



**KINGSROSE**  
MINING LIMITED

**ANNUAL REPORT**  
**30 JUNE 2014**

## CONTENTS

	Page No
Chairman's Letter	3
Managing Director's Letter	4
Review of Operations	5
Annual Mineral Resource Statement	12
Directors' Report	13
Auditor's Independence Declaration	30
Corporate Governance Statement	31
Consolidated Income Statement	38
Consolidated Statement of Comprehensive Income	39
Consolidated Statement of Financial Position	40
Consolidated Statement of Cash Flows	41
Consolidated Statement of Changes in Equity	42
Notes to the Financial Statements	43
Directors' Declaration	88
Independent Audit Report	89
Shareholder Information	91

## CORPORATE DIRECTORY

### Directors

#### Non-Executive Chairman

John Morris

#### Managing Director

Scott Huffadine

#### Non-Executive Director

J. William Phillips

#### Non-Executive Director

Andrew Spinks

#### Company Secretary

Joanna Kiernan

#### Registered Office

Suite 9, Level 2  
12-14 Thelma Street  
West Perth WA 6005

Tel: + 61 8 9486 1149

Fax: +61 8 9486 1151

Email: [info@kingsrosemining.com.au](mailto:info@kingsrosemining.com.au)

Website: [www.kingsrosemining.com.au](http://www.kingsrosemining.com.au)

#### Indonesian Office

PT. Natarang Mining  
JL. Ciputat Raya 16  
Pondok Pinang, Kebayoran Lama  
Jakarta Selatan 12310  
Indonesia

Email: [ptnm@kingsrosemining.com.au](mailto:ptnm@kingsrosemining.com.au)

#### Bankers - Australia

HSBC Bank Australia  
188 – 190 St Georges Terrace  
Perth WA 6000

#### Bankers – Indonesia

HSBC Bank Indonesia  
World Trade Centre  
Jl. Jendral Sudirman Kav. 29-31  
Jakarta 12920  
Indonesia

#### Stock Exchange Listings

ASX – Australia  
Kingsrose Mining Limited is listed on the Australian  
Securities Exchange Limited  
(Home Branch – Perth)  
ASX Code: KRM

#### Auditors - Australia

Ernst & Young Australia  
11 Mounts Bay Road  
Perth WA 6000

#### Auditors – Indonesia

Ernst & Young  
Indonesia Stock Exchange Building  
Tower 2, 7<sup>th</sup> Floor  
Jl. Jend. Sudirman Kav. 52-53  
Jakarta 12190  
Indonesia

#### Solicitors – Australia

EMK Lawyers  
Suite 4, 236 Naturaliste Terrace  
Dunsborough WA 6281

Ralph Legal  
Suite 9, 16 Phillimore Street  
Fremantle WA 6160

#### Solicitors - Indonesia

Soemadipradja & Taher  
Wisma GKBI, Level 9  
Jl. Jendral Sudirman No. 28  
Jakarta 10210  
Indonesia

#### Share Registry

Advanced Share Registry Limited (ceasing 22-09-14)  
110 Stirling Highway  
Nedlands WA 6998

Tel: +61 8 9389 8033

Fax: +61 8 9262 3723

Link Market Services (commencing 22-09-14)  
Level 4

152 St Georges Terrace  
Perth WA 6000

Tel: 1300 554 474

#### Domicile & Country of Incorporation

Australia

## CHAIRMAN'S LETTER

Dear Shareholders,

Despite the numerous challenges faced by the Company through the 2014 financial year, a significant milestone was achieved in June, with the grant of the environmental permit for the Talang Santo Mine. This was closely followed by the grant of the forestry permit in July, the final permit required to commence immediate production at the Talang Santo Mine, which bodes well for an exciting year ahead for the Way Linggo Project.

The primary objective of the Board is to grow shareholder value through the establishment and cultivation of a long term, sustainable project and we believe that the Way Linggo Project presents this opportunity. The Project, which sits within a highly prospective 10,540 hectare land holding held by secure title presents significant opportunity for the Company to expand its production footprint through organic growth.

A complete strategic and operational review spearheaded by our new Managing Director, Scott Huffadine, in the later part of the financial year has resulted in the creation of a disciplined and streamlined operational structure and a clearly defined growth path focussed on staged expansion for the Company moving forward. This, combined with the consistent high grades and metallurgical recoveries achieved thus far as the ramp up to full production continues at Talang Santo, is certainly setting the scene for a fruitful financial year ahead.

The Board and management of the Kingsrose Group continue to hold the view that much of the success of the Way Linggo Project can be attributed to its commitment to providing a long term sustainable social responsibility program, and as such, in consultation with the local communities, resources continued to be directed towards key infrastructure, health and education initiatives throughout the year. In addition, where possible, local employment is encouraged which resulted in 72% of our on-site workforce coming from the nearby Lampung province.

I would like to acknowledge the dedicated and hardworking team at both Kingsrose and PTNM for their ongoing commitment and support. Furthermore, I would like to acknowledge the contribution of Tim Spencer, who stepped down as Executive Director, Finance in February. Tim made an invaluable contribution to the Company over the past five years and on behalf of the Board I wish him every success for the future.

I would like to acknowledge the ongoing support of the Company's financiers, Advance Concept Holdings Limited and Beaurama Pty Ltd who, throughout the year, agreed to restructure the repayment profile of the Company's loan facilities which allowed the Company to work towards finalising the permitting process.

On behalf of my fellow Board members, I'd like to sincerely thank Shareholders for their continued support and patience during this financial year and I look forward to sharing in the rewards of the Company's growth over the coming years.

Yours faithfully



**John Morris**  
Chairman

## MANAGING DIRECTOR'S LETTER

Dear Shareholder,

The 2014 financial year was a busy year for the Company, with the primary focus being on finalising the requisite permits to allow full production to commence at the Way Linggo Project. With the grant of the Environmental permit ("AMDAL") in June 2014, shortly followed by receipt of the forestry permit ("Pinjam Pakai") in July 2014.

In conjunction with the permitting process, development work including the establishment of key mine infrastructure, was carried out at the Talang Santo Mine throughout the year to allow the swift transition to production once the permitting process was completed. The Company has made a positive start with the announcement of the first shipment of 2,057 ounces of gold and 5,144 ounces of silver, less than one month after receipt of the final permit from the Ministry of Forestry.

Over the last six months, a detailed strategic and operational review of the Way Linggo Project was conducted which confirmed the long held belief that the Project is a high quality asset base from which the Company can grow. This belief is underpinned by the Project's location – the fertile, highly prospective epithermal setting of the Pacific Rim of Fire in South Sumatra. With the permitting process now complete, the immediate focus is on establishing production from the Talang Santo Mine and then delineating the full extent of the near mine systems in the surrounding Talang Cluster area.

We see that beyond the Talang Santo Mine, the immediate surrounds of the Talang Cluster, and the wider Project area there lies significant potential which presents the opportunity for the Company to expand its current production profile. To this end, we have implemented a clear three tier growth strategy aimed at increasing the current resource base and ultimately reviewing the expansion options for the Way Linggo processing circuit.

The first tier will focus on evaluating the potential within the current mine workings at Talang Santo, with the recent commencement of an underground drilling program, designed to delineate the extent of the newly identified Splay vein, which was an exciting discovery during the year. The Splay vein, which remains open along strike and at depth, was confirmed as a second high grade orebody at Talang Santo, providing confidence that the Talang Santo system will continue to grow. We will continue to test targets along strike and infill the bottom part of the Inferred Mineral Resource for the Talang Santo Mine which sits below the current mine design as the year progresses.

The second tier is the evaluation of Talang Samin, an advanced exploration prospect in the nearby Talang Cluster vein system previously identified from a limited drilling campaign. Talang Samin is currently being accessed by an exploration shaft which has been excavated over the last 12 months.

The third and final tier of the growth strategy is the continuation of the evaluation of the numerous prospects within broader Project area aimed at locating and ultimately developing the Company's third mine.

I would like to acknowledge the commitment shown by all Kingsrose and PT Natarang Mining employees over this last year as we focused on the finalisation of the permitting process and commencement of production at the Way Linggo Project.

Furthermore, I would like thank all Shareholders for your continued support over this last financial year and I look forward to updating you with our ongoing progress as we seek to consolidate the Way Linggo Project as a long term, cornerstone asset underpinning the future growth of the Company.

Yours faithfully



**Scott Huffadine**  
Managing Director

## REVIEW OF OPERATIONS

### The Way Linggo Project

Kingsrose Mining Limited owns 85% of the Way Linggo Project in South Sumatra, Indonesia. The Project is held under a 4<sup>th</sup> generation Contract of Work ("CoW") with the Indonesian Government and is located on the mineral rich Trans-Sumatran Fault, part of the Pacific Rim of Fire. The Project has established infrastructure with a 140Ktpa Merrill Crowe gold circuit and has a track record of high grade, low cost gold production from the original Way Linggo Mine.

Bringing the second mine on the Project area, the Talang Santo Mine, into production was the primary focus for the Company throughout the 2014 financial year. The Company worked to complete the outstanding regulatory requirements whilst operating within the limited mine development framework approved by the Indonesian Mines Department.

Significant exploration upside exists on the wider 100km<sup>2</sup> Project area with numerous targets already identified including the Talang Samin prospect which presents the potential for continued organic growth, which is the core of the Company's three tier growth strategy focussed on exploiting the full potential of the Way Linggo Project area via staged expansion.

### The Talang Santo Mine

During the reporting period, development and production progress at the Talang Santo Mine was limited to activities relating to the establishment of crucial mine infrastructure, safety and maintenance, while the Company completed the permitting process.

Early development work included numerous horizontal cross-cuts and a limited drill program undertaken in the later part of the reporting period, confirmed that the Talang Santo orebody is part of a much larger system than previously seen on the Project area, with mineralisation proven in multiple orientations, open at depth and along strike.

The establishment of mine infrastructure required for haulage, pumping, secondary egress and the installation of a man cage, designed to carry men and materials to allow the main shaft to remain dedicated to ore haulage, was ongoing throughout the year. A 2.5 tonne skip was installed at the main haulage shaft from the 3 Level to surface which provides for an installed hoisting capacity of 500 tonnes per day, subject to tonnage being available.

In addition, the head-frame, winder and associated infrastructure was installed on the 3 Level, setting up for the sinking of the primary internal haulage shaft between the 3 Level and 4 Level. Mine services were upgraded to support the production scheduled from the 4 Level.

The establishment of the above infrastructure and extensive development work has allowed the Company to swiftly transition to ramping up to full production once the permitting process was finalised.

### The Splay Vein

An exciting development during the year was confirmation of a second mineralised zone at Talang Santo. A limited drilling program was undertaken to test the potential of the previously interpreted Splay vein, which is located in close proximity to the current 3 Level development at the Talang Santo Mine. The Splay vein was previously interpreted following a high grade intercept from surface drill hole DDH 199, which intersected 1.2m @ 43 g/t Au and 80.5 g/t Ag downhole between the current 3 Level and planned 4 Level development.

The consistent high gold and silver grades returned from face sampling on the Splay vein has confirmed the continuity of this second high grade mineralised zone at Talang Santo. Mineralisation has been confirmed along strike of 183 metres and remains open, with high grade assays (uncut) returned from Splay vein face sampling including:

- 2.6m @ 110.0g/t Au & 188g/t Ag;
- 2.6m @ 79.7g/t Au & 204g/t Ag;
- 2.1m @ 60.9g/t Au & 125g/t Ag;
- 2.4m @ 63.2g/t Au & 61g/t Ag; and
- 2.6m @ 25.5g/t Au & 46g/t Ag.

## REVIEW OF OPERATIONS

Development has highlighted the existence of two distinct zones within the mineralised corridor of the Splay vein. The main mineralised zone of the Splay vein (Zone A) consists of a vein averaging 2 metres wide, strike of 113 metres and a length weighted average grade (uncut) of 27.60g/t Au and 95.9g/t Ag. Beyond Zone A, a fault intersected the orebody with a minor offset into a narrower high grade zone (Zone B). Zone B is a narrower vein, averaging 0.5 metres wide over the current strike of 66m at 14.78g/t Au and 23.8g/t Ag. It is anticipated that Zone B is still capable of being bulked to allow stoping.

Upon receipt of the relevant permits to allow full mining activities to commence in early July 2014, the Company commenced the establishment of trial stoping in both the A and B Zones from the 3 Level up. This work will enable the evaluation of mining factors such as dilution, mining recovery and the effect of higher grade outlier assays on the mined grade.

In addition, drill platforms are currently being established and an underground drill rig is scheduled to be mobilised to assist with further evaluation of the extent of the Splay vein and to test additional targets.

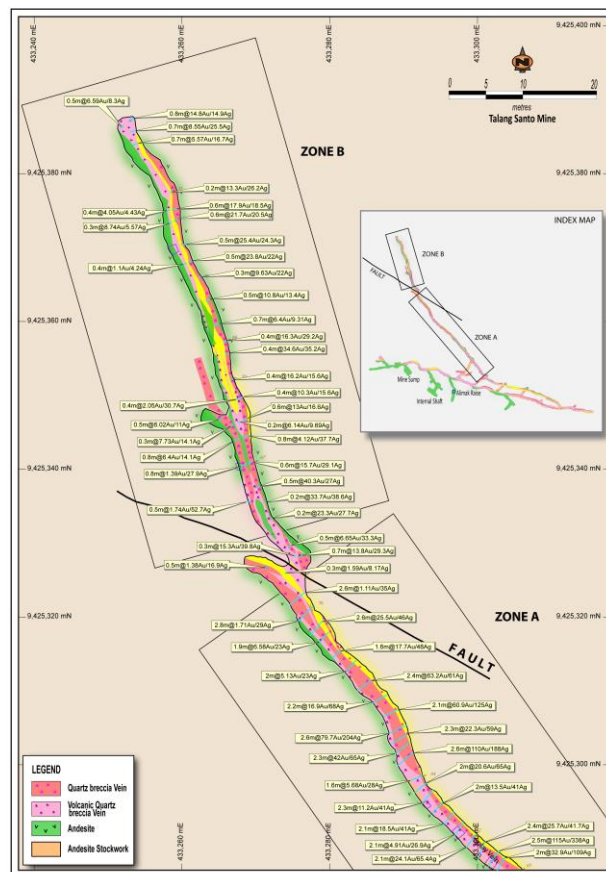


Figure 1: Splay vein face sampling results

## The Way Linggo Mine

In June 2013, mining activities at the Way Linggo Mine were suspended due to declining gold grades and deteriorating ground conditions, pending the results of further technical reviews.

A technical review has been completed which indicated that there would be a limited ability to re-access the mining areas by current underground mining methods due to safety concerns surrounding the geotechnical stability of the remnant pillars. As a result, the Group recognised a full write-down in the Way Linggo mine property and associated plant and equipment of \$19,960,533 in the income statement.

The Group will continue to assess the ability to recover the remaining Mineral Resource at the Way Linggo Mine through alternative mining methods, likely to incorporate surface mining.

## Processing

During the financial year, 1,995 ounces of gold and 7,840 ounces of silver were produced as a result of two milling campaigns conducted utilising available stockpiles. The first campaign conducted in November 2013 produced 825 ounces of gold at 3.6g/t at a recovery rate of 94.78% which was in line with expectations from metallurgical test work. In addition to the gold, 4,550 ounces of silver at 20.5g/t at a recovery rate of 89.5% were produced during this period.

The second campaign comprised of a trial batch of development ore recovered from the establishment of the 2 and 3 Levels at Talang Santo. A total of 4,386 tonnes at 8.54g/t Au and 25.1g/t Ag were processed resulting in the production of 1,170 ounces of gold and 3,290 ounces of silver.

This early stage trial parcel of ore from Talang Santo produced highly encouraging results, the most significant being the achievement of a recovery rate of 97% gold, which exceeded the 95% indicated by metallurgical test work. Silver recoveries were also higher than anticipated at 92% - up from an expected 88%. During the short duration of the

## REVIEW OF OPERATIONS

treatment of the development ore, the daily head grades achieved in excess of 10g/t Au for a number of days during the trial, peaking at 10.87g/t Au.

During both campaigns, the plant ran without issue and remained in a state of operational readiness for the transition back to production upon completion of the permitting process.

### Permitting

The primary focus of the Company during the financial year, was the finalisation of the outstanding permits to allow full production to commence at the Way Linggo Project.

Despite encountering delays throughout this process, a major milestone was achieved with the receipt of Ministerial approval in June 2014 for the extension to the existing Project environmental assessment ("AMDAL"); the AMDAL being the first of the two outstanding permits required.

The grant of the final Forestry 'borrow and use' or 'pinjam pakai' permit remained outstanding as at 30 June 2014. However, on 8 July 2014 the Company received the 'pinjam pakai' allowing for the commencement of production at the Talang Santo Mine to begin in earnest.

### Exploration

The Way Linggo Project presents significant exploration upside, with the 10,540 hectare (100km<sup>2</sup>) Project area considered highly prospective for low-sulphidation epithermal gold-silver deposits. Numerous targets have been defined within the broader Project area and a comprehensive exploration evaluation program took place during the year. This resulted in the formation and subsequent implementation of a clearly defined three tier plan aimed at identifying the quickest path to expanding the Mineral Resource base of the Project.

The first tier involves an immediate focus on evaluating the near mine/resource development opportunities from underground platforms within the Talang Santo deposit. This will include the evaluation of potential structural repeats of the Splay vein structure, the evaluation of the Inferred Mineral Resource below the level of the current mine plan and the anomalous drill intercepts to the west of the current development which may represent lode repeats as seen in other larger scale epithermal deposits.

The second will be the ongoing evaluation of the proximal Talang Samin exploration shaft. The Company considers this to be an advanced exploration play which, subject to successful interpretation of the existing drill results, will be able to be quickly converted to a second production centre within the Talang Cluster.

The third is to complete the infill of the broader regional dataset, which encompasses some 15 already identified epithermal targets within the current Project area. This is aimed at ensuring the existing targets are appropriately ranked and prioritised, and to identify any additional targets prior to the commitment of funds to ensure that the best result from a structured process is achieved.

#### Way Linggo Mine Surrounding Area

A geological review of the area surrounding the Way Linggo Mine commenced in July 2013 with the objective of generating new exploration targets. While the surrounding area has been subject to geochemical and geophysical analysis in the past, much of the work was undertaken before the Way Linggo orebody was mined.

The surrounding area was broken into seven blocks, each of approximately 100ha, and a program of reconnaissance mapping and stream traverses commenced. While no significant assays were returned, the drillhole intersected moderate alteration down-hole, and a dacitic porphyry was identified at the targeted depth.

#### Talang Samin

Talang Samin is located 800m west-south-west of the Talang Santo Mine and is considered to be another mineralised zone within the highly prospective 'Talang Cluster'. During the financial year, work commenced on the establishment of a low-cost exploration shaft, with the aim of gaining a better understanding of the geological structure as well as to determine the potential for Talang Samin to become an additional production source from the Project.

## REVIEW OF OPERATIONS

The 75m target depth for the shaft was reached during the latter part of the reporting period and finished in competent andesite - the same host lithology seen at Talang Santo. The orebody will be accessed by 40m of lateral development, with the aim of exposing the large interpreted vein. Initial surface drilling has returned encouraging intersections, including:

DDH 168	6.2m @ 3.85g/t Au and 14.24g/t Ag from 234.6m <b>(including 0.2m @ 20.3g/t Au and 1,049g/t Ag)</b>
DDH 180	4.75m @ 4.3g/t Au and 5.45g/t Ag from 73.75m <b>(including 0.5m @ 30.2g/t Au and 30.4g/t Ag)</b>

## SOCIAL RESPONSIBILITY

### Community Engagement

Engaging with and supporting the local communities surrounding the Project area as well as the wider Lampung Province lies at the heart of the Company's Social Responsibility Program. Where possible, local employment is encouraged and through regular consultation with the local communities, resources continue to be directed towards implementing initiatives that will encourage these communities to grow and prosper beyond the life cycle of the Project.

Throughout the year, support was directed towards the sponsorship of local cultural and sporting events, the provision of educational resources, and the provision of medical services by the PT Natarang Health Clinic. Ongoing support was provided for local infrastructure projects including road extension, maintenance and bridge repairs. Economic assistance and ongoing support to local community members who have started their own business is another key initiative of the Group. Throughout the year workshops were held on sustainable agricultural and environmentally friendly farming methods for local farmers.

The opportunity to work at the Way Linggo Project and equipping those workers with a solid, sustainable skill set is one of the biggest benefits to the local community. Throughout the reporting period approximately 72% of the on-site work force was from the Lampung Province.

### Occupational Health & Safety ("OH&S")

Kingsrose and PTNM are committed to upholding the highest occupational health and safety standards at the Way Linggo Project, with the dedicated onsite OH&S team tasked with the creation of a safe and responsible working environment and identifying and mitigating any potential health and safety risks.

This continued focus on health and safety and the implementation of additional task-specific training programs and workshops resulted in numerous notable improvements, none more important than the 12 month moving average Lost Time Injury Frequency Rate standing at zero. An increased focus on lead indicators has been socialised and implemented on site as a key safety management practice, with a safety manager recruited from a large multinational mining house.

### The Environment

The Group conducts its activities in accordance with its obligations under the CoW, prevailing local laws and environmental regulations. To date, there has been minimal environmental impact on the Project area, largely due to the non-mechanised, minimally invasive mining methods utilised by the Company.

Regular environmental impact assessments form a key part of the Company's Environmental Management and Monitoring Plan, and comprehensive rehabilitation and reforestation takes place on compensation land purchased by PTNM and donated to the Ministry of Forestry. Additional monitoring activities conducted regularly include:

- Rainfall monitoring and subsequent water usage and quality analysis;
- Monitoring and control of Project waste disposal, including hydrocarbon and hazardous waste disposal procedures and mitigating any adverse environmental consequences this may have; and
- Close observation and monitoring of Tailings Storage Facility in accordance with required environmental parameters.

## REVIEW OF OPERATIONS

The creation and cultivation of the Way Linggo Nursery has also assisted with the rehabilitation and re-vegetation in the areas of mining and exploration activities on the wider Project area.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company will continue production, development and exploration activities on the Way Linggo Project located in South Sumatra, Indonesia throughout 2015 financial year.

