finalisation

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



James Wall
Director

27 February 2015
Sydney

The information in this report that relates to Mineral Resources, Ore Reserves, Exploration Results and Exploration Targets is based on information compiled by Owen Thomas, BSc (Hons), who is a Member of the Australasian Institute of Mining and Metallurgy and is a full-time employee of the Company. Owen Thomas has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr Thomas consents to the inclusion in the announcement of the matters based on his information in the form and context that the information appears.

DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF KBL MINING LIMITED

As lead auditor for the review of KBL Mining Limited for the half-year ended 31 December 2014, 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 KBL Mining Limited and the entities it controlled during the period.



Gareth Few
Partner

BDO East Coast Partnership

Sydney, 27 February 2015

KBL Mining Limited
Interim financial report
31 December 2014

Contents

| | Page |
|--|------|
| Financial report | |
| Statement of profit or loss and other comprehensive income | 7 |
| Statement of financial position | 8 |
| Statement of changes in equity | 9 |
| Statement of cash flows | 10 |
| Notes to the financial statements | 11 |
| Directors' declaration | 18 |
| Independent auditor's review report to the members of KBL Mining Limited | 19 |

General information

The interim financial report covers KBL Mining Limited as a consolidated entity consisting of KBL Mining Limited and the entities it controlled during the interim half-year reporting period ended 31 December 2014. The interim financial report is presented in Australian dollars, which is KBL Mining Limited's functional and presentation currency.

The interim financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

KBL Mining Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are at:

Level 3, 2 Elizabeth Plaza
North Sydney
NSW 2060

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the interim financial report.

The interim financial report was authorised for issue, in accordance with a resolution of directors, on 27 February 2015. The directors have the power to amend and reissue the interim financial report.

KBL Mining Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2014

| | | Consolidated | |
|--|-------------|---------------------|-------------------|
| | Note | 31/12/2014 | 31/12/2013 |
| | | \$ | \$ |
| Revenue from continuing operations | 3 | 13,473,122 | 17,022,288 |
| Other income | 3 | 876,049 | 8,670,629 |
| Expenses | | | |
| Raw materials and consumables used | 4 | (12,364,887) | (11,978,407) |
| Finance costs | 4 | (1,476,287) | (1,585,125) |
| Employee benefits expense | 4 | (2,566,623) | (2,642,559) |
| Depreciation and amortisation expense | | (1,666,336) | (1,237,895) |
| Impairment of exploration assets | | - | (2,629) |
| Loss on sale of assets | | - | (97,623) |
| Loss from foreign exchange and hedging | | - | (693,115) |
| Share of joint venture loss | | (12,224) | - |
| Reversal of impairment | 9 | - | 6,278,307 |
| General and administration costs | 4 | <u>(1,640,820)</u> | <u>(920,631)</u> |
| (Loss)/profit before income tax expense | | (5,378,006) | 12,813,240 |
| Income tax expense | 5 | <u>-</u> | <u>-</u> |
| (Loss)/profit after income tax expense for the half-year attributable to the members of the parent entity | | (5,378,006) | 12,813,240 |
| Other comprehensive income for the half-year, net of tax | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the half-year attributable to members of the parent entity | | <u>(5,378,006)</u> | <u>12,813,240</u> |
| | | Cents | Cents |
| Basic earnings per share | | (1.36) | 3.45 |
| Diluted earnings per share | | (1.36) | 3.44 |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