The Company has a clearly defined three tier growth strategy focussed on staged expansion aimed at exploiting the full potential of the Way Linggo Project area:

NEAR MINE OPPORTUNITIES – Immediate focus on near-mine resource development opportunities proximal to existing Talang Santo infrastructure;

APPRAISE ADVANCED PROJECTS – Evaluate advanced exploration play at Talang Samin and consider the options for the recovery of the remnant resource at the Way Linggo Mine; and

PROJECT SCALE EXPLORATION – Continue to evaluate prospects on the broader Project area.

The Company's Board and management consider the potential of the Way Linggo Project to yield further high-grade epithermal vein discoveries as high, which will assist in increasing both the life and production profile of the Project.

### CORPORATE REVIEW

The Company underwent a significant management restructure throughout the financial year with the resignation and appointment of several key executives.

Managing Director Scott Huffadine and Chief Financial Officer Matthew Smith commenced in January 2014 and immediately initiated a comprehensive organisational review which has resulted in the implementation of a clearly defined operational and growth strategy.

The appointment of Ashley McAleese as Operations Manager in September 2013 and Timothy Davidson as a Senior Mining Engineer in October 2013 has strengthened the on-site operations team which is crucial as the Company continues with the production ramp up at the Talang Santo Mine and the ongoing exploration and evaluation of the Way Linggo Project.

Executive Director, Finance Timothy Spencer resigned in February 2014 and Company Secretary Jeannette Smith retired on 1 July 2014.

## REVIEW OF OPERATIONS

### FINANCIAL REVIEW

#### Income Statement

The Group's financial performance for the period was adversely impacted by permitting delays which saw the Way Linggo Project operate on a limited development basis throughout the year. This resulted in a decline in Group sales revenue for the period to \$3,815,074 (2013: \$20,693,822).

In addition, the decision to recognise a write-down in relation to the Way Linggo Mine property and associated plant and equipment resulted in a \$19,960,533 charge to the income statement. This is reflected in the Group's net loss from continuing operations after income tax of \$24,179,777 for the year ended 30 June 2014 (2013: \$263,913 net profit from continuing operations after income tax).

#### Financial Position

At 30 June 2014 total Group assets were \$86,457,769 (2013: \$87,890,192) and net assets were \$70,706,124 (2013: \$69,853,201).

The following table outlines the key financial performance measures for the past two years:

	FY13 \$	FY14 \$	Increase/(Decrease) %
Cash and cash equivalents	1,307,739	6,661,056	409%
Working capital	(2,557,311)	(911,966)	64%
Net fixed assets	9,841,531	8,129,196	(17%)
Shareholders' equity	69,853,201	70,706,124	1%

#### Group Liquidity

During the year, prudent steps were taken to ensure that the Group maintained adequate cash reserves to continue to fund its operational, development and exploration strategies whilst working towards the commencement of full mining activities at the Talang Santo Mine.

Despite the improvement in the ratio of current assets to current liabilities from 0.84 in 2013 to 0.94 in 2014, the Group had a working capital deficiency of \$911,966 at 30 June 2014. This was negated in July 2014 upon the successful negotiation with the Group's lenders to vary the repayment profile of the existing loan facilities (as outlined below).

During the period the Group continued its focus on cost reduction activities across the operation and corporate office. In addition, a number of key measures were taken to support Group liquidity, whilst the Company was completing the permitting process, as outlined below:

#### Capital Raisings

The Company successfully completed two share placements to raise total proceeds of \$22,097,843 (net of share issue costs) to fund the on-going development of the Talang Santo Mine.

In July 2013 the Company raised \$15.3m through the placement of 43,793,980 fully paid ordinary shares to institutional and sophisticated investors. A further \$8m was raised in February 2014 through the placement of 22,857,642 fully paid ordinary shares to institutional and sophisticated investors.

#### Collection of Outstanding Tax Receivables

The Group successfully recovered \$6,852,056 in outstanding tax receivables. This included the receipt of an Indonesian VAT refund of \$1,656,338 in November 2013 and an Indonesian corporate income tax refund of \$5,195,718 (net of outstanding instalments and penalties) in June 2014. The total tax receivable due to the Group at 30 June 2014 was \$6,202,556 (2013: \$11,532,978).

## REVIEW OF OPERATIONS

### ***Restructure of Loan Facilities***

At 30 June 2014 Kingsrose had \$10,307,856 of loans from related parties (2013: \$10,390,836). The loan facilities were obtained from Advance Concept Holdings Limited and Beaurama Pty Ltd (entities associated with Mr Phillips), to support the ongoing working capital requirements of the Group whilst the Way Linggo Project operated on a limited development basis.

In January 2014 the lenders agreed to defer the commencement of loan repayment to 31 July 2014 (from 31 January 2014) with full repayment due by 31 October 2014. As a result, the loans have been classified as current at reporting date.

After the 2014 financial year end, on 31 July 2014, the repayment profile of the loan facilities was further amended with the first loan repayment deferred to 31 January 2015 and full repayment due by 31 October 2015 (as outlined in the Subsequent Events section of the Directors' Report).

## ANNUAL MINERAL RESOURCE STATEMENT AS AT 30 JUNE 2014

Classification	Tonnes	Gold (Au) g/t	Silver (Ag) g/t	Au ounces	Ag ounces
<b>Way Linggo</b>					
Measured	317,654	14.4	174	146,758	1,781,929
Indicated	169,863	6.3	61	34,296	332,642
Inferred	13,973	12.1	88	5,449	39,326
Subtotal	501,489	11.6	134	186,504	2,153,898
<b>Talang Santo</b>					
Measured					
Indicated	848,991	6.1	16	167,417	441,041
Inferred	797,355	4.5	17	115,616	443,751
Subtotal	1,646,346	5.3	17	283,033	884,792
<b>Grand Total</b>	<b>2,147,836</b>	<b>6.8</b>	<b>44</b>	<b>469,537</b>	<b>3,038,690</b>

### Notes

- The figures quoted below represent the geological resource. No “Modifying Factors” have been applied as per the 2004 edition of the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (“JORC Code”).
- For the Way Linggo Project Mineral Resource estimation, the geology model was formed via the incorporation of geological mapping, production face sampling and drill-hole data. In the main Way Linggo zone, grade estimates have been based upon development data only. Outside of the main ore body drill hole data has been the basis of grade estimates.
- For the Talang Santo Mineral Resource estimation, the geology model was formed via the incorporation of geological mapping and drill hole data. Talang Santo grade estimates have been based upon development and drill hole data.
- The respective Mineral Resource models from 30 June 2013 have been updated by depleting them of the material mined during the period 1 July 2013 to 30 June 2014.
- The void files used to deplete the respective models were current as at 30 June 2014.
- The Classified Mineral Resource is reported above a 2.5g/t Au cut-off grade.
- A top-cut of 150.0g/t Au and 1,800g/t Ag was used during estimation at Way Linggo. A top-cut of 25.0g/t Au and 75g/t Ag was used during estimation at Talang Santo.
- At Way Linggo, the portion of the Mineral Resource in the area above existing mine development north of 10,050mN is classified as Measured. Fans of drilling completed to circa 900mRL allow the zone between the current base of mine development at 930mPL and 900mRL north of 10,050mN to be classified Indicated. Drilling to the north of current development also allows the mineralisation north of the main orebody to be classified Indicated. The mineralised zones to the south of 10,050mN are currently classified Inferred in those areas that have not been intersected by mine development, which in turn are classified Indicated. Mineralised zones peripheral to the main Way Linggo zone are primarily classified Inferred.
- At Talang Santo the well-drilled portion of the primary Mawi Vein and its two 300° trending footwall structures are classified Indicated. The remainder of the Mawi Vein, the footwall structures and all other peripheral mineralised zones are classified Inferred.
- Note that small discrepancies may have occurred due to rounding.

### Competent Persons Statement

The information in this Annual Mineral Resource Statement is based on, and fairly represents information and supporting documentation compiled by or under the supervision of Scott Huffadine, who is a member of the Australasian Institute of Mining and Metallurgy and a Director and full time employee of Kingsroose Mining Limited. Mr Huffadine has sufficient experience that 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 Results, Mineral Resources and Ore Reserves”. Mr Huffadine consents to the inclusion in this report of the matter based on his information in the form and context in which it appears. This information was first prepared and reported by the Company in compliance with the 2004 edition of the JORC Code and has not been updated to comply with the 2012 edition of the JORC Code. The Company confirms that it is not aware of any new information or data that materially affects the Way Linggo Project Mineral Resource Statement and further confirms that all material assumptions and technical parameters underpinning the Way Linggo Project Mineral Resource Statement continue to apply and have not materially changed.

The information in this announcement that relates to exploration results, data quality, geological interpretations, potential for eventual extraction and estimates of exploration potential, is based on and fairly represents information compiled by or under the supervision of Scott Huffadine, who is a member of the Australasian Institute of Mining and Metallurgy and a Director and full time employee of Kingsroose Mining Limited. Mr Huffadine has sufficient experience that 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 Exploration Results, Mineral Resources and Ore Reserves.” Mr Huffadine consents to the inclusion in this report of the matter based on his information in the form and context in which it appears.

## DIRECTORS' REPORT

The Directors submit their report of the "Consolidated Entity" or "Group", being Kingsrose Mining Limited ("Kingsrose" or "the Company") and its Controlled Entities for the year ended 30 June 2014.

### DIRECTORS

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

#### Names, Qualifications, Experience and Special Responsibilities

##### **John Morris**

##### **Non-Executive Chairman**

Mr Morris has over 42 years' experience in exploration, project development and management of publicly listed resource companies. He has held prior Directorships in a number of gold and base metals public companies in Australia and overseas including Forsyth NL and Amerisur Resources Plc (formerly Chaco Resources Plc/Gold Mines of Sardinia Plc).

Mr Morris is Chairman of the Remuneration Committee and a member of the Audit Committee.

Mr Morris does not hold any other Directorships of public companies.

##### **Scott Huffadine**

##### **Managing Director (Appointed 13 January 2014)**

Mr Huffadine entered into a three-year employment contract on 22 November 2013, commencing 13 January 2014.

Mr Huffadine, is a geologist with more than 20 years' experience in the resources industry, specifically in project management, geology and executive management. Mr Huffadine has held several key management positions ranging from operational start-ups involving open pit and underground mining projects, through to large integrated operations in gold and base metals, recently Executive Director of Metals X Limited and Managing Director of Westgold Resources Limited.

Mr Huffadine does not hold any other Directorships of public companies.

##### **J William (Bill) Phillips**

##### **Non-Executive Director**

Mr Phillips has over 34 years' experience in mining contracting and mine management and is highly regarded as a leading specialist in underground narrow vein mining.

Mr Phillips has managed or been instrumental in the successful development of 16 mines either in the role of contractor or as owner/shareholder. Until May 2010 Mr Phillips oversaw mining and production at Medusa Mining Limited's Co-O gold mine in the southern Philippines.

Mr Phillips is a member of the Remuneration Committee and Audit Committee.

Mr Phillips does not hold any other Directorships of public companies.

## DIRECTORS' REPORT

### **Andrew Spinks** **Non-Executive Director**

Mr Spinks is a geologist with over 25 years' professional experience in nickel, gold, coal, iron ore and diamonds in Australia and Africa. He has undertaken diverse roles from grass roots exploration through to senior management and consulting roles in exploration, project development and mining. He is a co-founder of Strategic Resource Management Pty Ltd and is responsible for the strategy, target generation and acquisitions of that company. Mr Spinks holds a B.App.Sc (Geol), Grad.Dip (Mining), W.A. Quarry Managers Certificate and is a member of the AusIMM.

Mr Spinks is a member of the Remuneration Committee and Chairman of the Audit Committee.

Mr Spinks is currently a director of Kibaran Resource Limited.

During the past three years he has served as a director of the following public listed companies:

- Central Iron Ore Limited (TSXV:CIO) – appointed 30 November 2009; resigned 30 November 2011; and
- Kibaran Resources Limited – appointed 20 July 2012

### **Timothy Spencer** **Executive Director, Finance (Appointed 28 March 2009 - Resigned 17 February 2014)** **Interim Managing Director (5 June 2013 – 13 January 2014)**

Mr Spencer has over 20 years' experience in the precious metals markets, from mining to refining and bullion distribution to in-depth precious metals market analysis, gained from working in various accounting, treasury and finance roles including two gold mining companies and a large gold refining and trading enterprise. Mr Spencer holds an Economics degree (accounting major) from Monash University, Victoria and is a qualified CPA accountant.

Following the resignation of the former Managing Director in June 2013, Mr Spencer was appointed Interim Managing Director whilst the Board sought a suitable replacement. Mr Huffadine was appointed Managing Director on 13 January 2014 at which time Mr Spencer resumed his former position of Executive Director, Finance.

Mr Spencer does not hold any other Directorships of public companies.

## **OTHER KEY MANAGEMENT PERSONNEL AND EXECUTIVES**

### **Herryansjah** **President Director, PT Natarang Mining (PTNM)**

Mr Herryansjah, an Indonesian citizen, is a geologist having over 28 years' experience of gold and base metal exploration. He has held the post of Senior Geologist or Chief Geologist with a number of mining companies in Indonesia. During this time he has overseen the implementation of numerous exploration programmes throughout Indonesia. He has had extensive experience in the process of permitting mining development projects as well as in the fields of environmental permitting and national affairs.

### **Matthew Smith (Appointed 28 January 2014)** **Chief Financial Officer**

Mr Smith entered into a three-year employment contract on 13 January 2014, commencing 28 January 2014.

Mr Smith is a Chartered Accountant with over 11 years' experience in the resources industry specialising in finance, taxation and corporate governance. Mr Smith was most recently the deputy Chief Financial Officer and Company Secretary at Indonesian focused Straits Resources Limited.

## **DIRECTORS' REPORT**

### **Ashley McAleese (Appointed 16 September 2013) Operations Manager**

Mr McAleese commenced as Operations Manager for the Way Linggo Project on 16 September 2013.

He is a Metallurgist, majoring in Minerals Processing from the University of Queensland. Prior to joining PTNM he was employed by Morobe Mining Joint Venture as their Process Manager for the Hidden Valley Gold Mine, a 4.2MTPA gold and silver processing plant located in Papua New Guinea. Additionally he held the position as Process Manager of Straits Resources for the Mt. Muro Gold Mine located in Kalimantan, Indonesia.

### **Jeannette Smith (Resigned 1 July 2014) Company Secretary**

Mrs Smith has been the Company Secretary of Kingsrose Mining Limited for seven years. She has over 32 years' experience in the area of corporate administration. In 1981 she qualified as a Paralegal in the United States of America. She has been involved in the listing, compliance and administration of numerous public companies listed on the American, London and Australian Securities Exchanges. Mrs Smith resigned on 1 July 2014.

### **Joanna Kiernan (Appointed 16 April 2014) Company Secretary**

Ms Kiernan was appointed Joint Company Secretary on 16 April 2014 and upon Mrs Smith's resignation on 1 July 2014 assumed the full role of Company Secretary.

Ms Kiernan holds a Bachelor of Arts and has over 10 years' experience in the administration and operation of listed public companies within the resources industry, having previously held the position of Company Secretary for numerous ASX and AIM listed companies.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company for the year ended 30 June 2014 was the production, exploration and development of its gold and silver deposit at the Way Linggo Project in South Sumatra, Indonesia.

## **OPERATING AND FINANCIAL REVIEW**

A review of the operations and financial position of the Company during the financial year ended 30 June 2014, including details of the results of operations, changes in the state of affairs and likely developments in the operations of the Company in subsequent financial years are set out on pages 5 to 11.

## **SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

There has not been any significant changes in the state of affairs of the Company during the financial year, other than those noted in this financial report.

## **DIVIDENDS**

No dividends were declared or paid during the financial year.

## DIRECTORS' REPORT

### SUBSEQUENT EVENTS

#### *Final Regulatory Approvals*

On 8 July 2014 the Company received Ministerial approval from the Indonesian Forestry Department for the "borrow and use" permit ("Pinjam Pakai"). This was the final permit required to allow production to commence at the Talang Santo Mine. Following receipt of the permit, the Company immediately began ramping up production at the Talang Santo Mine and the first shipment of gold and silver dore containing 2,057 ounces of gold and 5,144 ounces of silver followed on 7 August 2014.

#### *Restructure of Loan Facilities*

On 31 July 2014 the Company entered into a Deed of Variation of Loan Agreement with each of Advance Concept Holdings Limited and Beaurama Pty Ltd to restructure the repayment profile of the Company's loan facilities. Pursuant to the restructure, the loans are to be repaid by 31 October 2015 (previously by 31 October 2014), with the first instalment due on 31 January 2015. Interest is payable monthly in arrears (previously quarterly in arrears).

There have been no other significant events that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years. The subsequent events are also included in Note 27 to the Financial Statements.

### DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees or Directors) and number of meetings attended by each of the Directors of the Company during the financial year are set out below:

Director	Board		Remuneration		Audit	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
J. Morris	7	7	1	1	-	-
S. Huffadine <sup>1</sup>	6	6	-	-	-	-
T. Spencer <sup>2</sup>	3	2	-	-	-	-
J.W. Phillips	7	7	1	1	-	-
A. Spinks	7	6	-	-	-	-

<sup>1</sup> Appointed 13 January 2014

<sup>2</sup> Resigned 17 February 2014

The Audit Committee was established on 30 June 2014. No Audit Committee meetings were held during the year.

A Director is only eligible to attend the committee meeting if he is a member of the relevant committee unless an invitation to attend a meeting is extended to him by the relevant committee member.

### DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital as notified by the Directors to the Australian Securities Exchange in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

Director	Fully Paid Ordinary Shares	Options Over Ordinary Shares	Share Performance Rights
J. Morris	7,600,000	-	-
S. Huffadine	58,865	3,000,000 <sup>1</sup>	-
J.W. Phillips	16,150,000	-	-
A. Spinks	-	1,000,000	-

<sup>1</sup> On 13 January 2014 Mr Huffadine became entitled to 3,000,000 unlisted options under the Company's EOSRP at an exercise price of \$0.55 each, expiring on 13 January 2017 subject to shareholder approval at the next general meeting of the Company.

## DIRECTORS' REPORT

### SHARES UNDER OPTION

As at the date of this report, there were 14,600,000 unissued ordinary shares under option as follows:

Instrument	Grant Date	Exercise Price	Expiry Date	Number Under Option
Employee Options	08-03-2010	\$0.73	08-03-2015	150,000
Employee Options	17-03-2011	\$1.54	01-10-2014	1,000,000
Employee Options	17-03-2011	\$1.54	05-06-2015 <sup>1</sup>	1,000,000
Employee Options	02-06-2011	\$1.59	02-12-2014	1,000,000
Employee Options	21-12-2011	\$1.53	17-12-2014	500,000
Employee Options	21-12-2011	\$1.53	05-07-2015 <sup>2</sup>	500,000
Employee Options	14-08-2012	\$1.27	14-02-2015	100,000
Employee Options	11-08-2013	\$0.43	11-08-2015	500,000
Employee Options	11-08-2013	\$0.44	11-08-2016	500,000
Employee Options	15-09-2013	\$0.55	15-09-2015	4,000,000
Employee Options	02-01-2014	\$0.39	30-06-2016	500,000
Employee Options	02-01-2014	\$0.41	02-01-2017	500,000
Employee Options	28-01-2014	\$0.55	28-01-2016	1,500,000
Employee Options	07-04-2014	\$0.47	07-04-2016	500,000
Unlisted Options	07-04-2014	\$0.55	07-04-2016	500,000
Employee Options	07-04-2014	\$0.55	07-04-2016	1,850,000
<b>Total</b>				<b>14,600,000</b>

<sup>1</sup> Expiry date amended from 1 October 2015 to 5 June 2015 upon resignation of the Managing Director on 5 June 2013.

<sup>2</sup> Expiry date amended from 17 December 2015 to 5 July 2015 upon resignation of the PTNM Operations Manager on 5 July 2013.

Option holders do not have any right, by virtue of the options, to participate in any share issue of the Company or any related body corporate.

### SECURITIES ISSUED

The following Fully Paid Ordinary Shares were issued during the financial year ended 30 June 2014:

Security	Date Issued	Issue Price	Issued Under	Number of Shares Issued
Ordinary Shares	22-07-2013	\$0.35	Share Placement	43,793,980
Ordinary Shares	25-02-2014	\$0.35	Share Placement	22,857,642
<b>Total</b>				<b>66,651,622</b>

### OPTIONS ISSUED

The following options were issued during the financial year ended 30 June 2014:

Instrument	Grant Date	Exercise Price	Expiry Date	Number Under Option
Employee Options	11-08-2013	\$0.43	11-08-2015	500,000
Employee Options	11-08-2013	\$0.44	11-08-2016	500,000
Employee Options	15-09-2013	\$0.55	15-09-2015	4,000,000
Employee Options	02-01-2014	\$0.39	30-06-2016	500,000
Employee Options	02-01-2014	\$0.41	02-01-2017	500,000
Employee Options	28-01-2014	\$0.55	28-01-2016	1,500,000
Employee Options	07-04-2014	\$0.47	07-04-2016	500,000
Unlisted Options	07-04-2014	\$0.55	07-04-2016	500,000
Employee Options	07-04-2014	\$0.55	07-04-2016	1,850,000
<b>Total</b>				<b>10,350,000</b>

## DIRECTORS' REPORT

### SECURITIES LAPSED OR CANCELLED

The following securities lapsed or were cancelled during the financial year ended 30 June 2014:

			Expiry/Cancellation	
Instrument	Lapsed/Cancelled	Exercise Price	Date	Number
Employee Options	Lapsed	\$1.59	02-12-2013	1,000,000
Employee Options	Lapsed	\$1.42	22-12-2013	250,000
Unlisted Options	Lapsed	\$1.53	22-02-2014	500,000
Performance Rights	Cancelled	-	21-02-2014	97,297

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations in Indonesia are subject to local environmental laws, regulations and permit conditions.

The Directors of the Company are not aware of any material breach of environmental legislation while conducting their operations in Indonesia during the 2014 reporting period.

### EMPLOYEES

The Group had 524 full-time employees as at 30 June 2014 (2013: 524).

### INSURANCE OF OFFICERS

During the financial year, the Company paid a premium of \$18,996 (2013: \$24,538) to insure the Directors and Officers of the Company and its controlled entities.

The liabilities insured are the legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the Directors or Officers in their capacity as Directors or Officers of entities in the Group, and any other payments arising from liabilities incurred by the Directors or Officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty, or the improper use of position or of information to gain advantage for themselves or someone else, or to cause detriment to the Company.

The Company has entered into indemnity deeds with each Director and Officer. Under the deeds, the Company indemnifies each Director and Officer to the maximum extent permitted by law arising from claims made against them in their capacity as Directors and Officers of the Company.

### PROCEEDINGS OF BEHALF OF THE COMPANY

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

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED)

This report has been compiled in accordance with the requirements of the *Corporations Act 2001* and its regulations for the year ended 30 June 2014. This information has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The Directors are pleased to present the Company's 2014 remuneration report as follows:

### INTRODUCTION

This report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Parent company.

Details of Directors and Key Management Personnel of the Group during the reporting period are set out below:

Name	Position	Date of appointment	Date of resignation
<b>Directors</b>			
John Morris	Non-Executive Chairman	17 August 2007	-
Scott Huffadine	Managing Director	13 January 2014	-
Timothy Spencer <sup>1</sup>	Executive Director, Finance	28 March 2009	17 February 2014
J William (Bill) Phillips	Non-Executive Director	12 January 2005	-
Andrew Spinks	Non-Executive Director	21 August 2012	-
<b>Key Management Personnel</b>			
Matthew Smith	Chief Financial Officer	28 January 2014	-
Herryansjah	President Director – PTNM	6 November 2007	-
Ashley McAleese	Operations Manager – PTNM	16 September 2013	-
Ronald Clarke	Operations Manager – PTNM	17 December 2011	5 July 2013

<sup>1</sup> Mr Spencer was appointed as Executive Director, Finance on 28 March 2009 and became the Interim Managing Director from 5 June 2013 until 13 January 2014. Thereafter he resumed the role of Executive Director, Finance until his resignation on 17 February 2014.

There were no other changes to Key Management Personnel after the reporting date and before the date the financial report was authorised for issue.

### REMUNERATION OVERVIEW & STRATEGY

The Company has adopted a remuneration strategy intended to support the delivery of long-term shareholder value and to ensure remuneration accurately reflects achievement in line with market conditions. The strategy is designed to attract, motivate and retain by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group. Remuneration packages are based on a combination of fixed and variable components.

The Board approves the remuneration arrangements of the Managing Director, executive Directors, and key management personnel, along with all awards made under the long-term incentive plan. The Board also sets the aggregate remuneration of the non-executive Directors that is subject to shareholder approval. The structure of non-executive director and executive remuneration packages are separate and distinct.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (continued)

As the Company enters a new phase in its growth, the Board recognises the need to implement a remuneration framework that is consistent with the Company's strategic objectives, aligned with the creation of shareholder value and provides the appropriate reward upon the attainment of meaningful performance hurdles.

Moving forward, the Remuneration Committee will seek to develop a clear and transparent structure that will assist in the attraction and retention of high calibre individuals through the provision of remuneration packages which contain the appropriate balance of fixed remuneration, short-term incentives and long-term incentives measured against clearly defined performance hurdles aligned with the strategic and operational strategy of the Company.

### USE OF REMUNERATION CONSULTANTS

The Remuneration Committee did not employ the services of a remuneration consultant to provide recommendations as defined in section 9B of the *Corporations Act 2001*.

### EXECUTIVE REMUNERATION

The Company's remuneration philosophy recognises the importance of at risk or variable pay as an integral component of an executive's total potential reward. In order to link company performance to executive remuneration, packages are designed to incorporate a component of fixed and variable remuneration, with variable remuneration incorporating a balance of short-term incentives and long-term incentives.

#### Short-term incentives

The Remuneration Committee has established a short-term incentive ("STI") plan to link executive remuneration to performance and the creation of value for shareholders. Short-term incentive payments are determined by the Remuneration Committee for submission to the Board of Directors for review and ultimate approval. The Remuneration Committee takes into account the performance of each executive along with overall Group performance but does not apply a specific set of service and performance conditions. This approach is taken due to the inherent variability in the Group's operations and a pre-determined, prescriptive list of service and performance conditions would not appropriately fit the dynamic nature of the business.

As outlined below, the Company's short-term incentive program is made up of two at risk components, a short-term incentive bonus and employee options.

#### **Short-term incentive bonus**

Offers executives with the opportunity to earn a cash based bonus generally not exceeding 10% of the individuals fixed remuneration base.

No bonus payments were made during the period.

#### **Employee options**

Options are issued pursuant to the Company's Employee Options and Share Rights Plan 2012 ("EOSRP") and are generally issued with vesting periods requiring the recipient to complete a minimum period of employment with satisfactory performance before the options vest. Satisfactory performance is determined by the Board of Directors and is not based on a pre-agreed set of conditions. The Board will take into account the individual's performance with a focus on delivery against the key responsibilities outlined in that person's employment agreement and/or job description.

Options do not carry voting or dividend rights and can be exercised once vesting conditions have been met up until the relevant expiry date.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (continued)

Details of options issued to executives under the EOSRP are detailed in the Equity Instruments section of the Remuneration Report.

#### Long-term incentives

Long-term incentives ("LTI") are provided to executives in the form of share performance rights issued pursuant to the Company's EOSRP and are determined by the Remuneration Committee for submission to the Board of Directors. LTI awards are only made to executives and other key eligible employees who have an impact on the Group's performance against the relevant long-term performance measure.

Share performance rights are awarded annually and are designed to align executive remuneration with the creation of shareholder value over the long-term. Share performance rights are subject to satisfaction of performance conditions and include a requirement for the continued employment of the participant.

No amount is payable by the recipient on grant or vesting of share performance rights. Share performance rights that do not vest will automatically lapse.

The Company does not currently have a policy addressing the hedging of shares and options granted to key management personnel as part of their remuneration.

### REMUNERATION ARRANGEMENTS

#### *Non-Executive Directors*

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Fees paid are reviewed annually by the Remuneration Committee against fees paid by comparable peer companies and taking account of general market conditions.

Fees paid to non-executive Directors are not linked to the performance of the Company, however, to align Directors' interests with shareholders' interests Directors are encouraged to hold shares in the Company. The Company does not pay additional fees to Directors who are appointed to Board Committees or to the Board of subsidiary or associated companies.

Non-executive Director's fees are determined within an aggregate non-executive director fee pool limit, which currently sits at \$300,000. Non-executive Directors may also be remunerated at market rates for additional work undertaken as required on behalf of the Group.

#### *Executives*

Remuneration arrangements for executives are formalised in employment agreements which include base pay, superannuation and the ability to participate in the Company's short-term and long-term incentive arrangements.

The Group aims to reward executives with remuneration commensurate with their position and responsibilities within the Group and aligned with market practice. Executive remuneration and incentive policies and practices are performance based and aligned with the Company's vision, values and overall business objectives. The Company undertakes periodic reviews to determine the remuneration positioning against the market as well as individual performance and contribution.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (continued)

#### ***John Morris - Non-Executive Chairman***

Mr Morris commenced with the Company as a non-executive Director on 1 December 2007 and subsequently served as an executive Director from 1 May 2009 until 1 July 2011, when he reverted to his current role as Non-executive Chairman. Mr Morris entered into a three year contract with the Company on 1 October 2009. Following the expiry of Mr Morris' employment contract in October 2012, a new contract has not been entered into. He receives fees of \$150,000 per annum plus statutory superannuation.

#### ***Scott Huffadine - Managing Director***

Mr Huffadine entered into a three-year contract with the Company on 22 November 2013, commencing 13 January 2014. He was appointed to the position of Managing Director upon commencement of employment. He receives a salary of \$350,000 per annum and statutory superannuation capped at the maximum contribution base. Mr Huffadine's remuneration also includes an income protection policy up to the value of \$2,000 per annum.

On 13 January 2014 Mr Huffadine was entitled to 3,000,000 unlisted options at an exercise price of \$0.55 each, the grant of these options remains subject to shareholder approval. If approval is obtained at the Company's next General Meeting, the options will be allotted at an exercise price of \$0.55 each expiring on 13 January 2017. These options vested on 13 January 2014.

#### ***J William (Bill) Phillips - Non-Executive Director***

Mr Phillips was appointed to the Board effective 12 January 2005. The appointment does not contemplate a fixed term for his appointment as a director.

As a non-executive director Mr Phillips was paid a fee of \$30,000 per annum. On 29 October 2013, Philquest Holding Corporation (an entity associated with Mr Phillips) entered into a Consultancy Agreement with the Company, effective 1 November 2013, for a term of three years. Details of the Consultancy Agreement are outlined under the section titled Other Transactions and Balances with Key Management Personnel and their Related Parties. From the commencement of the Consultancy Agreement, Mr Phillips ceased receiving a non-executive Director's fee.

#### ***Andrew Spinks – Non-Executive Director***

Mr Spinks was appointed to the Board effective 21 August 2012. The appointment does not contemplate a fixed term for appointment as a director.

As a non-executive director Mr Spinks is paid a fee of \$30,000 per annum. On 11 August 2013 Mr Spinks was allotted two tranches of unlisted options, details as follows:

- Tranche 1 - 500,000 at an exercise price of \$0.43 each, vesting on immediately and expiring 11 August 2015; and
- Tranche 2 - 500,000 at an exercise price of \$0.44 each, vesting immediately and expiring 11 August 2016.

Strategic Resource Management Pty Ltd (an entity associated with Mr Spinks) also receives consulting fees at normal commercial rates for professional services provided to the Group outside his normal Board duties.

#### ***Matthew Smith - Chief Financial Officer***

On 15 January 2014 Mr Smith entered into a three-year contract with the Company, commencing employment on 28 January 2014. He receives a salary of \$260,000 per annum and statutory superannuation capped at the maximum contribution base. Mr Smith's remuneration also includes a life insurance policy.

On 28 January 2014 Mr Smith was allotted 1,500,000 unlisted options at an exercise price of \$0.55 each, vesting on 28 April 2014 and expiring on 28 January 2016.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (continued)

#### ***Herryansjah - President Director PTNM***

Mr Herryansjah is employed under an Indonesian employment contract with no fixed term. He receives a salary of US\$250,000 per annum along with Indonesian statutory entitlements. One month's notice is required by either party to terminate employment.

#### ***Ashley McAleese - Operations Manager PTNM***

On 26 June 2013 Mr McAleese entered into a two-year contract with the Group, commencing on 16 September 2013. He was entitled to a salary of \$250,000 per annum, a housing allowance of up to \$4,000 per month, an education allowance of up to \$15,000 per annum per child, a \$4,000 relocation allowance, a life insurance policy up to the value of \$2,000 per annum and medical and travel insurance covering his family.

On 30 January 2014 the Company agreed to amend the terms of Mr McAleese's employment contract. Effective 1 January 2014, the entitlement to housing allowance and education allowance were amended to be paid in USD. Effective 1 February 2014, Mr McAleese's salary was amended to US\$240,000 per annum.

On 2 January 2014 Mr McAleese was allotted two tranches of unlisted options, details as follows:

- Tranche 1 - 500,000 at an exercise price of \$0.39 each, vesting on 1 July 2014 and expiring 30 June 2016; and
- Tranche 2 - 500,000 at an exercise price of \$0.41 each, vesting 2 January 2015 and expiring 2 January 2017.

#### ***Timothy Spencer - Executive Director, Finance***

On February 2009 Mr Spencer entered into a three-year contract with the Company and was appointed to the position of Executive Director, Finance on 28 March 2009. His contract was renewed in August 2012, but made retrospective to February 2012, for an indefinite period. Mr Spencer's remuneration also included a life insurance policy, an income protection policy and a vehicle allowance of up to \$20,000 per annum.

On 5 June 2013, Mr Spencer was appointed to the position of Interim Managing Director and his salary was increased to \$300,000 per annum on 1 July 2013. Upon the appointment of Mr Huffadine as Managing Director, Mr Spencer resumed his position of Executive Director – Finance and accordingly his salary reverted to \$250,000 per annum.

#### ***Ronald Clarke - Operations Manager PTNM***

In December 2011, Mr Clarke entered into a one year renewable contract and was appointed to the position of Operations Manager of PTNM. Mr Clarke's salary was \$275,000 per annum and his package included a life insurance policy.

On 22 December 2012, Mr Clark was granted 1,000,000 unlisted options under the Company's EOSRP at an exercise price of \$1.53, subject to the following vesting periods:

- Tranche 1 - 500,000 options vesting 17 December 2012 and expiring 17 December 2014; and
- Tranche 2 - 500,000 options vesting 17 December 2013 and expiring 17 December 2015.

On 5 July 2013 Mr Clarke ceased employment with the Group. Pursuant to the discretion permitted under the EOSRP, the Directors' resolved to allow Mr Clarke to retain his options, bringing forward the vesting date of the second tranche of options to 5 July 2013 and amending the expiry date to 5 July 2015.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (continued)

#### Remuneration of Key Management Personnel - Year ended 30 June 2014

	Short-Term			Post	Termination	Share-		Share-
	Salary	Non-	Consulting	Employment	Payments	Based	Total	Based
	& Fees	monetary	Fees	Super-		Options &		Payments
	\$	Benefits	\$	annuation	\$	Rights <sup>6</sup>	\$	%
	\$	\$	\$	\$	\$	\$	\$	
<b>Executive Directors</b>								
S. Huffadine <sup>1</sup>	163,710	2,000	-	8,887	-	241,476	416,073	58%
T. Spencer <sup>2</sup>	234,201	7,683	-	12,878	125,000	(14,244)	365,518	-
<b>Sub-total</b>	<b>397,911</b>	<b>9,683</b>	<b>-</b>	<b>21,765</b>	<b>125,000</b>	<b>227,232</b>	<b>781,591</b>	
<b>Non-Executive Directors</b>								
J. Morris	150,000	-	-	13,875	-	-	163,875	-
J.W. Phillips	10,000	-	112,248	-	-	-	122,248	-
A. Spinks	30,000	-	8,840	2,775	-	71,389	113,004	63%
<b>Sub-total</b>	<b>190,000</b>	<b>-</b>	<b>121,088</b>	<b>16,650</b>	<b>-</b>	<b>71,389</b>	<b>399,127</b>	
<b>Other KMP</b>								
M. Smith <sup>3</sup>	111,129	672	-	7,665	-	82,426	201,892	41%
Herryansjah	272,183	15,625	-	-	-	-	287,808	-
A. McAleese <sup>4</sup>	204,297	82,826	-	-	-	74,752	361,875	21%
R. Clarke <sup>5</sup>	35,761	(3,243)	-	1,034	66,812	78,336	178,700	44%
<b>Sub-total</b>	<b>623,370</b>	<b>95,880</b>	<b>-</b>	<b>8,699</b>	<b>66,812</b>	<b>235,514</b>	<b>1,030,275</b>	
<b>TOTAL</b>	<b>1,211,281</b>	<b>105,563</b>	<b>121,088</b>	<b>47,114</b>	<b>191,812</b>	<b>534,135</b>	<b>2,210,993</b>	

<sup>1</sup> Appointed 13 January 2014. The share-based payments value of \$241,476 attributed to Mr Huffadine relates to options which have not been granted as they remain subject to shareholder approval. The fair value of the options is estimated based on assumption that the options have been granted at balance sheet date and will be revised once the grant date is established in accordance with the requirements of AASB 2 *Share-Based Payment*.

<sup>2</sup> Resigned 17 February 2014

<sup>3</sup> Appointed 28 January 2014

<sup>4</sup> Appointed 16 September 2013

<sup>5</sup> Resigned 5 July 2013

<sup>6</sup> Details of performance conditions for the options and share performance rights are outlined in the Executive Remuneration section of the Remuneration Report. The amount included as remuneration relating to options and share performance rights is not related to or indicative of the benefit (if any) that the individual may ultimately realise. The fair value of these options and share performance rights as at their date of grant was determined in accordance with AASB 2 *Share-Based Payment* applying valuation models. Details of the assumptions underlying the valuations are set out in Note 24 to the Financial Statements.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (continued)

#### Remuneration of Key Management Personnel - Year ended 30 June 2013

	Short-Term		Post	Termination	Share-		Share-
	Salary	Non-	Employment	Benefits	Based	Total	Based
	& Fees	monetary			Payments		Payments
	\$	Benefits	Super-		Options &	\$	%
		\$	annuation		Rights <sup>4</sup>		
			\$	\$	\$		
<b>Executive Directors</b>							
C. Start <sup>1</sup>	311,996	24,071	-	16,470	150,000	448,968	951,505 47%
T. Spencer	250,000	18,045	-	16,470	-	14,244	298,759 5%
<b>Sub-total</b>	<b>561,996</b>	<b>42,116</b>	<b>-</b>	<b>32,940</b>	<b>150,000</b>	<b>463,212</b>	<b>1,250,264</b>
<b>Non-Executive Directors</b>							
J. Morris	171,456	-	-	15,431	-	-	186,887 -
J.W. Phillips	30,000	-	98,486	-	-	-	128,486 -
A. Spinks <sup>2</sup>	25,887	-	18,750	2,330	-	-	46,967 -
P. Cook <sup>3</sup>	4,194	-	19,000	450	-	-	23,644 -
<b>Sub-total</b>	<b>231,537</b>	<b>-</b>	<b>136,236</b>	<b>18,211</b>	<b>-</b>	<b>-</b>	<b>385,984</b>
<b>Other KMP</b>							
Herryansjah	243,404	17,540	-	-	-	-	260,944 -
R. Clarke	270,872	4,442	-	4,128	-	265,871	545,313 49%
<b>Sub-total</b>	<b>514,276</b>	<b>21,982</b>	<b>-</b>	<b>4,128</b>	<b>-</b>	<b>265,871</b>	<b>806,257</b>
<b>TOTAL</b>	<b>1,307,809</b>	<b>64,098</b>	<b>136,236</b>	<b>55,279</b>	<b>150,000</b>	<b>729,083</b>	<b>2,442,505</b>

<sup>1</sup> Resigned 5 June 2013

<sup>2</sup> Appointed 21 August 2012

<sup>3</sup> Resigned 21 August 2012

<sup>4</sup> Details of performance conditions for the options and share performance rights are outlined in the Executive Remuneration section of the Remuneration Report. The amount included as remuneration relating to options and share performance rights is not related to or indicative of the benefit (if any) that the individual may ultimately realise. The fair value of these options and share performance rights as at their date of grant was determined in accordance with AASB 2 *Share-Based Payment* applying valuation models. Details of the assumptions underlying the valuations are set out in Note 24 to the Financial Statements.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (continued)

#### EQUITY INSTRUMENTS

The series of tables below disclose:

- Options and Share Performance Rights ("SPR") granted, vested and lapsed (Consolidated);
- The value of Options and SPR granted, exercised & lapsed (Consolidated);
- Option holdings of Key Management Personnel;
- Share Performance Rights holdings of Key Management Personnel; and
- Ordinary Shares held by Key Management Personnel.

#### Options and Share Performance Rights Granted, Vested & Lapsed – Year ended 30 June 2014 (Consolidated)

Granted				Terms and Conditions for each Grant					
	Type of Equity Instrument	No. Granted During the Year	Grant Date	Fair Value per Equity Instrument at Grant Date	Exercise Price	Vesting Date / First Exercise Price	Expiry Date / Last Exercise Date	No. Vested During the Year	No. Lapsed / Forfeited During the Year
<b><u>Executive Directors</u></b>									
S. Huffadine <sup>1</sup>	Option	3,000,000	13-Jan-14	\$0.08	\$0.55	13-Jan-14	13-Jan-17	-	-
T. Spencer	SPR	-	1-Nov-12	\$0.44	-	30-Jun-15	30-Jun-15	-	97,297 <sup>2</sup>
<b><u>Non-Executive Directors</u></b>									
A. Spinks	Option	500,000	11-Aug-13	\$0.07	\$0.43	11-Aug-13	11-Aug-15	500,000	-
A. Spinks	Option	500,000	11-Aug-13	\$0.08	\$0.44	11-Aug-13	11-Aug-16	500,000	-
<b><u>Other KMP</u></b>									
M. Smith	Option	1,500,000	28-Jan-14	\$0.06	\$0.55	28-Apr-14	28-Jan-16	1,500,000	-
A. McAleese	Option	500,000	2-Jan-14	\$0.10	\$0.39	1-Jul-14	30-Jun-16	-	-
A. McAleese	Option	500,000	2-Jan-14	\$0.11	\$0.41	2-Jan-15	2-Jan-17	-	-

<sup>1</sup> Mr Huffadine's options have not been granted and remain subject to shareholder approval at the Company's next general meeting. The fair value of the options is estimated based on assumption that the options have been granted at balance sheet date and will be revised once the grant date is established in accordance with the requirements of AASB 2 *Share-Based Payment*.

<sup>2</sup> Represents forfeiture on resignation.

#### Value of Options and Share Performance Rights Granted, Exercised and Lapsed – Year ended 30 June 2014 (Consolidated)

	Type of Equity Instrument	Value of Equity Instruments Granted During the Year <sup>1</sup>	Value of Equity Instruments Exercised During the Year	Value of Equity Instruments Lapsed / Forfeited During the Year	Remuneration Consisting of Equity Instruments During the Year
		\$	\$	\$	%
<b><u>Executive Directors</u></b>					
S. Huffadine	Option	241,476 <sup>2</sup>	-	-	58%
T. Spencer	SPR	-	-	(36,973) <sup>3</sup>	-
<b><u>Non-Executive Directors</u></b>					
A. Spinks	Option	71,389	-	-	63%
<b><u>Other KMP</u></b>					
M. Smith	Option	82,426	-	-	41%
A. McAleese	Option	102,861	-	-	21%

<sup>1</sup> For details on the valuation of the option and share performance rights, including models and assumptions used, please refer to Note 24 to the Financial Statements.

<sup>2</sup> The share-based payments value of \$241,476 attributed to Mr Huffadine relates to options which have not been granted as they remain subject to shareholder approval. The fair value of the options is estimated based on assumption that the options have been granted at balance sheet date and will be revised once the grant date is established in accordance with the requirements of AASB 2 *Share-Based Payment*.