KBL Mining Limited
Statement of financial position
As at 31 December 2014

| | | Consolidated | |
|--------------------------------------|-------------|--------------------------|--------------------------|
| | Note | 31/12/2014 | 30/06/2014 |
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | 988,618 | 7,285,309 |
| Trade and other receivables | 7 | 854,416 | 1,720,487 |
| Other financial assets | 8 | 781,842 | - |
| Inventories | | <u>2,291,470</u> | <u>2,795,445</u> |
| Total current assets | | <u>4,916,346</u> | <u>11,801,241</u> |
| Non-current assets | | | |
| Other financial assets | | 1,497,000 | 1,497,000 |
| Property, plant and equipment | | 10,245,280 | 10,648,748 |
| Mining property | 9 | 32,922,121 | 31,060,382 |
| Investment in joint venture | | 12,025,156 | 11,782,380 |
| Exploration and evaluation | 10 | <u>2,480,611</u> | <u>2,419,130</u> |
| Total non-current assets | | <u>59,170,168</u> | <u>57,407,640</u> |
| Total assets | | <u>64,086,514</u> | <u>69,208,881</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 11 | 4,841,107 | 5,904,383 |
| Financial liabilities | 12 | 13,339,382 | 12,070,135 |
| Provisions | | <u>337,595</u> | <u>332,404</u> |
| Total current liabilities | | <u>18,518,084</u> | <u>18,306,922</u> |
| Non-current liabilities | | | |
| Financial liabilities | | 156,219 | 289,322 |
| Provisions | | 903,531 | 860,506 |
| Convertible notes | | <u>10,352,986</u> | <u>10,270,459</u> |
| Total non-current liabilities | | <u>11,412,736</u> | <u>11,420,287</u> |
| Total liabilities | | <u>29,930,820</u> | <u>29,727,209</u> |
| Net assets | | <u>34,155,694</u> | <u>39,481,672</u> |
| Equity | | | |
| Issued capital | | 67,846,445 | 67,846,445 |
| Reserves | | 2,703,148 | 2,651,120 |
| Accumulated losses | | <u>(36,393,899)</u> | <u>(31,015,893)</u> |
| Total equity | | <u>34,155,694</u> | <u>39,481,672</u> |

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

KBL Mining Limited
Statement of changes in equity
For the half-year ended 31 December 2014

| | Issued capital \$ | Consolidated Reserves \$ | Accumulated losses \$ | Total equity \$ |
|--|----------------------------------|---|--------------------------------------|--------------------------------|
| Balance at 1 July 2013 | 64,744,734 | 2,526,201 | (41,456,446) | 25,814,489 |
| Profit after income tax expense for the half-year | - | - | 12,813,240 | 12,813,240 |
| Other comprehensive income for the half-year, net of tax | - | - | - | - |
| Total comprehensive income for the half-year | - | - | 12,813,240 | 12,813,240 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Ordinary shares issued | 3,760,000 | - | - | 3,760,000 |
| Return of capital | (602,195) | - | - | (602,195) |
| Transaction costs | (56,094) | - | - | (56,094) |
| Share based payments | - | 54,672 | - | 54,672 |
| Balance at 31 December 2013 | <u>67,846,445</u> | <u>2,580,873</u> | <u>(28,643,206)</u> | <u>41,784,112</u> |
| | Issued capital \$ | Consolidated Reserves \$ | Accumulated losses \$ | Total equity \$ |
| Balance at 1 July 2014 | 67,846,445 | 2,651,120 | (31,015,893) | 39,481,672 |
| Loss after income tax expense for the half-year | - | - | (5,378,006) | (5,378,006) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - |
| Total comprehensive income for the half-year | - | - | (5,378,006) | (5,378,006) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Share based payments | - | 52,028 | - | 52,028 |
| Balance at 31 December 2014 | <u>67,846,445</u> | <u>2,703,148</u> | <u>(36,393,899)</u> | <u>34,155,694</u> |

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

KBL Mining Limited
Statement of cash flows
For the half-year ended 31 December 2014

| | Consolidated | |
|--|-----------------------|--------------------------|
| | 31/12/2014 | 31/12/2013 |
| | \$ | \$ |
| Cash flows related to operating activities | | |
| Receipts from customers | 14,904,707 | 16,764,241 |
| Payments to suppliers and employees (inclusive of GST) | <u>(16,171,988)</u> | <u>(18,486,834)</u> |
| | (1,267,281) | (1,722,593) |
| Interest received | 52,093 | 116,286 |
| Interest and other finance costs paid | (574,010) | (1,182,374) |
| Receipt of R&D claim | <u>-</u> | <u>14,968,017</u> |
| Net cash (used in)/from operating activities | <u>(1,789,198)</u> | <u>12,179,336</u> |
| Cash flows related to investing activities | | |
| Payments for mine development | (2,751,236) | (3,388,010) |
| Payments for property, plant and equipment | (373,371) | (242,156) |
| Payments for exploration and evaluation | (61,481) | (1,634,792) |
| Investment in joint venture | (255,000) | - |
| Payments for other financial assets | - | (350,000) |
| Receipts from sale of property, plant and equipment | <u>-</u> | <u>285,637</u> |
| Net cash used in investing activities | <u>(3,441,088)</u> | <u>(5,329,321)</u> |
| Cash flows related to financing activities | | |
| Proceeds from issue of equity securities, net of transaction costs | - | 3,101,713 |
| Proceeds from borrowings | - | 2,623,315 |
| Repayment of borrowings | <u>(1,066,405)</u> | <u>(6,726,739)</u> |
| Net cash used in financing activities | <u>(1,066,405)</u> | <u>(1,001,711)</u> |
| Net (decrease)/increase in cash and cash equivalents | (6,296,691) | 5,848,304 |
| Cash and cash equivalents at the beginning of the half-year | <u>7,285,309</u> | <u>5,305,089</u> |
| Cash and cash equivalents at the end of the half-year | <u><u>988,618</u></u> | <u><u>11,153,393</u></u> |