<sup>3</sup> Represents forfeiture on resignation.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (continued)

#### EQUITY INSTRUMENTS (continued)

#### Shares Issued on Exercise of Options and Share Performance Rights – Year ended 30 June 2014

There were no shares issued to Key Management Personnel on exercise of options and share performance rights during the year.

#### Option Holdings of Key Management Personnel

	Balance at 1 July 2013	Granted as remuneration	Options exercised	Net change other <sup>2</sup>	Balance at 30 June 2014	Not vested and not exercisable	Vested and exercisable
<b><u>Executive Directors</u></b>							
S. Huffadine <sup>1</sup>	-	3,000,000	-	-	3,000,000	3,000,000	-
T. Spencer	-	-	-	-	-	-	-
<b><u>Non-Executive Directors</u></b>							
J. Morris	-	-	-	-	-	-	-
J.W. Phillips	-	-	-	-	-	-	-
A. Spinks	-	1,000,000	-	-	1,000,000	-	1,000,000
<b><u>Other KMP</u></b>							
M. Smith	-	1,500,000	-	-	1,500,000	-	1,500,000
Herryansjah	-	-	-	-	-	-	-
A. McAleese	-	1,000,000	-	-	1,000,000	1,000,000	-
R. Clarke	1,000,000	-	-	(1,000,000)	-	-	-
<b>Total</b>	<b>1,000,000</b>	<b>6,500,000</b>	<b>-</b>	<b>(1,000,000)</b>	<b>6,500,000</b>	<b>4,000,000</b>	<b>2,500,000</b>

<sup>1</sup> Mr Huffadine's options have not been granted and remain subject to shareholder approval at the Company's next general meeting.

<sup>2</sup> Represents change by virtue of resignation.

#### Share Performance Rights Holdings of Key Management Personnel

	Balance at 1 July 2013	Granted as remuneration	Rights exercised	Rights cancelled	Balance at 30 June 2014	Not vested	Vested
<b><u>Executive Directors</u></b>							
S. Huffadine	-	-	-	-	-	-	-
T. Spencer	97,297	-	-	(97,297)	-	-	-
<b><u>Non-Executive Directors</u></b>							
J. Morris	-	-	-	-	-	-	-
J.W. Phillips	-	-	-	-	-	-	-
A. Spinks	-	-	-	-	-	-	-
<b><u>Other KMP</u></b>							
M. Smith	-	-	-	-	-	-	-
Herryansjah	-	-	-	-	-	-	-
A. McAleese	-	-	-	-	-	-	-
R. Clarke	-	-	-	-	-	-	-
<b>Total</b>	<b>97,297</b>	<b>-</b>	<b>-</b>	<b>(97,297)</b>	<b>-</b>	<b>-</b>	<b>-</b>

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (continued)

### EQUITY INSTRUMENTS (continued)

#### Ordinary Shares held by Key Management Personnel

	Balance held at 1 July 2013	Granted as remuneration	On exercise of options / share performance rights	Net change other <sup>1</sup>	Balance held at 30 June 2014
<b><u>Executive Directors</u></b>					
S. Huffadine	-	-	-	58,865	58,865
T. Spencer	1,050,000	-	-	(1,050,000)	-
<b><u>Non-Executive Directors</u></b>					
J. Morris	7,600,000	-	-	-	7,600,000
J.W. Phillips	16,150,000	-	-	-	16,150,000
A. Spinks	-	-	-	-	-
<b><u>Other KMP</u></b>					
M. Smith	-	-	-	-	-
Herryansjah	-	-	-	-	-
A. McAleese	-	-	-	-	-
R. Clarke	-	-	-	-	-
<b>Total</b>	<b>24,800,000</b>	<b>-</b>	<b>-</b>	<b>(991,135)</b>	<b>23,808,865</b>

<sup>1</sup> Represents change by virtue of shares acquired or sold on market or resignation.

#### LOANS TO KEY MANAGEMENT PERSONNEL

	Balance at 1 July 2013 \$	Balance at 30 June 2014 \$	Number of KMP in group	Interest Revenue \$	Interest Received \$	Interest Outstanding \$
<b>Total</b>						
<b>2014</b>	-	1,592,357	1	44,888	-	44,888

On 30 December 2013 a loan of US\$1,500,000 was extended to Mr Herryansjah. The funds were used to subscribe for new shares in PT Natarang Mining in order for Mr Herryansjah to retain his 15% interest pursuant to the governing Shareholder Agreement.

The loan is unsecured and has no fixed repayment schedule. The loan is to be repaid by Mr Herryansjah via the Company's retention of 80% of his entitlement to PTNM dividends until the loan is repaid in full. Interest on the loan is charged at 5% plus 1-year LIBOR.

#### OTHER TRANSACTIONS AND BALANCES WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

##### *J William (Bill) Phillips – Consulting Services*

The Company paid \$112,248 during the year for consulting fees to Philquest Holding Corporation (an entity associated with Mr Phillips) for professional services provided to the Group outside his normal Board duties.

The fees were paid at a fixed rate of \$20,500 per month in accordance with the Consultancy Agreement entered into on 29 October 2013. At 30 June 2014, \$20,500 was owing to Philquest Holding Corporation.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (continued)

### OTHER TRANSACTIONS AND BALANCES WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES (continued)

#### *Andrew Spinks – Consulting Services*

The Company paid \$8,840 during the year for consulting fees to Strategic Resource Management Pty Ltd (an entity associated with Mr Spinks) for professional services provided to the Group outside his normal Board duties.

The fees were paid at normal commercial rates. At 30 June 2014, no amount was owing to Strategic Resource Management Pty Ltd.

#### *Amounts Recognised at Reporting Date*

The amounts recognised at the reporting date in relation to other transactions with key management personnel and their related parties are:

	2014 \$
<b>Liabilities</b>	
Current liabilities	20,500
<b>Total Liabilities</b>	<b>20,500</b>
<b>Expenses</b>	
Administrative expenses	121,088
<b>Total Expenses</b>	<b>121,088</b>

End of Remuneration Report.

### AUDITOR'S INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES

The auditor's independence declaration for the year ended 30 June 2014 is on page 30. This declaration forms part of the Directors' Report.

#### NON-AUDIT SERVICES

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Details of amounts paid or payable to the auditor for non-audit services provided during the year are detailed in Note 28 of the financial statements.

This report is signed for and on behalf of the Directors in accordance with a resolution of the Directors.




Scott J. Huffadine  
Managing Director

Perth, 10 September 2014

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

In relation to our audit of the financial report of Kingsrose Mining Limited for the year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



D S Lewsen  
Partner  
10 September 2014

## CORPORATE GOVERNANCE STATEMENT

The Board and management of Kingsrose Mining Limited are committed to implementing the highest standard of ethics, integrity, statutory compliance and corporate governance. In establishing the corporate governance framework of the Company, the Board has adopted practices that are consistent with the ASX Corporate Governance Council's Principles and Recommendations (2<sup>nd</sup> Edition). The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and the reason for the adoption of its own practice, in compliance with the "if not, why not" reporting regime. All practices, unless otherwise stated, were in place for the entire reporting period ended 30 June 2014.

### PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

#### *Role and Responsibilities of the Board*

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board recognises it is accountable to the shareholders for the overall performance of the Company and takes responsibility for monitoring the Company's business and affairs and setting its strategic direction, establishing and overseeing the Company's financial position. The key roles and responsibilities reserved for the Board and those delegated to senior management are set out in the Board Charter, a copy of which, is available on the Company's website.

The responsibilities of the Board include:

- Development of corporate objectives and strategy with management, approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;
- Overseeing the management of business risks, safety and occupational health, environmental issues and community development;
- Monitoring actual performance against defined performance expectations and reviewing operating information to understand at all times the state of the health of the Company;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control process are in place and functioning appropriately;
- Appointing, evaluating, rewarding and if necessary the removal of the Managing Director, Chief Financial Officer and other senior management; and
- Overseeing the corporate governance of the Company and establishing codes, charters and policies that reflect the values of the Company and guide the conduct of its Directors and employees.

Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior management. These delegations are reviewed as appropriate.

The Managing Director is responsible for the attainment of the Company's goals and visions for the future, in accordance with the strategies, policies, programs and performance requirements approved by the Board.

### PRINCIPLE 2: STRUCTURE OF THE BOARD TO ADD VALUE

The Board operates in accordance with the broad principles set out in its Charter which is available on the Company's website. The Charter details the Board's composition and responsibilities.

The Board has been structured so that it has an effective composition, size and commitment to adequately discharge its responsibilities and duties given the Company's current size and scale of operations.

## CORPORATE GOVERNANCE STATEMENT

### ***Independent Directors***

ASX Corporate Governance Council Recommendation 2.1 requires that a majority of the Board to be independent Directors. In assessing whether a Director is classified as independent, the Board considers the independence criteria set out in the ASX Corporate Governance Recommendation 2.1 and other factors, information and circumstances deemed by the Board to be relevant.

Using the ASX Recommendations for the assessment of the independence of Directors, the Board has determined that two of the four Directors are independent, those being Mr Morris and Mr Spinks. Mr Huffadine is the Managing Director of the Company and therefore is not considered to be independent. Mr Phillips is a major shareholder of the Company and therefore is not considered independent.

The Board believes that the Company is not of sufficient size or scale to warrant the inclusion of additional independent non-executive Directors in order to comply with the ASX Corporate Governance Councils' Recommendations. The Board considers that each of the current Directors possess the necessary skills and experience suitable and that the current composition of the Board is adequate for the Company's current size and scale of operations.

The Board will continue to review its structure and composition and should the nature and scale of the Company's activities change, then the appointment of additional Directors will be considered.

### ***Chairman***

The Board believes that Mr Morris is the most appropriate person to lead the Board given his long standing experience and understanding of the Company's operations. The Board believes that Mr Morris brings independent judgment to all issues falling within the scope of the role of Chairman. For this reason, the Board deems him to be independent.

Notwithstanding, the Board recognises the ASX Corporate Governance Council's recommendation that the Chair should be an independent Director, and notes that it could be argued that Mr Morris does not meet the definition of independence. However, as noted above the Board is firmly of the view that Mr Morris satisfies the requirements in his capacity as an independent non-executive Chairman.

### ***Board Members***

Details of the members of the Board, their experience, expertise, qualifications and term of office are set out in the Directors' report on pages 13 to 14.

### ***Conflicts of Interest***

In order to ensure that any interests of a Director in a particular matter to be considered by the Board are known by each Director, each Director is required by the Company to disclose any relationships, duties or interests held that may give rise to a potential conflict. As per *The Corporations Act 2001* Directors are required to adhere strictly to constraints on their participation and voting in relation to any matters in which they may have an interest.

### ***Board Access to Information and Independent Advice***

Directors are able to access members of the management team at any time to request relevant information. There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

### ***Review of Board Performance***

The Chairman reviews the performance of the Board regularly. The performance criteria against which Directors and executives are assessed are aligned with the financial and non-financial objectives of the Company. Directors whose performance is consistently unsatisfactory may be asked to retire.

## CORPORATE GOVERNANCE STATEMENT

### ***Selection and Re-appointment of Directors***

The Board considers the balance of independent Directors on the Board as well as the skills and qualifications of potential candidates that will best enhance the Board's effectiveness.

The Company's constitution requires one third of the Directors is to retire by rotation at each Annual General Meeting. A Director appointed as an additional Director by the Board will hold office until the next Annual General Meeting when he or she may be re-elected and are not taken into account in determining the number of Directors required to retire by rotation.

Directors (except a Managing Director) cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election. Retiring Directors are eligible to offer themselves for re-election.

### ***Board Committees***

The Board has established two committees to assist in the execution of its duties and to allow detailed consideration of complex issues. These are the Remuneration Committee and the Audit Committee. Matters determined by the committees are submitted to the Board as recommendations for Board decisions.

Each committee has a written Charter approved by the Board setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. The Charters are reviewed on an annual basis and are available on the Company's website.

### **Remuneration Committee**

The members of the Remuneration Committee at the date of this report were:

- Mr John Morris (Chairman)
- Mr Andrew Spinks
- Mr J William (Bill) Phillips

The Committee's primary roles are to:

- To oversee and provide support to the Board concerning the Company's remuneration policies and practices;
- Setting and reviewing the overall remuneration strategy and the implementation of the Company's short and long term incentive schemes; and
- Setting and reviewing remuneration arrangements for Directors and Senior Management.

### **Nomination Committee**

Given the size and scale of the Company's operations the full Board undertakes the role of the Nomination Committee. The Board considers that the Company is currently not of a size that the formation of a separate Nomination Committee would provide any additional benefits.

## **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

### ***Code of Ethics and Conduct***

The Board endeavors to ensure that the Directors, officers and employees of the Company act with integrity and observe the highest standards of behavior and business ethics in relation to their corporate activities. To assist the Board in carrying out its functions, it has developed a Code of Conduct to guide Directors, officers and employees in their performance of their duties and outlines the responsibilities and accountabilities of all Company personnel. A copy of the Code of Conduct is available on the Company's website.

## CORPORATE GOVERNANCE STATEMENT

### *Trading in Company Securities*

The Board has adopted a Securities Trading Policy in relation to the trading in the securities of the Company. The policy describes what constitutes Insider Trading, the penalties for undertaking such activities and makes recommendations on when employees should not trade in the Company's securities. The policy also notes designated "black out" periods during which Directors and senior management are prohibited from trading in the securities of the Company. A copy of the Company's Share Trading Policy is available on the Company's website.

### *Diversity Policy*

The Company recognises the value of a diverse workforce and believes that embracing diversity in its workforce contributes to the achievement of its corporate objectives and increases stakeholder satisfaction. The Groups workforce across Indonesia and Australia is comprised of many individuals with diverse skills, values and backgrounds. The Company is committed to creating an environment in which all employees are treated with fairness and respect, and have equal access to opportunities within the workplace.

In July 2011, the Board adopted the Company's Diversity Policy, a copy of which, is available on the Company's website. The Policy outlines the way in which the Company aims to create and support an inclusive workplace that embraces and promotes diversity, including setting measurable objectives and monitoring the progress of the measurable objectives. The measurable objective sets by the Board are:

Measureable Objectives	Outcome
Increase the number of woman in the workforce, including senior management positions and at Board level.	Of the Groups total workforce, 5% are females, with one female in a senior executive position.  The Company notes that due to the nature of its operations and the culture in which it operates, it is not possible to ensure gender equality as the majority of employees are underground miners, and woman have not sought to fill these positions.
Promote an inclusive culture that embraces and values diversity, tolerates differences and treats the workforce with fairness and respect.	The Company recognizes the importance of diversity in contributing to the local communities in which it operates by creating and providing employment opportunities to those within the local communities. As at 30 June 2014 the Company employed 519 employees within Indonesia of differing ages, ethnicities and cultural background, of that 72% were from the local Lampung province.
Provide career development opportunities for every employee, irrespective of any cultural, gender and other differences.	Career development opportunities are equal for all employees irrespective of their culture, race or gender.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### *Audit Committee*

Recognising the framework of increasing compliance obligations upon a public listed company, the Board decided to form an Audit Committee during the period. The members of the Audit Committee at the date of this report are:

- Mr Andrew Spinks (Chairman)
- Mr John Morris
- Mr J William (Bill) Phillips

Details of each Directors' qualifications and attendance at committee meetings are set out in the Directors' Report.

The Audit Committee's primary roles are to:

- Assist the Board in fulfilling its oversight responsibilities in relation to the accounting and financial reporting

## CORPORATE GOVERNANCE STATEMENT

process;

- Assist the Board in reviewing the effectiveness of the Company's internal control environment, reporting systems, accounting and financial controls;
- Selecting, retaining and monitoring the independence and performance of the Company's external auditors;
- Overseeing the audit and review of the Company's annual and half-year financial statements; and
- Approving non-audit services.

All members of the committee are financially literate and have an appropriate understanding of the industry in which the Company operates.

The committee has the authority within the scope of its responsibilities to seek and information it requires from any employee or external party.

### **External Auditors**

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. It is Ernst & Young's policy to rotate engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in the Notes to the Financial Statements in the Annual Report.

There is no indemnity provided by the Company to the auditor in respect of any potential liability to third parties.

The external auditor is requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and preparation and content of the audit report.

### **PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

The Company is committed to ensuring that shareholders and the market are provided with full and timely information and that all stakeholders have equal opportunities to receive externally available information issued by the Company. The Company's "Continuous Disclosure Policy" reinforces the Company's commitment to its continuous disclosure obligations and outline management's accountabilities and the processes to be followed for ensuring compliance.

The policy also contains guidelines on information that may be price sensitive. The Board has designated the Company Secretary as the primary person responsible for overseeing and coordinating disclosure of information to ASX, as well as communicating with ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements with the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX. The Company's Continuous Disclosure Policy is available on the Company's website.

### **PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

The Company has established a Shareholder Communication Policy to promote effective communication with shareholders and to ensure they are kept informed of all major developments affecting the Company. The policy is available on the Company's website.

The Company is committed to communicating effectively with shareholders through the timely release of information to the market via the ASX. In addition, the external auditors are required to attend the Annual General Meeting and are available to answer any shareholder queries in relation to the conduct of the audit and the preparation and content of the auditor's report.

The Company seeks to provide the opportunity for shareholders to participate through electronic means. This includes having information such as Company announcements, media articles, details of Company meetings, and audited financial reports available on the Company's website. The website also includes a feedback mechanism and an option for shareholders to register for inclusion in the distribution of email updates of Company announcements and other information deemed relevant.

## CORPORATE GOVERNANCE STATEMENT

### PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Company is committed to the identification, monitoring and management of risks associated with its business activities and this is seen as a key responsibility within the Board Charter.

The Board has not established a separate Risk Committee due to the size and scale of its operations. However, the Board as a whole has a proactive approach to risk management and takes responsibility for ensuring that there are adequate policies in relation to risk management, compliance and internal control systems. The Company's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives, with considerable importance placed on maintaining a strong control environment. The Board has adopted a policy in relation to risk oversight and management which is available on the Company's website.

#### ***Board Oversight of the Risk Management System***

The Board is responsible for approving and overseeing the risk management system and has delegated the responsibility for the day to day implementation of the strategy and the establishment of policies, procedures and internal controls to senior management. The Board reviews, at least annually, the effectiveness of the implementation of the risk management controls and procedures.

The principal aim of the system of internal control is the management of business risks, with a view to enhancing the value of shareholders' investments and safeguarding assets. Although no system of internal control can provide absolute assurance that the business risks will be fully mitigated, the internal control systems have been designed to meet the Company's specific needs and the risks to which it is exposed.

Internal control measures currently adopted by the Board include:

- monthly reporting to the Board in respect of operational and financial performance against budget;
- weekly reporting of the Company's financial position; and
- regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

#### ***Managing Director and Chief Financial Officer Certification***

In accordance with section 295A of the *Corporations Act 2001*, the Managing Director and Chief Financial Officer have provided a written statement to the Board that:

- The Company's financial reports are complete and present a true and fair view, in all material respects, of the financial position and operational results of the Company and Group, and are in accordance with relevant accounting standards and the *Corporations Act 2001*;
- That the above statements are founded on a sound system of financial risk management and internal compliance and control systems which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material aspects in relation to financial reporting risks.

### PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

As outlined under Principle 2, a Remuneration Committee has been established by the Company to assist the Board in fulfill its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

The Committee, comprising non-executive Directors, is responsible for determining and reviewing the compensation arrangements of Directors and the executive team, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both executive and non-executive Directors.

The Company has structured the remuneration of its senior executives such that it comprises a fixed salary, statutory superannuation and potential to participate in the Company's short-term (cash based) and long-term (equity based)

## **CORPORATE GOVERNANCE STATEMENT**

incentive plans. The Company is of the view that by remunerating senior executives in this manner it rewards them for performance and aligns their interests with those of shareholders and increases the Company's performance.

Non-executive Directors are paid fees out of the maximum aggregate fee pool approved by shareholders for non-executive Directors' remuneration.

The remuneration received by Directors and executives during the financial year is contained in the "Remuneration Report" within the Directors' Report of the Annual Report.

**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014**

		2014	2013 (Restated)*
	Note	\$	\$
<b>Continuing operations</b>			
Sale of goods	4(a)	3,815,074	20,693,822
Other revenue	4(a)	160,483	227,953
<b>Total revenue</b>		<b>3,975,557</b>	20,921,775
Cost of sales	4(b)	(7,833,292)	(20,632,560)
<b>Gross (loss)/profit</b>		<b>(3,857,735)</b>	289,215
Other income	4(c)	29,836	4,418,933
Administration expenses	4(d)	(5,065,517)	(5,520,847)
Other expenses	4(e)	(24,694,792)	-
Finance costs	4(f)	(1,122,890)	(635,867)
Loss from continuing operations before income tax		(34,711,098)	(1,448,566)
Income tax benefit	5(a)	10,531,321	1,712,479
<b>(Loss)/Profit from continuing operations after income tax</b>		<b>(24,179,777)</b>	263,913
<b>Discontinued operations</b>			
Loss from discontinued operations after income tax	14	-	(38,022)
<b>Net (loss)/profit for the year</b>		<b>(24,179,777)</b>	225,891
<b>(Loss)/Profit for the year is attributable to:</b>			
Owners of the parent		(20,591,955)	1,495,018
Non-controlling interest		(3,587,822)	(1,269,127)
		<b>(24,179,777)</b>	225,891
(Loss)/Earnings per share from continuing operations attributable to the ordinary equity holders of the parent:		<b>Cents</b>	Cents
Basic (loss)/earnings per share – cents per share	6	<b>(6.21)</b>	0.53
Diluted (loss)/earnings per share – cents per share	6	<b>(6.21)</b>	0.53
(Loss)/Earnings per share attributable to the ordinary equity holders of the parent:			
Basic (loss)/earnings per share – cents per share	6	<b>(6.21)</b>	0.51
Diluted (loss)/earnings per share – cents per share	6	<b>(6.21)</b>	0.51

\* Certain amounts shown here do not correspond to the annual report as at 30 June 2013 and reflect adjustments made as detailed in Note 2(b)(i).

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013 (Restated)*
	\$	\$
<b>Net (loss)/profit for the year</b>	<b>(24,179,777)</b>	225,891
<b>Other comprehensive income/(loss)</b>		
<i>Items that may be reclassified to profit or loss in subsequent periods</i>		
Foreign currency translations	364,084	1,365,991
Income tax effect	-	-
	364,084	1,365,991
<i>Items that may not be reclassified to profit or loss in subsequent periods</i>		
Actuarial gains on defined benefits obligation	98,143	451,086
Income tax effect	(34,350)	(157,880)
	63,793	293,206
<b>Other comprehensive income/(loss) for the year, net of tax</b>	<b>427,877</b>	1,659,197
<b>Total comprehensive income/(loss) for the year</b>	<b>(23,751,900)</b>	1,885,088
<b>Total comprehensive income/(loss) for the year is attributable to:</b>		
Owners of the parent	(20,218,108)	2,846,056
Non-controlling interest	(3,533,792)	(960,968)
	<b>(23,751,900)</b>	1,885,088

\* Certain amounts shown here do not correspond to the annual report as at 30 June 2013 and reflect adjustments made as detailed in Note 2(b)(i).

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014**

	Note	2014	2013 (Restated)*	1 July 2012 (Restated)*
		\$	\$	\$
<b>Current Assets</b>				
Cash and cash equivalents	8	6,661,056	1,307,739	30,125,139
Trade and other receivables	9	473,012	2,704,129	2,776,239
Inventories	10	3,109,497	3,577,644	4,334,366
Income tax receivable	5(d)	2,884,095	5,291,792	-
Other		160,794	408,993	457,722
<b>Total Current Assets</b>		<b>13,288,454</b>	<b>13,290,297</b>	<b>37,693,466</b>
<b>Non-Current Assets</b>				
Trade and other receivables	9	4,910,818	2,746,645	1,607,114
Income tax receivable	5(d)	-	931,506	-
Plant and equipment	11	8,129,196	9,841,531	10,103,953
Mine properties and development	12	26,247,795	39,102,993	27,090,027
Exploration and evaluation assets	13	21,635,399	20,498,532	17,151,051
Deferred tax assets	5(e)	12,246,107	1,478,688	457,222
<b>Total Non-Current Assets</b>		<b>73,169,315</b>	<b>74,599,895</b>	<b>56,409,367</b>
<b>TOTAL ASSETS</b>		<b>86,457,769</b>	<b>87,890,192</b>	<b>94,102,833</b>
<b>Current Liabilities</b>				
Trade and other payables	15	2,788,131	3,919,326	22,315,071
Interest-bearing liabilities	16	10,885,179	11,119,824	312,666
Income tax payable	5(d)	177,068	436,491	2,962,048
Provisions	17	350,042	371,967	433,348
<b>Total Current Liabilities</b>		<b>14,200,420</b>	<b>15,847,608</b>	<b>26,023,133</b>
<b>Non-Current Liabilities</b>				
Interest-bearing liabilities	16	259,665	817,513	181,995
Provisions	17	1,291,560	1,371,870	1,474,357
<b>Total Non-Current Liabilities</b>		<b>1,551,225</b>	<b>2,189,383</b>	<b>1,656,352</b>
<b>TOTAL LIABILITIES</b>		<b>15,751,645</b>	<b>18,036,991</b>	<b>27,679,485</b>
<b>NET ASSETS</b>		<b>70,706,124</b>	<b>69,853,201</b>	<b>66,423,348</b>
<b>EQUITY</b>				
Equity attributable to equity holders of the parent				
Contributed equity	18	84,867,375	62,769,532	62,144,725
Reserves	19	3,391,001	2,146,510	139,458
(Accumulated losses)/Retained earnings		(18,587,119)	1,950,612	206,369
		<b>69,671,257</b>	<b>66,866,654</b>	<b>62,490,552</b>
Non-controlling interest	20	1,034,867	2,986,547	3,932,796
<b>TOTAL EQUITY</b>		<b>70,706,124</b>	<b>69,853,201</b>	<b>66,423,348</b>

\* Certain amounts shown here do not correspond to the annual report as at 30 June 2013 and reflect adjustments made as detailed in Note 2(b)(i).

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

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014**

	Note	2014	2013
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		3,757,913	16,556,951
Payment to suppliers and employees		(13,467,123)	(21,457,294)
VAT refund received		1,656,338	263,745
Interest received		109,741	409,928
Interest and other finance costs paid		(1,008,489)	(426,989)
Income tax refund received/(paid)		2,959,426	(7,763,279)
<b>Net cash flows used in operating activities</b>	22(a)	<b>(5,992,194)</b>	<b>(12,416,938)</b>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(377,213)	(1,426,998)
Proceeds from sale of plant and equipment		17,673	33,704
Payments for mine properties and development		(7,429,660)	(9,774,769)
Payments for exploration and evaluation expenditure		(1,788,114)	(3,085,279)
Buyback of third party's royalty entitlement		(134,466)	-
Disposal of subsidiary, net of cash disposed of	14	-	(5,187)
<b>Net cash flows used in investing activities</b>		<b>(9,711,780)</b>	<b>(14,258,529)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		23,328,068	-
Share issue costs		(1,230,225)	-
Proceeds from exercise of share options		-	624,807
Proceeds from loans – related parties		-	9,835,122
Proceeds from sale and leaseback of plant and equipment		-	524,745
Repayment of hire purchases		(716,683)	(586,854)
Loan to KMP/non-controlling interest	25(b)(ii)	(1,676,352)	-
Equity contribution from KMP/non-controlling interest to the share capital of subsidiary		1,679,543	-
Dividends paid to owners of the parent		-	(11,566,713)
Dividends paid to non-controlling interest		-	(1,000,881)
<b>Net cash flows (used in)/from financing activities</b>		<b>21,384,351</b>	<b>(2,169,774)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,680,377</b>	<b>(28,845,241)</b>
Cash and cash equivalents at beginning of the year		1,307,739	30,125,139
Effects of exchange rate changes on cash and cash equivalents held		(327,060)	27,841
<b>Cash and cash equivalents at end of the year</b>	8	<b>6,661,056</b>	<b>1,307,739</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

Equity attributable to Equity Holders of the Parent									
	Note	Issued Capital	Share-Based Payments Reserve	General Reserve	Foreign Currency Translation Reserve	Retained Earnings / (Accumulated Losses)	Subtotal	Non-Controlling Interest	Total
		\$	\$	\$	\$	\$	\$	\$	\$
At 1 July 2012		62,144,725	5,771,197	98,126	(5,729,865)	254,324	62,538,507	3,941,259	66,479,766
Change in accounting policy	2(b)(i)	-	-	-	-	(47,955)	(47,955)	(8,463)	(56,418)
<b>At 1 July 2012</b>		<b>62,144,725</b>	<b>5,771,197</b>	<b>98,126</b>	<b>(5,729,865)</b>	<b>206,369</b>	<b>62,490,552</b>	<b>3,932,796</b>	<b>66,423,348</b>
Net profit for the year		-	-	-	-	1,495,018	1,495,018	(1,269,127)	225,891
Other comprehensive income for the year		-	-	-	1,101,813	249,225	1,351,038	308,159	1,659,197
Total comprehensive income/(loss) for the year		-	-	-	1,101,813	1,744,243	2,846,056	(960,968)	1,885,088
<b>Transactions with owners in their capacity as owners:</b>									
Proceeds from exercise of options		624,807	-	-	-	-	624,807	-	624,807
Share-based payments		-	919,958	-	-	-	919,958	-	919,958
Transfers		-	-	(14,719)	-	-	(14,719)	14,719	-
<b>At 30 June 2013</b>		<b>62,769,532</b>	<b>6,691,155</b>	<b>83,407</b>	<b>(4,628,052)</b>	<b>1,950,612</b>	<b>66,866,654</b>	<b>2,986,547</b>	<b>69,853,201</b>
Net loss for the year		-	-	-	-	(20,591,955)	(20,591,955)	(3,587,822)	(24,179,777)
Other comprehensive income for the year		-	-	-	319,623	54,224	373,847	54,030	427,877
Total comprehensive income/(loss) for the year		-	-	-	319,623	(20,537,731)	(20,218,108)	(3,533,792)	(23,751,900)
<b>Transactions with owners in their capacity as owners:</b>									
Proceeds issue of shares		23,328,068	-	-	-	-	23,328,068	-	23,328,068
Share issue costs		(1,230,225)	-	-	-	-	(1,230,225)	-	(1,230,225)
Share-based payments		-	924,868	-	-	-	924,868	-	924,868
Contribution from non-controlling interest to the increase in share capital of subsidiary		-	-	-	-	-	-	1,582,112	1,582,112
<b>At 30 June 2014</b>		<b>84,867,375</b>	<b>7,616,023</b>	<b>83,407</b>	<b>(4,308,429)</b>	<b>(18,587,119)</b>	<b>69,671,257</b>	<b>1,034,867</b>	<b>70,706,124</b>

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### 1. CORPORATE INFORMATION

The financial report of Kingsrose Mining Limited (“Kingsrose” or the “Company”) and its controlled entities (the “Group”) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 10 September 2014.

Kingsrose Mining Limited (the “Parent”) is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. Kingsrose Mining Limited is the ultimate holding company.

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 Suite 9, Level 2, 12-14 Thelma Street, West Perth, WA 6005.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis and is presented in Australian dollars.

For the purpose of preparing the financial report, the Company is a for-profit entity.

#### Working Capital Deficiency

At balance date the Group had a working capital deficiency of \$911,966 (2013: \$2,557,311). Cash and cash equivalents balance at 30 June 2014 was \$6,661,056 (2013: \$1,307,739), Indonesian taxes related current receivables were \$2,884,095 (2013: \$7,854,827) and the Group had current interest-bearing liabilities of \$10,885,179 (2013: \$11,119,824) which includes \$10,307,856 (2013: \$10,390,836) of loans from related parties due for repayment between July and October 2014. The Directors have considered the funding and operational status of the business along with events occurring after balance date, in arriving at their assessment of going concern including the following:

- Receipt of the final Indonesian regulatory approvals for the Talang Santo Mine in July 2014;
- Successful restructure of the Company’s loan facilities in July 2014, which are now repayable between January and October 2015, resulting in a net current asset position at 31 July 2014;
- Positive operating cash flow generation in future periods from the Talang Santo Mine following the restart of full mining activities in July 2014 and the subsequent shipment of 4,257 ounces of gold and 12,488 ounces of silver in August 2014 during the operational ramp up period; and
- Ability to manage the timing of cash flows to meet the obligations of the business as and when due.

Accordingly, the Directors believe that the Group will continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

#### (a) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) New accounting standards and interpretations***(i) Changes in accounting policies and disclosures*

Since 1 July 2013, the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2013. The nature and impact of these Standards and Interpretations is described below:

**AASB 12 Disclosure of Interests in Other Entities**

AASB 12 sets out the required disclosures for the Group's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in AASB 12 are more comprehensive than the previous disclosure requirements for subsidiaries. While the Group has subsidiaries with material non-controlling interests, there are no joint arrangements, associates or unconsolidated structured entities. AASB 12 disclosures are provided in Note 20.

**AASB 119 Employee Benefits (Revised 2011)**

The Group applied AASB 119 (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The opening statement of financial position of the earliest comparative period presented (1 July 2012) and the comparative figures have been accordingly restated.

The revisions to AASB 119 have resulted in amendments to the Group's accounting policy for its liability for termination benefits. Actuarial gains and losses arising from the changes in actuarial estimates are not recognised as income or expense on a straight-line basis over the expected average remaining working lives of the employees. Instead, these are now recognised immediately in other comprehensive income.

In addition, the unvested past service costs can no longer be deferred and recognised over the future vesting period. Instead, all past service costs are recognised at the earlier of when the amendment to the plan occurs and when the Group recognises related restructuring or termination costs. Until 30 June 2013, the Group's unvested past service costs were amortised over the period until the benefits vested. Upon adoption of AASB 119 (Revised 2011), past service costs are recognised immediately if the benefits have vested immediately following the introduction of, or changes to, the defined benefit plan.

AASB 119 (Revised 2011) also requires more extensive disclosures. These have been provided in Note 17(a) with the exception of the sensitivity disclosures for the defined benefit obligation where comparative period (year ended 30 June 2013) have not been provided as permitted by the revised standard.

Impact on consolidated income statement:

	2014	2013
	\$	\$
Increase in cost of sales	(39,550)	(55,132)
Decrease in deferred tax expense	13,843	19,296
<b>Net increase in loss for the year from continuing operations</b>	<b>(25,707)</b>	<b>(35,836)</b>
Attributable to:		
Owners of the parent	(21,851)	(30,461)
Non-controlling interest	(3,856)	(5,375)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) New accounting standards and interpretations (continued)***(i) Changes in accounting policies and disclosures (continued)*

Impact on consolidated statement of comprehensive income:

	2014	2013
	\$	\$
(Decrease)/Increase in foreign currency translation movements in other comprehensive income	(26,899)	38,260
Increase in actual movements in other comprehensive income	98,143	451,086
Increase in tax effect on actuarial movements in other comprehensive income	(34,350)	(157,880)
<b>Net increase in other comprehensive income, net of tax</b>	<b>36,894</b>	<b>331,466</b>
<b>Net increase in total comprehensive income</b>	<b>11,187</b>	<b>295,630</b>
Attributable to:		
Owners of the parent	9,509	251,285
Non-controlling interest	1,678	44,345

Impact on consolidated statement of financial position:

	2014	2013	1 July 2012
	\$	\$	\$
Decrease/(Increase) in the liability for termination benefit - non-current	340,851	347,417	(86,797)
Increase/(decrease) in deferred tax liabilities - non-current	(119,298)	(108,205)	30,379
<b>Net increase/(decrease) in equity</b>	<b>221,553</b>	<b>239,212</b>	<b>(56,418)</b>
Attributable to:			
Owners of the parent	188,320	203,330	(47,955)
Non-controlling interest	33,233	35,882	(8,463)

The transition did not have any impact on the consolidated statement of cash flows. There was no significant impact on the Group's basic and diluted earnings per share.

**Other Changes**

The Group has adopted the following other new and amended Standards which have not resulted in any significant changes to accounting policies and any effect on the financial position or performance of the Group.

- AASB 10 *Consolidated Financial Statements*
- AASB 13 *Fair Value Measurement*
- AASB 124 *Related Party Disclosures*
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle
- AASB 2012-9 Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) New accounting standards and interpretation (continued)***(ii) Accounting standards and interpretations issued but not yet effective*

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2014. These are outlined in the following table.

Reference	Title	Summary	Application date of standard	Application date for Group	Impact of Group financial report
AASB 9	<i>Financial Instruments</i>	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>• The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>• The remaining change is presented in profit or loss</li> </ul> <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Further amendments were made by AASB 2012-6, which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9 introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.</p>	1 January 2015	1 July 2015	The impact on adoption of this Standard has not been fully assessed by the Group.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) New accounting standards and interpretation (continued)***(ii) Accounting standards and interpretations issued but not yet effective (continued)*

Reference	Title	Summary	Application date of standard	Application date for Group	Impact of Group financial report
AASB 2012-3	Amendments to Australian Accounting Standards – <i>Offsetting Financial Assets and Financial Liabilities</i>	AASB 2012-3 adds application guidance to AASB 132 <i>Financial Instruments: Presentation</i> to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalents to net settlement.	1 January 2014	1 July 2014	No significant impact.
AASB 2013-3	Amendments to AASB 136 – <i>Recoverable Amount Disclosures for Non-Financial Assets</i>	AASB 2013-3 amends the disclosure requirements in AASB 136 <i>Impairment of Assets</i> . The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	1 July 2014	No significant impact.
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	1 July 2016	The impact on adoption of this Standard has not been fully assessed by the Group.
IFRS 15	<i>Revenue from Contracts with Customers</i>	IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.	1 January 2017	1 July 2017	The impact on adoption of this Standard has not been fully assessed by the Group.

Apart from the above, other accounting standards, amendments and interpretations that will be applicable in future periods have been considered; however their impact is considered insignificant to the Group.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) Principles of consolidation**

The consolidated financial statements comprise the financial statements of Kingsrose Mining Limited and its controlled entities, referred to collectively throughout these financial statements as the “Group”.

Controlled entities are consolidated from the date on which control commences until the date that control ceases.

The financial statements of the controlled entities are prepared for the same reporting period as the parent company using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The balances and effects of transactions between controlled entities included in the consolidated financial statements have been fully eliminated.

Non-controlling interests are allocated their share of net profit or loss after tax in the income statement and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interests even if that results in a deficit balance.

**(d) Foreign currency translation***(i) Functional and presentation currency*

Both the functional and presentation currency of Kingsrose Mining Limited and its controlled entities are Australian dollars (\$) other than its Indonesian subsidiary. The Indonesian subsidiary's functional currency is United States dollars which is translated to the presentation currency (see (iii) below).

*(ii) Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the reporting date. All exchange differences in the consolidated financial statement are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

*(iii) Translation of Group Companies' functional currency to presentation currency*

The results of the Indonesian subsidiary are translated into Australian dollars (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in the Indonesian subsidiary and of the borrowings that form part of the net investment in the Indonesian subsidiary are taken to the foreign currency translation reserve. If the Indonesian subsidiary was sold, the exchange differences would be transferred out of equity and recognised in the income statement.

**(e) Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(e) Revenue recognition (continued)***Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership in the product have passed to the buyer and can be reliably measured.

*Interest revenue*

Revenue is recognised as interest accrues using the effective interest method.

**(f) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(g) Trade and other receivables**

Trade receivables from gold and silver sales are recorded at fair value of the sales proceeds and are to be settled within one trading day from date of invoice.

Other receivables are recorded at original invoiced amount less an allowance for impairment.

An impairment provision is recognised when there is evidence that the Group will not be able to collect all amounts due according to the original term of receivables. Financial difficulties of the debtor or default payments are considered objective evidence of impairment. Bad debts are written off when identified.

**(h) Inventories**

Inventories comprising gold dore, bullion, gold in circuit and stockpiles of unprocessed ore, are valued at the lower of weighted average cost and net realisable value. Silver obtained as a result of the production process to extract gold is not carried as inventories as it is treated as a by-product.

Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to gold bullion, gold in circuit and items of inventory on the basis of weighted average costs.

Inventories of consumable supplies and spare parts expected to be used in production are valued at the lower of weighted average cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**(i) Derivative financial instruments**

Derivative financial instruments are used by the Group to manage exposures to exchange rates and the Group does not apply hedge accounting. These derivatives are stated at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Changes in fair value are recognised immediately as income or expense in the income statement.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) Investments and other financial assets***Classification*

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, and financial assets held for trading.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

*Subsequent measurement***(i) Financial assets classified as held for trading**

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the statement of financial position.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

**(iii) Fair value**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active or there are no quoted prices for the instrument, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

**(iv) Impairment**

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

**(k) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in the income statement as incurred.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Property, plant and equipment (continued)

The cost of property, plant and equipment constructed by the Group includes the costs of all materials used in construction, direct labour and an allocation of overheads.

Items of property, plant and equipment are depreciated as outlined below:

- Processing plant: unit of production based on economically recoverable Mineral Resource.
- Other plant and equipment: straight line or diminishing value method at a rate of 20% to 33% per annum, depending on the item of property, plant and equipment.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and available for use.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, at each reporting date.

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### *Derecognition*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

#### *Impairment*

Property, plant and equipment are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value-in-use' (being the net present value of expected cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value-in-use, future cash flows are based on:

- a mine plan based on estimates of the quantities of Ore Reserves and/or Mineral Resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices; and
- future cash costs of production.

#### (l) Mine properties and development

Mine properties and development represent the acquisition costs and/or accumulation of exploration, evaluation and development expenditure in respect of areas of interest in which mining has commenced. When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of mine properties and development only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on a production output basis, proportional to the depletion of the Mineral Resource expected to be ultimately economically recoverable.

#### *Impairment*

The carrying value of capitalised mine development expenditure is assessed for impairment whenever facts and circumstances suggests that the carrying amount of the asset may exceed its recoverable amount.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(l) Mine properties and development (continued)**

The recoverable amount of capitalised mine development expenditure is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any impairment losses are recognised in profit or loss.

**(m) Exploration and evaluation assets**

Exploration and evaluation expenditure is carried forward as an asset where:

- (i) such costs are expected to be recouped through successful development and exploration of the area of interest or, by its sale; or
- (ii) exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable Ore Reserves, Mineral Resources and active operations in relation to the area are continued.

Accumulated costs in relation to an abandoned area are written off in full in the year in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then exploration and evaluation expenditure and any subsequent expenditure within the area of interest are capitalised as mine properties and development.

**(n) Impairment of assets**

The Group reviews the carrying value of its assets for impairment where indicators of impairment exist. An impairment loss is recognised of the amount in which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units).

**(o) Trade and other payables**

Trade and other payables are carried at amortised cost. Due to their short term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 14-30 days of recognition.

**(p) Interest-bearing liabilities**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(p) Interest-bearing liabilities (continued)***Borrowing costs*

Borrowing costs are recognised as an expense when incurred, except where the borrowing costs incurred are directly associated with the construction, purchase or acquisition of a qualifying asset, in which case the borrowing costs are capitalised as part of the cost of the asset.

**(q) Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, long service leave and other long-term service benefits.

*Short-term benefits*

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

*Long-term benefits*

The long-term employee benefits within the Group relates to liabilities for long service leave of Kingsrose employees and termination benefits for PTNM employees.

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. The obligation is calculated using expected future increases in wage and salary rates, experience of employee departures and period of service. Expected future payments are discounted using the market yields at the reporting date on national government bonds which have maturity dates approximating the terms of the Company's obligations.

The termination benefits are unfunded. The liability for termination benefits recognised is the present value of the defined benefit obligation at the balance sheet date. The obligation is calculated by independent actuaries using the projected unit credit method and independent assumptions. The present value of the obligations is determined by discounting the estimated future obligation. Actuarial gains and losses arising from the changes in actuarial estimates are recognised immediately in other comprehensive income. Past service costs arising from the introduction of the defined benefit plan or changes in the benefits payable of an existing plan are recognised immediately in the income statement if the benefits have vested immediately following the introduction of, or changes to, the defined benefit plan.

*Defined contribution superannuation plan*

Contributions to defined contribution superannuation plans are expensed when incurred.