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

KBL Mining Limited
Notes to the financial statements
31 December 2014

Note 1. Significant accounting policies

These interim financial statements for the interim half-year reporting period ended 31 December 2014 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by the company during the interim half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim half-year reporting period.

New, revised or amending Accounting Standards and Interpretations adopted

The company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the interim half-year reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the company from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the company.

Going concern

These interim financial statements have been prepared on the going concern basis which contemplates the consolidated entity's ability to pay its debts as and when they become due and payable for a period of at least 12 months from the date of authorising the financial report for issue.

As at 31 December 2014, the consolidated entity's current liabilities exceeded its current assets by \$13,601,740. Note 12 to the financial statements presents a debt which is repayable to RIKID511 Pty Ltd in March 2015 with a carrying value of \$12,287,622 and a maturity value of \$12,600,000.

Management have prepared a cash flow forecast which indicates that the consolidated entity will not have sufficient cash from operations to meet its debt repayment obligation to RIKID511 Pty Ltd. Based upon the cash flow forecast; the consolidated entity is dependent upon restructuring debt.

These conditions indicate the existence of a material uncertainty that may cast significant doubt over the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management are in final negotiations with Quintana Resources Holdings LP for the funding of US\$21 million in pre-purchased metals, the target for completion of the funding is the RIKID511 Pty Ltd loan repayment date in March 2015. The directors are aware the financial and legal due diligence is nearing completion and are not aware of any matters that could prevent successful financing. The directors are therefore confident they will be successful in restructuring debt in order to repay the amount owing to RIKID511 Pty Ltd by the due date. As such, these interim financial statements have been presented on a going concern basis.

At the date of approval of these interim financial statements, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded. Accordingly, these interim financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

KBL Mining Limited
Notes to the financial statements
31 December 2014

Note 2. Operating segments

Identification of reportable operating segments

The company operates mineral exploration, resource development and mining projects in Australia and is organised into three operating segments based on an operations and geographic perspective, they are: Mineral Hill, Sorby Hills and Other Exploration. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM') in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews performance in these segments separately. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on at least a monthly basis.

Intersegment transactions

There were no intersegment transactions during the interim half-year reporting period.

Operating segment information

| Consolidated | Mineral Hill | Sorby Hills | Other Exploration | Corporate | Total |
|---------------------------------------|--------------------|-------------------|----------------------|--------------------|--------------------|
| 31/12/2014 | \$ | \$ | \$ | \$ | \$ |
| Revenue and other income | | | | | |
| Sales to external customers | 13,421,733 | - | - | - | 13,421,733 |
| Total sales revenue | 13,421,733 | - | - | - | 13,421,733 |
| Other income | 876,049 | - | - | - | 876,049 |
| Total revenue and other income | 14,297,782 | - | - | - | 14,297,782 |
| Segment results | (633,728) | - | - | (1,640,820) | (2,274,548) |
| Depreciation and amortisation | (1,666,336) | - | - | - | (1,666,336) |
| Interest revenue | - | - | - | 51,389 | 51,389 |
| Finance costs | - | - | - | (1,476,287) | (1,476,287) |
| Share of loss from joint venture | - | (12,224) | - | - | (12,224) |
| Reversal of impairment | - | - | - | - | - |
| Loss before income tax expense | (2,300,064) | (12,224) | - | (3,065,718) | (5,378,006) |
| Income tax expense | - | - | - | - | - |
| Loss after income tax expense | (2,300,064) | (12,224) | - | (3,065,718) | (5,378,006) |
| Segment assets | 45,602,574 | 12,025,156 | 2,480,611 | 1,492,555 | 61,600,896 |
| Cash and cash equivalents | | | | | 988,618 |
| Security Deposit | | | | | 1,497,000 |
| Total assets | | | | | 64,086,514 |
| Segment liabilities | 6,082,233 | - | - | - | 6,082,233 |
| Financial liabilities | | | | | 13,495,601 |
| Convertible notes | | | | | 10,352,986 |
| Total liabilities | | | | | 29,930,820 |