*Share-based payment*

The Company provides benefits to its employees (including KMP and eligible employees of the Group) in the form of share-based payments via the Kingsrose Mining Limited Employee Options and Share Rights Plan 2012 ("EOSRP"), whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The Company also makes share-based payments to consultants, contractors and advisors, whereby those parties render services in exchange for shares or rights over shares, granted at the sole discretion of the Company (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined using a Binomial based model and the fair value of share performance rights is determined using a Monte Carlo simulation model, further details of which are provided in Note 24. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(q) Employee benefits (continued)**

The cost of equity-settled transactions with non-employees is measured by reference to the fair value of the goods and services received unless this cannot be reliably measured, in which case these are measured at the fair value of the equity instruments granted.

At each reporting date, the Group revises its estimate of the number of equity-settled transactions that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

**(r) Leases**

Finance leases, which transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the facility.

**(s) Income tax and other taxes**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(s) Income tax and other taxes (continued)**

- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

*Other taxes*

Revenues, expenses and assets are recognised net of the amount of GST/VAT except when the GST/VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

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

Cash flows are included in the statement of cash flows on a gross basis and the GST/VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST/VAT recoverable from, or payable to, the taxation authority.

**(t) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(u) Provisions for decommissioning and restoration costs**

The Group is required to decommission and rehabilitate mines at the end of their producing lives to a condition acceptable to the relevant authorities.

The expected cost of any approved decommissioning and rehabilitation program, discounted to its present value, is provided when the related environmental disturbance occurs. The cost is capitalised when it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of closure. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision for the expected cost is included in financing expenses over the life of the mine. Expected decommissioning and rehabilitation costs are based on the discounted value of the estimated future cost of detailed plans prepared for each site. Where there is a change in the expected decommissioning and restoration costs, the value of the provision and any related assets are adjusted and the effect is recognised in profit and loss on a prospective basis over the remaining life of the operation.

**(v) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, options or share performance rights are shown in equity as a deduction, net of tax, from the proceeds.

**(w) Earnings/(loss) per share**

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

Diluted earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(x) Operating segments**

The Group identifies its operating segments based on the internal reports that are reviewed and used by the Board of Directors and executive management team (chief operating decision makers) in assessing performance and determining the allocation of resources.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(y) Significant accounting judgements, estimates and assumptions**

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

*(i) Impairment of assets*

The recoverable amount of a Cash Generating Unit ("CGU") is determined as the higher of value in use and fair value less costs of disposal.

The future recoverability of the CGU is dependent on a number of factors, including the level of proved, probable and inferred Mineral Resources, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices. Given the nature of the Group mining activities, future changes in long term assumptions upon which these estimates are based, may give rise to material adjustments to the carrying value of the CGU.

To the extent that the carrying value of the CGU is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

*(ii) Provisions for decommissioning and restoration costs*

Decommissioning and restoration costs are a normal consequence of mining and the majority of this expenditure is incurred at the end of a mine's life. In determining an appropriate level of provision consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the mine), and the estimated future level of inflation.

The ultimate cost of decommissioning and restoration is uncertain and costs can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in reserves or to production rates.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results.

*(iii) Share-based payments*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options and share performance rights is determined by using a Binomial and Monte Carlo simulation models respectively, with the assumptions detailed in Note 24. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

**(z) Discontinued operations**

A discontinued operation is a component of the entity that has been disposed of or classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement and the assets and liabilities are presented separately on the face of the statement of financial position.

**(aa) Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year's disclosures.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****3. OPERATING SEGMENTS****Identification of reportable segments**

- The Group has identified its operating segments based on internal reports that are reviewed and used by the Board and executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.
- The Group has identified that its operating segments are best presented by commodity as the Group's risk and rate of return are affected predominantly by the end product, namely gold and silver. PT Natarang Mining (PTNM), operator of the Way Linggo Project, is the primary entity that produces gold and silver.
- Discrete financial information about each of these operating segments is reported to the Board and executive management team on a monthly basis.

**Types of products**

- The Group produces gold and silver dore at its Way Linggo Project in Indonesia, which is refined locally in Indonesia to produce gold and silver granules.

**Accounting policies**

- The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2 to the financial statements.
- Segment profit/(loss) include foreign exchange movements on intercompany loans and external finance costs that relate directly to segment operations.
- Unallocated corporate costs are non-segmented expenses such as head office expenses and finance costs that do not relate directly to segment operations.
- Income tax expense is calculated based on the segment operating net profit/(loss).

**Major customers**

- Major customers to which the Group provides goods that are more than 10% of external revenue are as follows:

	2014		2013	
	Revenue	% of External Revenue	Revenue	% of External Revenue
	\$	%	\$	%
Customer A	-	-	16,508,568	80
Customer B	3,815,074	100	4,185,254	20

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

## 3. OPERATING SEGMENTS (continued)

Year ended 30 June 2014					Year ended 30 June 2013			
	Gold & Silver	Total Segment	Unallocated Items	Total	Gold & Silver	Total Segment	Unallocated Items	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>								
External sales - gold (a)	3,418,968	3,418,968	-	3,418,968	16,397,377	16,397,377	-	16,397,377
External sales – silver (a)	396,106	396,106	-	396,106	4,296,445	4,296,445	-	4,296,445
<b>Total segment revenue</b>	<b>3,815,074</b>	<b>3,815,074</b>	-	<b>3,815,074</b>	<b>20,693,822</b>	<b>20,693,822</b>	-	<b>20,693,822</b>
Interest revenue	-	-	160,483	160,483	-	-	227,953	227,953
<b>Total revenue</b>	<b>3,815,074</b>	<b>3,815,074</b>	<b>160,483</b>	<b>3,975,557</b>	<b>20,693,822</b>	<b>20,693,822</b>	<b>227,953</b>	<b>20,921,775</b>
<b>Segment (loss)/profit before income tax</b>	<b>(29,534,921)</b>	<b>(29,534,921)</b>	-	<b>(29,534,921)</b>	<b>4,647,359</b>	<b>4,647,359</b>	-	<b>4,647,359</b>
Interest revenue	-	-	160,483	160,483	-	-	227,953	227,953
Corporate costs	-	-	(4,298,806)	(4,298,806)	-	-	(5,755,606)	(5,755,606)
Finance costs	-	-	(1,037,854)	(1,037,854)	-	-	(568,272)	(568,272)
(Loss)/Profit before income tax	(29,534,921)	(29,534,921)	(5,176,177)	(34,711,098)	4,647,359	4,647,359	(6,095,925)	(1,448,566)
Income tax benefit/(expense)	11,102,860	11,102,860	(571,539)	10,531,321	2,914,626	2,914,626	(1,202,147)	1,712,479
<b>Net (loss)/profit for the year</b>	<b>(18,432,061)</b>	<b>(18,432,061)</b>	<b>(5,747,716)</b>	<b>(24,179,777)</b>	<b>7,561,985</b>	<b>7,561,985</b>	<b>(7,298,072)</b>	<b>263,913</b>
Depreciation and amortisation	2,016,235	2,016,235	22,511	2,038,746	4,774,844	4,774,844	22,616	4,797,460
Write-down of plant and equipment	119,671	119,671	-	119,671	-	-	-	-
Write-down of mine properties and development	19,840,862	19,840,862	-	19,840,862	-	-	-	-

(a) Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographic location based on the location of customers.

	2014	2013
	\$	\$
Australia	3,815,074	-
United Kingdom	-	20,693,822
<b>Total external sales revenue</b>	<b>3,815,074</b>	<b>20,693,822</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)

## 3. OPERATING SEGMENTS (continued)

As at 30 June 2014			
	Gold & Silver	Unallocated Items	Total
	\$	\$	\$
<b>Segment operating assets</b>	<b>68,285,962</b>	<b>-</b>	<b>68,285,962</b>
Unallocated assets	-	5,925,700	5,925,700
Deferred tax assets	11,985,823	260,284	12,246,107
<b>Total assets</b>	<b>80,271,785</b>	<b>6,185,984</b>	<b>86,457,769</b>
Mine development, exploration and capital expenditure	9,306,167	10,394	9,316,561
<b>Segment operating liabilities</b>	<b>(4,663,897)</b>	<b>-</b>	<b>(4,663,897)</b>
Unallocated liabilities	-	(11,087,748)	(11,087,748)
<b>Total liabilities</b>	<b>(4,663,897)</b>	<b>(11,087,748)</b>	<b>(15,751,645)</b>

As at 30 June 2013		
Gold & Silver	Unallocated Items	Total
\$	\$	\$
85,485,263	-	85,485,263
-	926,241	926,241
1,214,306	264,382	1,478,688
86,699,569	1,190,623	87,890,192
13,735,783	-	13,735,783
(5,491,361)	-	(5,491,361)
-	(12,545,630)	(12,545,630)
(5,491,361)	(12,545,630)	(18,036,991)

The analysis of location of non-current assets is as follows:

	2014	2013
	\$	\$
Australia	288,662	306,329
Indonesia	72,880,653	74,293,566
<b>Total non-current assets</b>	<b>73,169,315</b>	<b>74,599,895</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****4. REVENUES AND EXPENSES**

	2014	2013
	\$	\$
<b>(a) Revenue</b>		
<b>Sale of goods</b>		
Gold	3,418,968	16,397,377
Silver	396,106	4,296,445
	<b>3,815,074</b>	<b>20,693,822</b>
<b>Other revenue</b>		
Interest	160,483	227,953
<b>Total revenue</b>	<b>3,975,557</b>	<b>20,921,775</b>
<b>(b) Cost of sales</b>		
Mine production costs	5,702,391	13,867,681
Royalties	75,997	524,431
Depreciation	1,685,175	2,283,444
Amortisation	161,426	2,479,828
Inventory movements	208,303	503,601
Finished goods purchased	-	973,575
<b>Total cost of sales</b>	<b>7,833,292</b>	<b>20,632,560</b>
<b>(c) Other income</b>		
Gain on disposal of plant and equipment	16,221	21,759
Net gain on foreign exchange	-	4,391,835
Sundry income	13,615	5,339
<b>Total other income</b>	<b>29,836</b>	<b>4,418,933</b>
<b>(d) Administration expenses</b>		
Corporate costs	4,102,153	4,566,701
Depreciation	38,496	34,188
Share-based payments	924,868	919,958
<b>Total administration expenses</b>	<b>5,065,517</b>	<b>5,520,847</b>
<b>(e) Other expenses</b>		
Net loss on foreign exchange	1,837,349	-
Write-down of plant and equipment	119,671	-
Write-down of mine properties and development	19,840,862	-
Non-production mine site costs	2,773,664	-
Consumable inventories written off	123,246	-
<b>Total other expenses</b>	<b>24,694,792</b>	<b>-</b>
<b>(f) Finance costs</b>		
Borrowing costs	54,234	172,268
Interest on loans from related parties	983,620	396,004
Finance charges payable under finance leases	70,975	59,607
	<b>1,108,829</b>	<b>627,879</b>
Unwinding of discount on rehabilitation provision	14,061	7,988
<b>Total finance costs</b>	<b>1,122,890</b>	<b>635,867</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****4. REVENUE AND EXPENSES (continued)**

	2014	2013
	\$	\$
<b>(g) Depreciation and amortisation</b>		
Plant and equipment	1,877,320	2,317,632
Mine properties	161,426	2,479,828
<b>Total depreciation and amortisation</b>	<b>2,038,746</b>	<b>4,797,460</b>
Included in:		
Cost of sales	1,846,601	4,763,272
Administration expenses	38,496	34,188
Other expenses	153,649	-
<b>Total depreciation and amortisation</b>	<b>2,038,746</b>	<b>4,797,460</b>
<b>(h) Employee benefits expense</b>		
- Wages and salaries	7,353,690	9,518,364
- Defined contribution superannuation expense	91,927	87,573
- Defined benefit expense	257,532	270,520
- Share-based payments	924,868	919,958
- Other employee benefits	601,267	658,258
<b>Total employee benefits expense</b>	<b>9,229,284</b>	<b>11,454,673</b>

**5. INCOME TAX**

<b>(a) Income tax benefit</b>		
<b>Income Statement</b>		
<i>Current income tax</i>		
Current income tax charge/(credit)	567,441	(658,095)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(11,098,762)	(1,054,384)
<b>Income tax benefit reported in the income statement</b>	<b>(10,531,321)</b>	<b>(1,712,479)</b>
<b>(b) Amounts charged directly to other comprehensive income</b>		
<b>Statement of Other Comprehensive Income</b>		
Deferred tax related to items recognised in other comprehensive income:		
Actuarial gains on defined benefits obligation	34,350	157,880
<b>Income tax expense reported in other comprehensive income</b>	<b>34,350</b>	<b>157,880</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****5. INCOME TAX (continued)****(c) Numerical reconciliation of accounting loss to tax benefit**

A reconciliation between tax benefit and the accounting loss before income tax multiplied by the Company's applicable income tax rate is as follows:

	2014	2013
	\$	\$
Accounting loss before income tax	(34,711,098)	(1,448,566)
At Australian statutory income tax rate of 30% (2013: 30%)	(10,413,329)	(434,570)
Effect of higher tax rate in accordance with Contract of Work Agreement in Indonesia	(1,744,671)	(422,303)
Under/(Over) provision in prior year	1,461	(279,614)
Non-deductible expenses	1,583,010	581,100
Foreign tax credit not utilised	42,208	-
Income tax benefits recognised	-	(1,157,092)
<b>Aggregate income tax benefit</b>	<b>(10,531,321)</b>	<b>(1,712,479)</b>

**(d) Current income tax assets and liabilities**

At 1 July	5,786,807	(2,962,048)
(Charged)/Credited to income	(567,441)	658,095
(Refunds)/Payments - net	(2,959,426)	7,763,279
Foreign exchange translation gain	447,087	327,481
At 30 June	2,707,027	5,786,807
Included in:		
Current Assets	2,884,095	5,291,792
Non-Current Assets	-	931,506
Current Liabilities	(177,068)	(436,491)
	2,707,027	5,786,807

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****5. INCOME TAX (continued)****(e) Recognised deferred tax assets and liabilities**

BALANCE SHEET		
	2014	2013
	\$	\$
Deferred tax at 30 June relates to the following:		
<i>Deferred tax assets:</i>		
Provisions	596,654	745,234
Plant and equipment	840,008	1,105,222
Mine properties and development	3,109,017	-
Borrowing costs	21,157	37,013
Unrealised foreign exchange movements	179,405	165,435
Losses available for offset against future taxable income	8,938,583	2,565,518
<b>Gross deferred tax assets</b>	<b>13,684,824</b>	<b>4,618,422</b>
<i>Deferred tax liabilities:</i>		
Accrued income	(2,127)	(371)
Mine properties and development	-	(1,941,335)
Finance leases	(426,817)	(184,601)
<b>Gross deferred tax liabilities</b>	<b>(428,944)</b>	<b>(2,126,307)</b>
Net deferred tax assets	13,255,880	2,492,115
Unrecognised deferred tax assets	(1,009,773)	(1,013,427)
<b>Net deferred tax assets</b>	<b>12,246,107</b>	<b>1,478,688</b>
Reconciliation of net deferred tax assets movement:		
At 1 July	1,478,688	457,222
Credited to income	11,098,762	1,054,384
Charged to other comprehensive income	(34,350)	(157,880)
Foreign exchange translation (loss)/gain	(296,993)	124,962
At 30 June	12,246,107	1,478,688

**Tax losses**

The Group has unrecognised Australian carried forward tax losses of \$3,365,910 (tax effected at 30%, \$1,009,773) as at 30 June 2014 (2013: \$3,378,091 tax effected at 30%, \$1,013,427). In view of the Group's Australian trading position, the Directors have not included the tax benefit in the Group's statement of financial position. A tax benefit will only be recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**Unrecognised temporary differences**

At 30 June 2014, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries as the Group has no liability for additional taxation should unremitted earnings be remitted (2013: \$Nil).

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****5. INCOME TAX (continued)****Tax consolidation**

The Company and its wholly owned Australian controlled entities formed a tax consolidated group on 27 February 2009. The head entity, Kingsrose, and its wholly owned Australian entities in the tax consolidated group continue to account for their own current and deferred tax balances. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

The Company and its wholly owned Australian entities in the tax consolidated group have not entered into a tax funding arrangement or a tax sharing agreement.

**6. (LOSS)/EARNINGS PER SHARE**

The following reflects the income and share data used in the basic and dilutive (loss)/earnings per share computations:

	2014	2013
	\$	\$
<b>(a) (Loss)/Earnings per share</b>		
The following reflects the income used in the calculation of basic and diluted (loss)/earnings per share computations:		
Net (loss)/profit from continuing operations attributable to ordinary equity holders of the parent	<b>(20,591,955)</b>	1,533,040
Loss attributable to discontinued operations attributable to ordinary equity holders of the parent	-	(38,022)
<b>Net (loss)/profit attributable to ordinary equity holders of the Parent</b>	<b>(20,591,955)</b>	<b>1,495,018</b>
	<b>No. of shares</b>	<b>No. of shares</b>
<b>(b) Weighted average number of shares</b>		
Weighted average number of ordinary shares for basic (loss)/earnings per share	<b>331,739,403</b>	290,841,722
Effect of dilution:		
Options and share performance rights	-	50,288
<b>Weighted average number of ordinary shares adjusted for the effect of dilution</b>	<b>331,739,403</b>	<b>290,892,010</b>

**(c) Information on the classification of securities***Options and share performance rights*

Options and share performance rights granted to employees (including KMP) as described in Note 24 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive.

No shares, options or share performance rights were issued between the reporting date and the date of completion of these financial statements.

**7. DIVIDENDS PAID AND PROPOSED**

No dividends have been paid, declared or recommended by the Company for the years ended 30 June 2013 and 30 June 2014.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****8. CASH AND CASH EQUIVALENTS**

	2014	2013
	\$	\$
<b>Current</b>		
Cash at bank and in hand	3,661,056	1,307,739
Short-term deposits	3,000,000	-
	<b>6,661,056</b>	<b>1,307,739</b>

**Terms and conditions**

- (i) Cash at bank and short-term deposits earn interest at floating rates based on bank deposit rates.
- (ii) During the previous reporting period, the Group was required to maintain a minimum cash balance of \$4,000,000 as part of the pre-paid silver transaction entered into with Credit Suisse International. This requirement was discharged following the fulfilment of the last delivery on 28 February 2013.

**9. TRADE AND OTHER RECEIVABLES**

<b>Current</b>		
Other receivables (i)	473,012	2,704,129
<b>Non-Current</b>		
Other receivables (i)	3,318,461	2,746,645
Loan to a related party (ii)	1,592,357	-
	<b>4,910,818</b>	<b>2,746,645</b>

**Terms and conditions**

- (i) Other receivables consist primarily of VAT recoverable from PTNM operations that is expected to be recovered within 3 to 36 months.
- (ii) The loan to a related party is unsecured and interest-bearing. Further details are set out in Note 25(b)(ii).

**10. INVENTORIES**

<b>Current</b>		
Ore stockpiles at cost or net realisable value (i)	659,216	204,299
Gold dore and bullion at cost or net realisable value (i)	60,306	732,753
Consumables and spares at cost (ii)	2,389,975	2,640,592
	<b>3,109,497</b>	<b>3,577,644</b>

- (i) During 2013, \$1,108,727 was recognised as an expense for inventories carried at net realisable value. This is in cost of sales.
- (ii) During the year, \$123,246 was recognised as an expense for inventories written off. This is recognised in other expenses.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****11. PLANT AND EQUIPMENT**

	2014	2013
	\$	\$
<b>Non-Current</b>		
<i>Plant and Equipment</i>		
Cost	20,845,535	20,176,926
Accumulated depreciation and impairment	(13,382,930)	(11,533,845)
Net carrying amount	7,462,605	8,643,081
<i>Leased Equipment</i>		
Cost	2,083,317	2,787,625
Accumulated depreciation	(1,729,908)	(1,928,672)
Net carrying amount	353,409	858,953
<i>Capital Work in Progress</i>		
Cost	313,182	339,497
<b>Total Plant and Equipment</b>	<b>8,129,196</b>	<b>9,841,531</b>
<b>Movements in Plant and Equipment</b>		
<i>Plant and Equipment</i>		
Carrying amount at 1 July	8,643,081	8,878,698
Additions	328,033	1,119,983
Transfer from/(to) leased equipment	75,020	(106,903)
Transfer from capital work in progress	70,809	638,705
Transfer to mine properties and development	-	(1,075,099)
Disposals	(1,452)	(15,036)
Write-down	(119,671)	-
Depreciation charge	(1,427,290)	(1,562,711)
Foreign exchange translation (loss)/gain	(105,925)	765,444
Carrying amount at 30 June	7,462,605	8,643,081
<i>Leased Equipment</i>		
Carrying amount at 1 July	858,953	559,570
Additions	20,133	868,465
Transfer (to)/from plant and equipment	(75,020)	106,903
Depreciation charge	(450,030)	(754,921)
Foreign exchange translation (loss)/gain	(627)	78,936
Carrying amount at 30 June	353,409	858,953
<i>Capital Work in Progress</i>		
Carrying amount at 1 July	339,497	665,685
Additions	49,180	284,779
Transfer to plant and equipment	(70,809)	(638,705)
Foreign exchange translation (loss)/gain	(4,686)	27,738
Carrying amount at 30 June	313,182	339,497

During the year, the Group recognised a write-down of \$119,671 in plant and equipment associated with the Way Linggo Mine. Further details are set out in Note 12.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****12. MINE PROPERTIES AND DEVELOPMENT**

	2014	2013
	\$	\$
<b>Non-Current</b>		
Cost	55,825,103	49,316,949
Accumulated amortisation and impairment	(29,577,308)	(10,213,956)
	26,247,795	39,102,993
<b>Movements in Mine Properties and Development</b>		
Carrying amount at 1 July	39,102,993	27,090,027
Additions	7,429,660	9,969,271
Transfer from plant and equipment	-	1,075,099
Write-down	(19,840,862)	-
Amortisation charge	(161,426)	(2,479,828)
Change in rehabilitation provision	(6,363)	(60,574)
Foreign exchange translation (loss)/gain	(276,207)	3,508,998
Carrying amount at 30 June	26,247,795	39,102,993

In June 2013, activities at the Way Linggo Mine were suspended due to declining gold grades and deteriorating ground conditions, pending the results of further technical reviews. During the year, the technical review was completed which indicated that there would be a limited ability to re-access the mining areas by current underground mining methods due to safety concerns surrounding the geotechnical stability of the remnant pillars. As a result, the Group recognised a full write-down in the Way Linggo mine property of \$19,840,862 in the income statement. The Group will continue to assess the ability to recover the remaining Mineral Resource at the Way Linggo Mine through alternative mining methods, likely to incorporate surface mining.

**13. EXPLORATION AND EVALUATION ASSETS**

<b>Non-Current</b>		
At cost	21,635,399	20,498,532
<b>Movements in Exploration and Evaluation Assets</b>		
Carrying amount at 1 July	20,498,532	17,151,051
Additions	1,489,556	1,493,285
Foreign exchange translation (loss)/gain	(352,689)	1,854,196
Carrying amount at 30 June	21,635,399	20,498,532

**14. DISCONTINUED OPERATIONS**

In the previous year, the Board of Directors made the decision to dispose of its wholly owned subsidiary, SARINC UK Ltd, which owned 100% of the Italian subsidiary, SARINC srl. SARINC srl holds the Zinc Tailings Retreatment project in Sardinia, Italy. The project was put on hold in January 2012 due to the metallurgical complexity, marginality of the project at current metal prices and a lack of active cooperation from the local authorities.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****14. DISCONTINUED OPERATIONS (continued)**

The Company sold its interest in SARINC UK Ltd to a non-related party on 21 December 2012. Details of the disposal are presented below:

	2013
	\$
Net assets disposed of	
Cash and cash equivalents	15,187
Other receivables	30,293
Plant and equipment	3,179
Other payables	(152)
	48,507
Loss on disposal	(38,507)
Total disposal consideration	10,000
Less cash and cash equivalents disposed of with the discontinued operations	(15,187)
Net cash outflow on disposal	(5,187)

	2013
	\$
<b>Financial performance of SARINC operations for the year until disposal</b>	
Revenue	-
Other income	12,631
Expenses	(12,146)
Loss on disposal	(38,507)
Loss from discontinued operations before income tax	(38,022)
Income tax	-
Loss from discontinued operations after income tax	(38,022)
Loss per share (cents per share):	
Basic loss per share from discontinued operations	(0.02)
Diluted loss per share from discontinued operations	(0.02)

**15. TRADE AND OTHER PAYABLES**

	2014	2013
	\$	\$
<b>Current</b>		
Trade creditors	976,998	2,036,792
Accruals	887,747	1,423,671
Sundry creditors	923,386	458,863
	2,788,131	3,919,326

**Terms and conditions**

Trade and sundry creditors are normally settled in accordance with the terms of trade.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****16. INTEREST-BEARING LIABILITIES**

	2014	2013
	\$	\$
<b>Current</b>		
Finance lease liabilities		
- US\$2 million corporate facility (i)	534,452	542,806
- Other (ii)	42,871	186,182
Loans from related parties (iii)	10,307,856	10,390,836
	10,885,179	11,119,824
<b>Non-Current</b>		
Finance lease liabilities		
- US\$2 million corporate facility (i)	249,541	796,249
- Other (ii)	10,124	21,264
	259,665	817,513

**Terms and conditions**

- (i) In 2012, PTNM entered into a finance lease arrangement via a US\$2,000,000 corporate facility agreement. The finance leases are repayable in monthly instalments over 36 months with the final instalments due in March 2016. The leases are secured by the assets leased and a corporate guarantee from Kingsrose. A total amount of \$1,628,420 (US\$1,510,360) of the facility has been utilized and the remaining undrawn amount was cancelled in April 2013 in accordance with the terms of the agreement. Interest is charged at an average rate of 5.98% per annum during the year (2013: 6.27%) and is subject for review every quarter over the lease period.
- (ii) The other finance lease liabilities have an average term of 3 and 4 years with the option to purchase the assets at the completion of the lease term at a nominal value and are secured by the assets leased.
- (iii) The loans from related parties are secured and interest-bearing. Further details are set out in Note 25(b)(iii).

**17. PROVISIONS**

<b>Current</b>		
Employee entitlements	231,663	217,380
Other	118,379	154,587
	350,042	371,967
<b>Non-Current</b>		
Employee entitlements (a)	973,658	1,012,506
Rehabilitation (b)	317,902	359,364
	1,291,560	1,371,870

The nature of the provisions is described in Note 2(q) and 2(u).

- (a) The non-current provision for employee entitlements relates to provision for long service leave of Australian employees and provision for Indonesian employee termination benefits.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****17. PROVISIONS (continued)**

The Indonesian employee termination benefits arrangement is regulated under Indonesian labour laws enacted in 2003, which requires that companies provide a minimum level of benefits to employees upon employment termination based on the reason for termination and the employee's years of service. The benefits are not funded and the provision is recognised based on independent actuarial valuation reports. The following assumptions are used in the calculation:

	2014	2013
Discount rate	8.5% per annum	8.0% per annum
Future salary increase	7.5% per annum	7.0% per annum
Normal retirement age	60 years of age Indonesia	60 years of age Indonesia
Mortality	Mortality Table 2011 (TM III)	Mortality Table 2011 (TM III)

The following tables summarise the amount recognised in the statement of financial position, movements in the liability and the components of net benefit expense recognised in the income statement:

<b>Benefit Liability</b>		
Present value of defined benefit obligation - unfunded	<b>947,402</b>	980,657
<b>Movements in Benefit Liability</b>		
At 1 July	<b>980,657</b>	1,094,294
Net benefits expense	<b>257,532</b>	325,652
Credited directed to equity	<b>(98,143)</b>	(451,086)
Benefits paid	<b>(9,095)</b>	(25,677)
Foreign exchange translation (gain)/loss	<b>(183,549)</b>	37,474
At 30 June	<b>947,402</b>	980,657
<b>Net Benefit Expense</b>		
Current service cost	<b>222,246</b>	479,770
Interest cost	<b>62,865</b>	23,498
Curtailment and settlement gains (i)	<b>(27,579)</b>	(177,616)
	<b>257,532</b>	325,652

(i) Gains recognised was a result of reduction in the number of employees covered by the plan during the reporting period.

A quantitative sensitivity analysis for significant assumption at 30 June 2014 is as shown below:

	Discount Rate		Future Salary Increase		Life Expectancy	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	Increase by 1 year	Decrease by 1 year
	\$	\$	\$	\$	\$	\$
Increase/(decrease) in defined benefit obligation	(39,772)	42,898	44,136	(41,318)	(3,772)	4,096

The sensitivity analyses above have been determined based on a method that extrapolates the impact of the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****17. PROVISIONS (continued)**

The expected payments to be made in future years in relation to the defined benefit obligation are set out below:

	2014	2013
Within 1 year	208,038	-
1 – 5 years	274,340	348,198
After 5 years	1,291,948	1,060,726
	1,774,326	1,408,924

The average duration of the defined benefit obligation at the end of the reporting period is 8.95 years (2013: 12 years).

(b) The rehabilitation provision represents the present value of rehabilitation costs relating to mine site, which is expected to be incurred over the life of the mine. However, the timing of rehabilitation expenditure is dependent on the life of the mine which may vary in future.

	2014	2013
	\$	\$
<b>Movements in Rehabilitation Provision</b>		
At 1 July	359,364	380,063
Provision recognised/(written back) - net	(6,363)	(60,574)
Utilised during the year	(44,548)	-
Unwinding of discount	14,061	7,988
Foreign exchange translation (gain)/loss	(4,612)	31,887
At 30 June	317,902	359,364

**18. CONTRIBUTED EQUITY**

	2014	2014	2013	2013
	\$	Number	\$	Number
<b>Ordinary Shares</b>				
Issued and fully paid	84,867,375	358,611,493	62,769,532	291,959,871
<b>Movements in ordinary shares on issue</b>				
At 1 July	62,769,532	291,959,871	62,144,725	289,210,845
Private placement – 22 July 2013 (i)	15,327,893	43,793,980	-	-
Private placement – 25 February 2014 (ii)	8,000,175	22,857,642	-	-
Share issue costs (i),(ii)	(1,230,225)	-	-	-
Exercise of options – listed	-	-	249,807	1,249,026
Exercise of options – unlisted	-	-	375,000	1,500,000
At 30 June	84,867,375	358,611,493	62,769,532	291,959,871

- (i) On 22 July 2013, 43,793,980 fully paid ordinary shares were allotted at a price of \$0.35 each via a share placement raising \$14,524,631, net of share issue costs. The shares were issued within the discretionary capacity of the Board under ASX Listing Rule 7.1.
- (ii) On 25 February 2014, 22,857,642 fully paid ordinary shares were allotted at a price of \$0.35 each via a share placement raising \$7,573,212, net of share issue costs. The shares were issued within the discretionary capacity of the Board under ASX Listing Rule 7.1.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****18. CONTRIBUTED EQUITY (continued)****Terms and conditions**

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

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par share values. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

**Escrow restrictions**

There are no escrow restrictions on securities in the Company.

**Options and share performance rights on issue**

The total number of options on issue as at 30 June 2014 is 14,600,000 (2013: 6,000,000).

The total number of share performance rights on issue at 30 June 2014 is Nil (2013: 97,297).

**19. RESERVES****Nature and purpose of reserves***Share-based payments reserve*

The share-based payments reserve is used to record the value of options and share performance rights provided to shareholders, consultants and employees including key management personnel as part of their remuneration.

*General reserve*

The general reserve is used to record the portion of PTNM's accumulated profits required to be set aside in accordance with the prevailing laws and regulations in Indonesia.

*Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record exchange gains or losses on borrowings that form part of the Company's net investments in foreign operations.

**20. INFORMATION RELATING TO SUBSIDIARIES**

(a) The consolidated financial statements of the Group include:

Entity	Place of Incorporation	Equity Interest	
		2014	2013
MM Gold Pty Ltd	Australia (WA)	100%	100%
Natarang Offshore Pty Ltd	Australia (WA)	100%	100%
PT Natarang Mining	Indonesia (JAK)	85%	85%
Kingsrose Tanggamus Pty Ltd	Australia (WA)	100%	100%

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****20. INFORMATION RELATING TO SUBSIDIARIES (continued)**

(b) Financial information of subsidiary that has material non-controlling interest are provided below:

PT Natarang Mining is the subsidiary in the Group that has material non-controlling interest. PTNM's principal place of business is in Indonesia. At 30 June 2014, the proportion of equity interest held by non-controlling interest is 15% (2013: 15%).

	2014	2013
	\$	\$
Accumulated balances of material non-controlling interest	1,034,867	2,986,547
Loss allocated to material non-controlling interest	(3,587,822)	(1,269,127)

The summarised financial information of PTNM is provided below. This information is based on amounts before intercompany eliminations.

Summarised income statement	2014	2013
	\$	\$
Revenue	3,815,534	20,694,642
Cost of sales	(7,804,307)	(20,340,707)
Other income	31,278	4,719,044
Administrative expenses	(1,424,095)	(406,646)
Other expenses (i)	(24,347,940)	-
Finance costs	(5,292,147)	(13,371,741)
<b>Loss from continuing operations before income tax</b>	<b>(35,021,677)</b>	<b>(8,705,408)</b>
Income tax	11,102,860	2,914,626
<b>Loss for the year from continuing operations after income tax</b>	<b>(23,918,817)</b>	<b>(5,790,782)</b>
<b>Total comprehensive loss</b>	<b>(23,558,617)</b>	<b>(3,736,395)</b>
Attributable to non-controlling interest	(3,533,792)	(960,969)
Dividend paid to non-controlling interest	-	-

(i) Includes the write-down of the Way Linggo mine property and associated plant and equipment of \$19,960,533

Summarised statement of financial position	2014	2013
	\$	\$
Current Assets	7,970,263	12,405,993
Non-Current Assets	70,497,700	73,473,680
Current Liabilities	(74,372,975)	(68,208,593)
Non-Current Liabilities	(1,524,969)	(2,852,367)
<b>Total equity</b>	<b>2,570,019</b>	<b>14,818,713</b>
Attributable to:		
Owners of the parent	1,535,152	11,832,166
Non-controlling interest	1,034,867	2,986,547

Summarised cash flow information	2014	2013
	\$	\$
Operating	(2,198,963)	(8,268,099)
Investing	(9,566,929)	(14,214,082)
Financing	13,028,437	19,086,460
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,262,545</b>	<b>(3,395,721)</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****21. PARENT ENTITY DISCLOSURES**

	2014	2013
	\$	\$
Current Assets	<b>7,247,418</b>	14,270,405
Non-Current Assets	<b>91,071,525</b>	62,844,561
<b>Total Assets</b>	<b>98,318,943</b>	77,114,966
Current Liabilities	<b>(11,308,299)</b>	(12,895,358)
Non-Current Liabilities	<b>(26,256)</b>	(31,850)
<b>Total Liabilities</b>	<b>(11,334,555)</b>	(12,927,208)
<b>Net Assets</b>	<b>86,984,388</b>	64,187,758
Issued Capital	<b>84,867,375</b>	62,769,532
Accumulated Losses	<b>(5,499,010)</b>	(5,272,929)
Share-Based Payments Reserve	<b>7,616,023</b>	6,691,155
<b>Total Shareholder's Equity</b>	<b>86,984,388</b>	64,187,758
(Loss)/Profit of the parent entity	<b>(226,081)</b>	5,770,221
Total comprehensive (loss)/income of the parent entity	<b>(226,081)</b>	5,770,221

Kingsrose has guaranteed the discharge by its subsidiary, PTNM of its financial obligations under the US\$2,000,000 corporate facility disclosed in Note 16.

There are no contractual commitments for acquisition of plant and equipment and contingent liabilities for the Company at balance date.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****22. STATEMENT OF CASH FLOWS RECONCILIATION**

	2014	2013
	\$	\$
<b>(a) Reconciliation of net (loss)/profit after income tax to net cash flows from operating activities</b>		
Net (loss)/profit after income tax	(24,179,777)	225,891
<i>Adjustments for:</i>		
Depreciation of plant and equipment	1,877,320	2,317,632
Amortisation of mine properties	161,426	2,479,828
Unrealised net foreign exchange loss/(gain)	2,927,015	(4,306,578)
Share-based payments	924,868	919,958
Gain on disposal of plant and equipment	(16,221)	(21,759)
Write-down of plant and equipment	119,671	-
Write-down of mine properties and development	19,840,862	-
Loss on disposal of subsidiary	-	38,507
<i>Change in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	63,753	(1,097,714)
(Increase)/decrease in inventories	468,147	756,722
(Increase)/decrease in income tax receivable	3,339,203	(6,223,298)
(Increase)/decrease in other assets	248,199	48,729
(Increase)/decrease in deferred tax assets	(10,767,419)	(1,179,346)
Increase/(decrease) in trade and other payables	(698,170)	(4,236,005)
Increase/(decrease) in income tax payable	(259,423)	(2,525,557)
Increase/(decrease) in provisions	(41,648)	386,052
<b>Net cash flows from operating activities</b>	<b>(5,992,194)</b>	<b>(12,416,938)</b>
<b>(b) Non-cash investing and financing activities</b>		
Acquisition of assets by means of finance leases	20,133	1,068,056

**23. FINANCIAL AND CAPITAL RISK MANAGEMENT**

The Group's principal financial instruments comprise receivables, payables, finance leases, cash and short-term deposits.

**Objectives and Policies**

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, commodity price risk, liquidity risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rates, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****23. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)****Objectives and Policies (continued)**

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Board of Directors because, due to the size of the Company, there is currently no financial risk management committee.

**(a) Interest rate risk**

The Group's exposure to market interest rates relates primarily to the Group's cash holdings and interest-bearing liabilities. At the reporting date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

	2014	2013
	\$	\$
<b>Financial Assets</b>		
Cash and cash equivalents	6,661,056	1,307,739
<b>Financial Liabilities</b>		
Interest-bearing liabilities	(783,993)	(1,339,055)
<b>Net exposure</b>	<b>5,877,063</b>	<b>(31,316)</b>

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions and the mix of fixed and variable interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. The 2% increase and 2% decrease in rates is based on management's assessment of the reasonably possible changes over a financial year.

At 30 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax profit and other comprehensive income would have been affected as follows:

	Post-Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2014	2013	2014	2013
Judgements of reasonably possible movements:	\$	\$	\$	\$
+2% (200 basis points)	82,279	(438)	-	-
-2% (200 basis points)	(82,279)	438	-	-

**(b) Foreign currency risk**

The Group has transactional currency exposures as a result of significant operations in Indonesia. As 100% of sales are denominated in United States Dollars (USD) and large proportion of the Group's purchases are denominated in Indonesian Rupiah (IDR) and USD, the Group's income statement and statement of financial position can be affected significantly by movements in the AUD/USD and AUD/IDR exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by actively monitoring foreign exchange movements and their impact on the Group's budgeted future cash flows and future net asset positions denominated in foreign currencies.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****23. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)****(b) Foreign currency risk (continued)**

At 30 June 2014, the Group had the following exposure to US and IDR foreign currencies:

	2014	2013	2014	2013
	USD denominated balances	USD denominated balances	IDR denominated balances	IDR denominated balances
	A\$	A\$	A\$	A\$
<b>Financial Assets</b>				
Cash and cash equivalents	1,458,162	314,554	1,413,249	359,760
	1,458,162	314,554	1,413,249	359,760
<b>Financial Liabilities</b>				
Trade and other payables	(195,226)	(1,739,017)	(715,058)	(1,478,957)
Interest-bearing liabilities	(6,120,909)	(6,884,584)	(22,659)	(52,997)
	(6,316,135)	(8,623,601)	(737,717)	(1,531,954)
<b>Net exposure</b>	<b>(4,857,973)</b>	<b>(8,309,047)</b>	<b>675,532</b>	<b>(1,172,194)</b>

At 30 June 2014, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

	Post-Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2014	2013	2014	2013
Judgements of reasonably possible movements:	\$	\$	\$	\$
A\$/US\$ +5% (2013: +10%)	161,932	528,758	-	-
A\$/US\$ -5% (2013: -10%)	(178,978)	(646,259)	-	-
A\$/IDR +15% (2013: +10%)	(61,679)	74,594	-	-
A\$/IDR -15% (2013: -10%)	83,448	(91,171)	-	-

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years' historical movements and economic forecaster's expectations.
- The reasonably possible movement of 5% and 15% was calculated by taking the foreign currency spot rate as at balance date, moving this spot rate by 5% and 15%; and then re-converting the foreign currency into AUD with the "new spot-rate". This methodology reflects the translation methodology undertaken by the Group.
- The translation of the net assets in subsidiaries with a functional currency other than AUD has not been included in the sensitivity analysis as part of the equity movement.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

**(c) Commodity price risk**

Commodity price risk is the risk of financial loss resulting from movements in the price of the Group's commodity inputs and outputs. The Group is exposed to commodity price risk arising from revenue derived from sales of gold and silver. This risk is managed through contractual arrangements with customers.

As at reporting date, the Group had no financial instruments with material exposure to commodity price risk.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****23. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)****(d) Liquidity risk**

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of external funding.

The Group monitors on a regular basis rolling forecasts of liquidity on the basis of expected cash flow.

The following table reflects the liquidity risk arising from the financial liabilities held by the Group at balance date. The contractual maturity represents undiscounted gross amounts.

Maturity Analysis								
	2014				2013			
	Within 1 year	1 to 5 years	After 5 years	Total	Within 1 year	1 to 5 years	After 5 years	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial Liabilities</b>								
Trade and other payables	(2,788,131)	-	-	(2,788,131)	(3,919,326)	-	-	(3,919,326)
Interest-bearing liabilities								
- Finance lease liabilities	(611,783)	(264,458)	-	(876,241)	(801,724)	(857,439)	-	(1,659,163)
- Loan from related parties	(10,573,284)	-	-	(10,573,284)	(11,081,913)	-	-	(11,081,913)
	(13,973,198)	(264,458)	-	(14,237,656)	(15,802,963)	(857,439)	-	(16,660,402)

**(e) Credit risk exposure**

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with the maximum exposure equal to the carrying amount of these assets as indicated in the statement of financial position.

The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, credit worthy third parties and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. Receivable balances are monitored on an ongoing basis with the result that the Group does not have a significant exposure to bad debts.

**Cash**

Cash is held with several reputable financial institutions assigned A or greater credit ratings by Standards and Poor's.

**Trade Receivables**

While the Group has policies in place to ensure that sales of its products are made to customers with an appropriate credit history, it does have a concentration of credit risk in relation to its gold and silver sales due to dependence for a significant volume of its sales revenues on a few principal buyers. The Group has in place policies that aim to ensure that sales transactions are limited to high credit quality customers and that the amount of credit exposure to any one customer is limited as far as is considered commercially appropriate. Sales are settled within one trading day from invoice date, minimising credit exposure.

Since the Group trades only with recognised credit worthy third parties, there is no requirement for collateral.

There are no past due or material impaired receivables at balance date.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****23. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)****(f) Fair values**

The fair values of all financial assets and liabilities approximate their carrying amounts at balance date.

**(g) Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business. Capital, in this context, consists of debt, which includes trade and other payables, interest-bearing liabilities, cash and cash equivalents and equity.

The Board's focus has been to raise sufficient funds through debt and equity to fund exploration, evaluation and development activities. There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The table below summarises the components of capital managed by the Group.

	2014	2013
	\$	\$
Total borrowings *	13,932,975	15,856,663
Less: Cash and cash equivalents	(6,661,056)	(1,307,739)
Net debt	7,271,919	14,548,924
Total equity	70,706,124	69,853,201
Total capital	77,978,043	84,402,125
Gearing ratio	10%	21%

\* includes trade and other payables and interest-bearing liabilities

The Group's gearing ratio is monitored and maintained at a level that is appropriate for its growth plans. A specific maximum target gearing ratio has not been set by the Board.

**24. SHARE-BASED PAYMENTS****(a) Recognised share-based payment expenses**

Total expenses arising from share-based payment transactions recognised for employee services received during the year were as follows:

Options	939,112	905,714
Share performance rights	(14,244)	14,244
	924,868	919,958

The share-based payment plan is described below.