KBL Mining Limited
Notes to the financial statements
31 December 2014

Note 2. Operating segments (continued)

| Consolidated | Mineral Hill | Sorby Hills | Other Exploration | Corporate | Total |
|--|---------------------|--------------------|--------------------------|--------------------|-------------------|
| 31/12/2013 | \$ | \$ | \$ | \$ | \$ |
| Revenue and other income | | | | | |
| Sales to external customers | 16,914,125 | - | - | - | 16,914,125 |
| Total sales revenue | 16,914,125 | - | - | - | 16,914,125 |
| Other income | 8,670,629 | - | - | - | 8,670,629 |
| Total revenue and other income | 25,584,754 | - | - | - | 25,584,754 |
| Segment results | | | | | |
| Depreciation and amortisation | (1,237,895) | - | - | - | (1,237,895) |
| Interest revenue | - | - | - | 108,163 | 108,163 |
| Finance costs | - | - | - | (1,585,125) | (1,585,125) |
| Reversal of impairment | 6,278,307 | - | - | - | 6,278,307 |
| Profit/(loss) before income tax expense | 16,624,788 | - | (2,629) | (3,808,919) | 12,813,240 |
| Income tax expense | - | - | - | - | - |
| Profit/(loss) after income tax expense | 16,624,788 | - | (2,629) | (3,808,919) | 12,813,240 |
| 30/06/2014 | | | | | |
| Segment assets | 45,824,250 | 11,782,380 | 2,419,130 | 400,812 | 60,426,572 |
| Cash and cash equivalents | | | | | 7,285,309 |
| Security Deposit | | | | | 1,497,000 |
| Total assets | | | | | 69,208,881 |
| Segment liabilities | 7,097,293 | - | - | - | 7,097,293 |
| Financial liabilities | | | | | 12,359,457 |
| Convertible notes | | | | | 10,270,459 |
| Total liabilities | | | | | 29,727,209 |

| | Consolidated | |
|--|---------------------|-------------------|
| | 31/12/2014 | 31/12/2013 |
| | \$ | \$ |
| Note 3. Revenue from continuing operations and other income | | |
| <i>Revenue from continuing operations</i> | | |
| Sale of concentrates | 13,421,733 | 16,914,125 |
| Interest | 51,389 | 108,163 |
| | <u>13,473,122</u> | <u>17,022,288</u> |
| <i>Other income</i> | | |
| Gain from foreign exchange and hedging | 876,049 | - |
| Research and development tax incentive ⁽ⁱ⁾ | - | 8,670,429 |
| Other | - | 200 |
| | <u>876,049</u> | <u>8,670,629</u> |
| Revenue and other income | <u>14,349,171</u> | <u>25,692,917</u> |

(i) On 16 July 2013 KBL received a research and development tax incentive totalling \$14,968,017; this has been split between income and capital based on the expenditure in the claim in accordance with Australian Accounting Standards. Note 9 shows the balance of \$6,297,588 being allocated to the mining property asset which effectively reduces the asset value by the same amount.

KBL Mining Limited
Notes to the financial statements
31 December 2014

| | Consolidated | |
|---|---------------------|-------------------|
| | 31/12/2014 | 31/12/2013 |
| | \$ | \$ |
| Note 4. Expenses | | |
| Profit/(loss) before income tax includes the following specific expenses: | | |
| <i>Cost of sales</i> | | |
| Cost of sales including freight | 11,860,912 | 11,797,259 |
| Change in inventory | 503,975 | 181,148 |
| Cost of sales | <u>12,364,887</u> | <u>11,978,407</u> |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable | <u>1,476,287</u> | <u>1,585,125</u> |
| <i>Employee benefits</i> | | |
| Wages and salaries | <u>2,566,623</u> | <u>2,642,559</u> |
| <i>General and administration costs</i> | | |
| Directors' fees ¹ | 403,906 | 195,088 |
| Legal fees ² | 339,329 | 34,703 |
| Other expenses | 897,585 | 690,840 |
| General and administration costs | <u>1,640,820</u> | <u>920,631</u> |

¹This includes the Managing Directors remuneration who joined the company on 1 July 2014.

²Legal fees have increased significantly as a result of the actions of Capri and Kidman.

Note 5. Income tax

| | | |
|-------------|----------|----------|
| Current tax | <u>-</u> | <u>-</u> |
|-------------|----------|----------|

There is no tax charge in the half-year as the company had tax losses brought forward from 30 June 2014 of \$37,056,880; this has a tax effect of \$11,117,064.

Note 6. Cash and cash equivalents

| | | |
|--------------------------|----------------|------------------|
| Cash at bank and in hand | <u>988,618</u> | <u>7,285,309</u> |
|--------------------------|----------------|------------------|

Note 7. Trade and other receivables

| | | |
|-----------------------------|----------------|------------------|
| Trade receivables | 143,703 | 1,319,675 |
| Other receivables | 445,544 | 167,794 |
| GST receivable | 265,169 | 233,018 |
| Trade and other receivables | <u>854,416</u> | <u>1,720,487</u> |

KBL Mining Limited
Notes to the financial statements
31 December 2014

| | Consolidated | |
|---------------------------------------|---------------------|-------------------|
| | 31/12/2014 | 30/06/2014 |
| | \$ | \$ |
| Note 8. Other financial assets | | |
| Derivative hedge receivable | 269,342 | - |
| Other financial assets ¹ | 512,500 | - |
| | <u>781,842</u> | <u>-</u> |
| Other financial assets | <u>781,842</u> | <u>-</u> |

¹Other financial assets represent funds received in relation to the Share Purchase Plan for shares not issued until after the half-year end. There is an equal amount included as other financial liabilities.

Note 9. Mining property

| | | |
|---|-------------------|-------------------|
| Cost | 46,163,857 | 43,412,622 |
| Impairment | (8,641,773) | (8,641,773) |
| Accumulated amortisation | (4,599,963) | (3,710,467) |
| | <u>32,922,121</u> | <u>31,060,382</u> |
| Carrying amount at end of the period | <u>32,922,121</u> | <u>31,060,382</u> |
| Balance at beginning of the period | 31,060,382 | 21,597,682 |
| Additions | 2,751,236 | 5,148,981 |
| Reversal of impairment | - | 6,278,307 |
| Transfer from exploration and evaluation | - | 5,723,267 |
| Amortisation | (889,497) | (1,390,267) |
| Allocation of research and development tax incentive (Note 3) | - | (6,297,588) |
| | <u>32,922,121</u> | <u>31,060,382</u> |
| Carrying amount at end of the period | <u>32,922,121</u> | <u>31,060,382</u> |

The recoverable amount of the mining property has been determined by a value-in-use calculation. Management believe that the revised carrying value is fully recoverable.

Key assumptions used:

- Life of mine remaining – 9 years
- Discount rate of 13% post-tax (pre-tax 16.9%)
- Exchange rate of AUD/USD 0.78
- Commodity prices:
 - Copper US\$5,700 per tonne
 - Gold US\$1,265 per ounce
 - Silver US\$17 per ounce
 - Lead US\$1,850 per tonne
 - Zinc US\$2,020 per tonne

Note 10. Exploration and evaluation

| | | |
|--------------------------------------|------------------|------------------|
| Balance at beginning of the period | 2,419,130 | 6,881,265 |
| Additions | 61,481 | 1,263,761 |
| Transfer to mining property | - | (5,723,267) |
| Impairment | - | (2,629) |
| | <u>2,480,611</u> | <u>2,419,130</u> |
| Carrying amount at end of the period | <u>2,480,611</u> | <u>2,419,130</u> |