**(b) Employee Options and Share Rights Plan 2012**

The Company has an Employee Options and Share Rights Plan 2012 ("EOSRP" or "Plan") which was approved by shareholders at the Annual General Meeting on 1 November 2012.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****24. SHARE-BASED PAYMENTS (continued)****(b) Employee Options and Share Rights Plan 2012 (continued)***Employee Options*

The key terms of the options issued under the EOSRP are described below:

- Expiry Date - Options expire at 5.00 pm WST on expiry dates determined by the Directors.
- Exercise Price and Vesting Period - The exercise price and vesting period of each option will be determined by the Board following recommendation from the Remuneration Committee.
- Allotment of Shares - All shares allotted upon the exercise of options will be of the same class and rank equally in all respects with other shares in the Company.
- No Rights of Participation - There are no participating rights or entitlements inherent in the options and the holders will not be entitled to participate in new issues of capital which may be offered to shareholders.

*Share Performance Rights*

The key terms of the share performance rights issued under the EOSRP are described below:

- The Plan provides for the granting of share performance rights to eligible persons or their permitted nominees.
- Each share performance right represents the right to acquire an ordinary share in the Company.
- The Board, following recommendation from the Remuneration Committee, will determine which executives are to be offered share performance rights under the Plan and the number of rights to be offered, having regard to relevant factors, including the role being performed and the importance of the executive's contribution to the Group. The Board may impose forfeiture and performance conditions which if not satisfied will cause the share performance rights to be forfeited and cancelled.
- No consideration will be payable for the grant of share performance rights or the provision of shares upon vesting.
- At the discretion of the Board, share performance rights may be settled by payment of a cash amount equivalent to the market value of the underlying shares. If share performance rights are settled in cash, the amount paid to the participant will be reduced by any required withholdings in relation to statutory obligations.
- Share performance rights will only vest if the performance conditions are met by the end of the performance period.
- Share performance rights will not be listed for quotation on the ASX and will not be transferable except in accordance with the terms of the Plan rules and with the consent of the Company. Upon vesting, the Company will make application for quotation on ASX of those shares.
- Share performance rights do not carry the rights or entitlements of ordinary shares.
- Unvested share performance rights will generally lapse on cessation of employment unless the cessation is the result of a specified reason (i.e. death, total and permanent disablement, bona fide redundancy or such other reason as the Board determines).
- The Board has discretionary powers in relation to the administration of the Plan. The Board has the power to partly or fully waive any forfeiture or performance conditions applicable to share performance rights, and may vary such conditions provided the variation is not adverse to the participant and is permitted under the Listing Rules.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****24. SHARE-BASED PAYMENTS (continued)****(c) Movements in options during the year**

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, options during the year.

	2014	2014	2013	2013
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	6,000,000	1.96	8,475,000	1.61
Granted during the year	13,350,000	0.53	600,000	1.26
Exercised during the year	-	-	(1,500,000)	0.25
Lapsed/cancelled during the year	(1,750,000)	1.55	(1,575,000)	1.45
Outstanding at the end of the year	17,600,000	0.91	6,000,000	1.96
Exercisable at the end of the year	13,600,000	0.84	5,500,000	1.52

- Weighted average share price – There were no options exercised during the year. The weighted average share price at the date of exercise of the options during the previous year was \$0.82.
- Weighted average remaining contractual life – The weighted average remaining contractual life for the options outstanding as at 30 June 2014 is 1.28 years (2013: 1.31 years).
- Range of exercise price – The range of exercise prices for the options outstanding at the end of the year is \$0.39 to \$1.59 (2013: \$0.73 to \$1.59).
- Weighted average fair value – The weighted average fair value of options granted during the year was \$0.07 (2013: \$0.23).
- Option valuation model – The fair value of the options granted is estimated at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options are granted. The following table lists the inputs to the model used for the year ended 30 June 2014:

Grant Date	11 Aug 13	11 Aug 13	15 Sep 13	2 Jan 14	2 Jan 14	13 Jan 14 <sup>1</sup>	28 Jan 14	7 Apr 14	7 Apr 14
No of options granted	500,000	500,000	4,000,000	500,000	500,000	3,000,000	1,500,000	500,000	2,350,000
Dividend yield	3.30%	3.30%	3.30%	-	-	-	-	-	-
Share price at date of grant	\$0.37	\$0.37	\$0.40	\$0.36	\$0.36	\$0.40	\$0.39	\$0.40	\$0.40
Exercise price	\$0.43	\$0.44	\$0.55	\$0.39	\$0.41	\$0.55	\$0.55	\$0.47	\$0.55
Volatility	62.6%	60.0%	62.8%	59.2%	59.9%	59.9%	60.4%	62.8%	62.8%
Risk free rate	2.5%	2.6%	2.7%	2.7%	2.8%	2.8%	2.6%	2.7%	2.7%
Expiration period	2 years	3 years	2 years	2 years	3 years	3 years	2 years	2 years	2 years
Expiry date	11 Aug 15	11 Aug 16	15 Sep 15	30 Jun 16	2 Jan 17	13 Jan 17	28 Jan 16	7 Apr 16	7 Apr 16
Binomial valuation per option	\$0.07	\$0.08	\$0.05	\$0.10	\$0.11	\$0.08	\$0.06	\$0.08	\$0.06

<sup>1</sup> The grant of the 3,000,000 options with an exercise price of \$0.55 each and expiry date of 13 January 2017 that Mr Huffadine is entitled to receive as part of his remuneration pursuant to his employment agreement is subject to shareholder approval at the next annual general meeting of the Company. The fair value of the options is estimated based on assumption that the options have been granted at balance sheet date and will be revised once the grant date is established in accordance with the requirements of AASB 2 *Share-Based Payment*.

- Modifications – The Board permitted Mr Clarke, who ceased employment with the Group on 5 July 2013, to retain the 1,000,000 options allotted to him under the Plan in 2012. The vesting and expiry dates of the second tranche of his options on issue (500,000) were amended from 17 December 2013 and 17 December 2015 to 5 July 2013 and 5 July 2015 respectively on the date of his departure. Due to this change, the expense relating to these options has been accelerated and recognised in the income statement.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****24. SHARE-BASED PAYMENTS (continued)****(d) Movements in share performance rights during the year**

The following table illustrates the number of, and movements in, share performance rights during the year.

	2014 Number	2013 Number
Outstanding at the beginning of the year	97,297	-
Granted during the year	-	270,269
Exercised during the year	-	-
Cancelled during the year	(97,297)	(172,972)
Outstanding at the end of the year	-	97,297
Exercisable at the end of the year	-	-

The outstanding balance as at 30 June 2013 related to the share performance rights granted on 1 November 2012 to Mr Spencer. During the year, the share performance rights on issue were cancelled upon the departure of Mr Spencer on 17 February 2014 and the expense relating to these rights that has been recognised in the income statement was reversed.

The terms and conditions of the share performance rights up until cancellation date were as follows.

The number of share performance rights to vest was subject to the satisfaction of the performance condition along with the continued employment of the participant with the Group.

The performance condition was 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 2012 to 30 June 2015 (the "Performance Period"). A Peer Group company that ceases to be listed on the ASX during the Performance Period will be excluded from the Peer Group and will not be replaced. Kingsrose's TSR ranking within the Peer Group at the end of the Performance Period determines the number of performance rights that will vest and becomes exercisable (if any) on the following basis:

TSR Ranking in Peer Group	Percentage of Share Performance Rights that Vest
Below 50 <sup>th</sup> percentile	Nil
50 <sup>th</sup> percentile	50%
51 <sup>st</sup> to 74 <sup>th</sup> percentile	50% plus an additional 2% for each additional percentile ranking above the 50 <sup>th</sup> percentile
75 <sup>th</sup> percentile or higher	100%

Share performance rights that do not vest will automatically lapse.

The weighted average remaining contractual life for the share performance rights outstanding as at 30 June 2013 was 2 years. The weighted average fair value of share performance rights granted during that year was \$0.44. The fair value was estimated at the date of grant using a Monte Carlo simulation model.

**25. RELATED PARTY DISCLOSURES****(a) Interests in Subsidiaries**

The information about the Group's structure including the details of the subsidiaries is set out in Note 20(a).

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****25. RELATED PARTY DISCLOSURES (continued)****(b) Transactions with Related Parties**

The following table provides the amount of transactions and outstanding balances that have been entered into with related parties during the year.

		Consulting Fees	Interest Charged	Amount Owed by/(to) Related Parties
		\$	\$	\$
Consulting services from non-executive Directors (i)	<b>2014</b>	<b>121,088</b>	-	<b>(20,500)</b>
	2013	117,236	-	(59,252)
Loans to key management personnel (ii)	<b>2014</b>	-	<b>44,888</b>	<b>1,592,357</b>
	2013	-	-	-
Loans from key management personnel (iii)	<b>2014</b>	-	<b>983,620</b>	<b>(10,307,856)</b>
	2013	-	396,004	(10,390,836)

*(i) Consulting Services from Non-Executive Directors*

The Company paid \$112,248 (2013: \$Nil) during the year for consulting fees to Philquest Holding Corporation (an entity associated with Mr Phillips) for professional services provided to the Group outside his normal Board duties. The fees were paid at a fixed rate of \$20,500 per month in accordance with the Consultancy Agreement entered into on 29 October 2013. At 30 June 2014, \$20,500 was owing to Philquest Holding Corporation (2013: \$Nil).

In the 2013 financial year, the Company paid \$98,486 to Mr Phillips for professional services provided to the Group outside his normal Board duties. The fees were paid at normal commercial rates at US\$8,000 per month. At 30 June 2013, \$51,752 was owing to Mr Phillips.

The Company paid \$8,840 (2013: \$18,750) during the year for consulting fees to Strategic Resource Management Pty Ltd (an entity associated with Mr Spinks) for professional services provided to the Group outside his normal Board duties. The fees were paid at normal commercial rates. At 30 June 2014, no amount was owing to Strategic Resource Management Pty Ltd (2013: \$7,500).

*(ii) Loans to Key Management Personnel*

On 30 December 2013 a loan of US\$1,500,000 was extended to Mr Herryansjah. The funds were used to subscribe for new shares in PT Natarang Mining in order for Mr Herryansjah to retain his 15% interest pursuant to the governing Shareholder Agreement.

The loan is unsecured and has no fixed repayment schedule. The loan is to be repaid by Mr Herryansjah via the Company's retention of 80% of his entitlement to PTNM dividends until the loan is repaid in full. Interest on the loan is charged at 5% plus 1-year LIBOR.

*(iii) Loans from Key Management Personnel including their Personally Related Entities*

All loans from key management personnel including their personally related entities are secured and interest-bearing.

On 29 October 2012, a loan of US\$5,000,000 was made to the Company through an entity associated with the non-executive Director Mr Phillips, Advance Concept Holdings Limited. During the year, the terms of the loan were amended and the key terms at balance date are as follows:

- Interest rate: 10.5% plus 1-month LIBOR plus withholding tax per annum from amendment date of 7 April 2014, payable quarterly (2013: 8.5% plus withholding tax).
- Repayment: From end-July 2014 to end-October 2014 in three instalments of US\$1,000,000 each and final instalment of US\$2,000,000. The Company can elect to repay any outstanding funds early.
- Security: Equal first ranking security with Beaupama Pty Ltd over all the issued shares in the Company's Australian subsidiaries that hold the (85%) ownership of the Way Linggo Project.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****25. RELATED PARTY DISCLOSURES (continued)****(b) Transactions with Related Parties (continued)**

On 30 April 2013, a \$5,000,000 financing facility with Beaurama Pty Ltd, another entity associated with Mr Phillips, was fully drawn down. During the year, the terms of the loan were amended and the key terms at balance date are as follows:

- Interest rate: 10.5% per annum from amendment date of 7 April 2014, payable quarterly (2013: 8.5%)
- Repayment: From end-July 2014 to end-October 2014 in three instalments of \$1,000,000 each and final instalment of \$2,000,000. The Company can elect to repay any outstanding funds early.
- Security: Equal first ranking security with Advance Concept Holdings Limited over all the issued shares in the Company's Australian subsidiaries that hold the (85%) ownership of the Way Linggo Project.

In consideration of each lender's agreement to vary the terms of the loan facility, loan restructuring fees of \$19,376 and \$21,000 were paid to Advance Concept Holdings Limited and Beaurama Pty Ltd respectively during the year.

Subsequent to balance date, the repayment terms of the above loans were restructured. Refer to Note 27.

**(c) Compensation of Key Management Personnel**

	2014	2013
	\$	\$
Short-term benefits	1,437,932	1,508,143
Post-employment benefits	47,114	55,279
Termination benefits	191,812	150,000
Share-based payments	534,135	729,083
<b>Total</b>	<b>2,210,993</b>	<b>2,442,505</b>

*Interests held by Key Management Personnel under the EOSRP*

Options and share performance rights held by key management personnel under the EOSRP have the following expiry dates and exercise prices:

Issue Date	Expiry Date	WAEP	2014	2013
			Number Outstanding	Number Outstanding
<b>Options</b>				
2014	2017	\$0.51	6,500,000	-
2012	2016	\$1.53	-	1,000,000
			6,500,000	1,000,000
<b>Share Performance Rights</b>				
2013	2015	-	-	97,297

Details of the EOSRP are set out in Note 24.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****26. COMMITMENTS AND CONTINGENCIES****(a) Royalties**

As part of the acquisition of the Way Linggo Project, the Company, through its wholly owned subsidiaries MM Gold Pty Ltd and Natarang Offshore Pty Ltd, inherited various project royalty commitments. At balance date, the only outstanding commitment was the “tonnage or net profit royalty”. The gross royalty is calculated as follows:

Royalty	Calculation Method	Gross Royalty Calculation Formula
Tonnage royalty	If gold revenue is greater than 90% of total PTNM revenue	10% of ore tonnes treated x gold price x 1.5%
Net profit royalty	If gold revenue is less than 90% of total PTNM revenue	5% of net profit

The gross royalty is then multiplied by the Company’s ownership percentage of PTNM (currently 85%) to determine the net royalty payable.

In addition, PTNM is obligated to pay gold and silver royalties to the Indonesian government, calculated at 2% of the value of gold and silver bullion production.

**(b) 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 five year period in accordance with a divestment schedule outlined in PTNM’s Contract of Work Agreement (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. According to Article 24 in the CoW, the Company’s next obligation to offer for sale equity in PTNM will commence in March 2016 (six years after the commencement of production).

**(c) Leasing Commitments***Operating lease commitments – Group as lessee*

The Group has entered into commercial leases for property rental. These leases have an average life of between one and three years.

	2014	2013
	\$	\$
Payable within one year	132,264	129,776
Payable after one year but not more than five years	55,110	183,849
Total minimum lease payments	187,374	313,625

*Finance lease commitments – Group as lessee*

The Group has entered into finance leases for various plant and equipment. These leases have an average remaining lives of 1 to 3 years with the option to purchase the assets at the completion of the lease term at a nominal value.

Payable within one year	611,783	801,724
Payable after one year but not more than five years	264,458	857,439
Total minimum lease payments	876,241	1,659,163
Less: Future finance charges	(39,253)	(112,662)
Present value of minimum lease payments	836,988	1,546,501
Included in the financial statements as interest-bearing liabilities (Note 16):		
Current	577,323	728,988
Non-current	259,665	817,513
	836,988	1,546,501

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (continued)****26. COMMITMENTS AND CONTINGENCIES (continued)****(d) Contingent Liabilities**

The Company's subsidiary, PTNM, has a matter outstanding with the Indonesian Tax Office arising from the routine audit of monthly VAT returns for the period January 2010 to December 2011. The monthly VAT returns for this period are at varying stages of the appeal process, however based on independent expert tax advice, the Group is confident of achieving a favourable outcome. Accordingly, no provision has been recognised in the financial statements for this matter. The contingent liability is equivalent to US\$9,005,179.

**27. SUBSEQUENT EVENTS***Final Regulatory Approvals*

On 8 July 2014 the Company received Ministerial approval from the Indonesian Forestry Department for the "borrow and use" permit ("Pinjam Pakai"). This was the final permit required to allow production to commence at the Talang Santo Mine located at the Way Linggo Project. Following receipt of the permit, the Company immediately began ramping up production at the Talang Santo Mine and the first shipment of gold and silver dore containing 2,057 ounces of gold and 5,144 ounces of silver followed on 7 August 2014.

*Restructure of Loan Facilities*

On 31 July 2014 the Company entered into a Deed of Variation of Loan Agreement with each of Advance Concept Holdings Limited and Beaurama Pty Ltd to restructure the repayment profile of the Company's loan facilities. Pursuant to the restructure, the loans are to be repaid by 31 October 2015 (previously by 31 October 2014), with the first instalment due on 31 January 2015. Interest is payable monthly in arrears (previously quarterly in arrears).

**28. AUDITOR'S REMUNERATION**

The auditor of Kingsrose Mining Limited is Ernst & Young (Australia).

	2014	2013
	\$	\$
Amounts received or due and receivable by Ernst & Young (Australia) for:		
(i) An audit or review of the financial report of the entity and any other entity in the consolidated group	105,250	105,250
(ii) Tax services	-	-
	105,250	105,250
Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:		
(i) An audit or review of the financial report of the entity and any other entity in the consolidated group	60,969	53,549
	60,969	53,549

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Kingsrose Mining Limited, I state that:

- (1) In the opinion of the Directors:
  - (a) the financial statements and notes of the consolidated entity 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 30 June 2014 and of its performance for the year ended on that date; and
    - (ii) complying with the Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*.
  - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a).
  - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2014.

On behalf of the Board



Scott J. Huffadine  
Managing Director

Perth, 10 September 2014

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

### Report on the financial report

We have audited the accompanying financial report of Kingsrose Mining Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## Opinion

In our opinion:

- a. the financial report of Kingsrose Mining Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Kingsrose Mining Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



D S Lewsen  
Partner  
Perth  
10 September 2014

## SHAREHOLDER INFORMATION

The following information was applicable as at 8 September 2014.

### DISTRIBUTION OF EQUITY SECURITIES

There are 358,611,493 ordinary fully paid shares quoted on ASX.

Size of shareholding	Number of holders	Number of shares	% of issued capital
1 – 1,000	492	290,025	0.08
1,001 – 5,000	1,264	3,861,677	1.08
5,001 – 10,000	680	5,472,750	1.53
10,001 – 100,000	916	26,573,254	7.41
100,001 and over	151	322,413,787	89.90
<b>Total</b>	<b>3,503</b>	<b>358,611,493</b>	<b>100.00</b>

There were 351 shareholders holding less than a marketable parcel of shares in the Company.

### SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as disclosed to the Company are:

	Number of shares	% of issued capital
Rex Harbour and Associates	64,729,940	15.26
Advanced Concept Holdings Ltd	32,300,000	9.01
KRM (WA) Pty Ltd <The Kingsrose Unit A/C>	20,000,000	5.58

### EQUITY SECURITY HOLDERS

The names of the twenty largest holders of ordinary shares are listed below:

Shareholder	Number of shares	% of issued capital
Citicorp Nominees Pty Limited	97,187,475	27.10
Advance Concept Holdings Ltd	32,300,000	9.01
Sun Hung Kai Investment Services Ltd	20,092,562	5.60
KRM (WA) Pty Ltd <The Kingsrose Unit A/C>	20,000,000	5.58
HSBC Custody Nominees (Australia) Limited	15,395,706	4.29
National Nominees Limited	14,467,290	4.03
Fitel Nominees Limited	10,275,350	2.87
Lujeta Pty Ltd	10,000,000	2.79
J P Morgan Nominees Australia Limited	9,972,738	2.78
Goldcrest Corporation Pty Ltd	7,600,000	2.12
Bond Street Custodians Limited	7,205,512	2.01
Dog Meat Pty Ltd <DM A/C>	4,500,000	1.25
BNP Paribas Noms Pty Ltd <DRP>	3,984,425	1.11
World Power Pty Ltd	3,076,028	0.86
Mr Andy Igo <ADE Super Fund A/C>	3,000,000	0.84
Mr Seager Rex Harbour	2,650,108	0.74
Oakajee Corporation Ltd	2,650,000	0.74
Overachieve Pty Ltd <Overachieve No 1 A/C>	2,300,000	0.64
Yandal Investments Pty Ltd	2,250,000	0.63
Pipe Link of Australia Pty Ltd <Pipelink of Aus P/L S/F A/C>	2,230,908	0.62
<b>Total</b>	<b>271,138,102</b>	<b>75.61</b>

## SHAREHOLDER INFORMATION

### OPTIONS

14,600,000 unlisted options with various exercise prices and expiry dates are on issue. Options do not carry a right to vote.

Instrument	Grant Date	Exercise Price	Expiry Date	Number Under Option	Number of Holders
Employee Options	08-03-2010	\$0.73	08-03-2015	150,000	1
Employee Options	17-03-2011	\$1.54	01-10-2014	1,000,000	1
Employee Options	17-03-2011	\$1.54	05-06-2015	1,000,000	1
Employee Options	02-06-2011	\$1.59	02-12-2014	1,000,000	3
Employee Options	21-12-2011	\$1.53	17-12-2014	500,000	1
Employee Options	21-12-2011	\$1.53	05-07-2015	500,000	1
Employee Options	14-08-2012	\$1.27	14-02-2015	100,000	1
Employee Options	11-08-2013	\$0.43	11-08-2015	500,000	1
Employee Options	11-08-2013	\$0.44	11-08-2016	500,000	1
Employee Options	15-09-2013	\$0.55	15-09-2015	4,000,000	12
Employee Options	02-01-2014	\$0.39	30-06-2016	500,000	1
Employee Options	02-01-2014	\$0.41	02-01-2017	500,000	1
Employee Options	28-01-2014	\$0.55	28-01-2016	1,500,000	1
Employee Options	07-04-2014	\$0.47	07-04-2016	500,000	1
Unlisted Options	07-04-2014	\$0.55	07-04-2016	500,000	1
Employee Options	07-04-2014	\$0.55	07-04-2016	1,850,000	8
<b>Total</b>				<b>14,600,000</b>	<b>36</b>

### VOTING RIGHTS

There are no restrictions to voting rights attached to the ordinary shares. On a show of hands every member present in person will have one vote and upon a poll, every member present or by proxy will have one vote for each share held.

### RESTRICTED SECURITIES

Currently no securities are subject to either ASX imposed or voluntary restrictions.

### ON-MARKET BUY-BACK

Currently there is no on-market buy-back of the Company's securities.