KBL Mining Limited
Notes to the financial statements
31 December 2014

| | Consolidated | |
|--|---------------------|-------------------|
| | 31/12/2014 | 30/06/2014 |
| | \$ | \$ |
| Note 11. Trade and other payables | | |
| Trade payables | 4,159,021 | 4,250,688 |
| Other payables | 682,086 | 1,653,695 |
| | <u>4,841,107</u> | <u>5,904,383</u> |

Note 12. Financial liabilities – current

| | | |
|---|-------------------|-------------------|
| Amount due to insurance premium funding | 267,221 | 51,433 |
| Amount due on HP facilities | 272,039 | 274,745 |
| Amount due to RIKID511 Pty Ltd ¹ | 12,287,622 | 11,510,898 |
| Derivative hedge payable | - | 233,059 |
| Other financial liabilities ² | 512,500 | - |
| | <u>13,339,382</u> | <u>12,070,135</u> |
| Financial liabilities - current | | |

¹On 5 November 2014, this financial liability was assigned by Capri Trading Pty Ltd to RIKID511 Pty Ltd.

²Other financial liabilities represent funds received in relation to the Share Purchase Plan for shares not issued until after the half-year end. There is an equal amount included as other financial assets.

Note 13. Financial instruments

Fair value and transfers of financial instruments

The following details the consolidated entity's fair values of financial instruments categorised by the following levels; Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) and Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Only one asset amounting to \$269,342 (30 June 2014: liability \$233,059) is classed as Level 2, all other amounts are classed as Level 3. The fair value of hedges is determined using a valuation technique which uses only observable market data. There were no transfers between levels during the half-year.

Changing one or more inputs would not significantly change the fair value of level 3 financial instruments.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Note 14. Events after the reporting period

The following matters have arisen since the end of the interim half-year reporting period:

1. On 6 January 2015 the company announced that noteholders had approved an extension to the maturity date of the company's convertible notes by 6 months to 16 February 2017. Necessary changes to the Trust Deed have been deferred pending resolution of legal proceedings by Kidman Resources Limited in the Victorian Supreme Court.
2. On 12 February 2015 the company issued 99,229,880 shares at 2.1 cents per share, raising \$2,083,827 via a Share Purchase Plan.
3. On 18 December 2014 the company announced it had commenced proceedings in the NSW Supreme Court against Kidman Resources Limited, Kidman Mining Pty Ltd and RIKID511 Pty Ltd (RPL) for certain declarations and orders in connection with claimed "Events of Default" under the loan arrangements between the company and RPL. In February 2015 the proceedings were amended by the company to seek orders from the Court that the amount payable on the repayment date of the loan due to RPL was \$12.6 million. The Court will hear the latter issue through an interlocutory proceeding on 10 March 2015.
4. On 13 February 2015 the company announced that the Quintana transaction documents were in final negotiation for the funding of US\$21 million in a pre purchased metal agreement and an announcement on 27 February 2015 confirmed that arrangements with Quintana were progressing satisfactorily towards finalisation.

Apart from the matters described above, no other matter or circumstance has arisen since the end of the interim half-year reporting period that has significantly affected or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial periods.

Note 15. Legal matters

On 14 November 2014 the company pleaded guilty to and was convicted in respect of an offence of water pollution under the Protection of the Environment operations Act 1997 arising out of a tailings line failure at the Mineral Hill Mine in June 2013. The company was fined \$52,000 and was ordered to pay the regulator's investigation and legal costs totalling \$61,390 and was required to publish prescribed notices in specified newspapers.

Note 16. Related party transactions

During the half-year the company engaged Westech International Pty Limited, a director related entity of Brian Wesson, to provide engineering services in relation to the design of the CIL plant. The amount included in the half-year financial report is \$407,729.

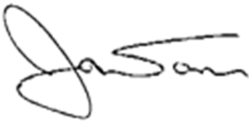
KBL Mining Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the company's financial position as at 31 December 2014 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



James Wall
Director

27 February 2015
Sydney

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of KBL Mining Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of KBL Mining Limited, which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

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 consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of KBL Mining Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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 KBL Mining Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its 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*.

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the consolidated entity's current liabilities exceeded its current assets by \$13,601,740 as at 31 December 2014 and that the consolidated entity is dependent upon restructuring debt. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO East Coast Partnership



Gareth Few
Partner

Sydney, 27 February 2015