

KBL Mining Limited

ABN 38 129 954 365

Appendix 4D

Half-year ended 31 December 2015

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

Appendix 4D

Half-year Report

Name of entity

KBL Mining Limited

ABN or equivalent company reference	Half-yearly (tick)	Preliminary final (tick)	Financial year ended ('current period')
KBL Mining Limited	✓		6 months ended 31 December 2015

Results for announcement to the market **\$A'000**

Revenue from continuing operations	Up	2.71%	13,835
Loss after tax attributable to members	Up	89.42%	(10,187)
Profit from extraordinary items after tax attributable to members		Nil	Nil
Net loss for the half-year attributable to members	Up	89.42%	(10,187)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

Record date for determining entitlements to the dividend	Nil
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	31 December 2015	31 December 2014
Net tangible assets per security	-4.43c	-0.31c

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

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

- On 19 January 2016 the company announced that Mr Brian Wesson had resigned as Managing Director and Mr Greg Starr had been appointed as Managing Director.
- On 22 February 2016 the company announced that it had entered into revised payment arrangements with four of its largest service providers. As at 31 December 2015 these providers were owed some \$17 million plus interest.

The revised arrangements agreed with the four key suppliers involve a restructure of the Company's repayment profile for their outstanding amounts. Under the arrangements:

- Interest will be added to outstanding amounts where that was not previously incurred.
- Certain interest will be paid through an issue of shares.
- Revised repayment obligations for the balance of the outstanding amounts are based on actual revenue received. Under the revised payment arrangements, all amounts due to these providers are expected to be paid by around October 2016.

In certain circumstances, portions of amounts outstanding will be converted to shares. The shares to be issued will satisfy approximately \$2.9 million owing to these suppliers. For further information refer to the Directors' report of the half-year financial report.



KBL Mining Limited

ABN 38 129 954 365

Interim Financial Report - 31 December 2015

KBL Mining Limited
Directors' report
31 December 2015

The directors present their report, together with the financial statements, on the consolidated entity consisting of KBL Mining Limited (referred to hereafter as the 'company' or 'KBL') and the entities it controlled for the half-year ended 31 December 2015.

Directors

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

James Wall
Robert Besley
Greg Starr
Brian Wesson (resigned 19 January 2016)
Oliver Rodz
Lawrence Roulston
David Laing (resigned 15 January 2016)
Charles Brown (appointed 15 January 2016)

Principal activities

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$10,186,613 (31 December 2014: loss of \$5,378,006).

There were a number of highs and lows for KBL in the half year.

The highs were;

1. The development and commencement of mining of the Pearse orebody
2. The construction of the CIL plant neared completion

The lows were;

1. Underground production did not meet grade targets due to low levels of advance drilling and development resulting in poor mining practices
2. The CIL plant was over budget and delayed

As a result of the above the company was in a difficult financial position at period end. This was made even more challenging as the CIL plants initial performance was significantly lower than planned.

As a result of these challenges subsequent to period end the board has made management changes as well as entering into arrangements with key suppliers to delay repayment of amounts outstanding. This delay will assist in being able to settle amounts outstanding to suppliers with smaller amounts outstanding in a shorter period of time.

Also subsequent to the end of the period, the company has arranged the installation of a greater capacity filter to increase production through the floatation circuit as well as completion of the installation of a carbon regeneration kiln which will improve recovery from the CIL circuit.

Despite these improvements, production is not expected to fully reach targeted performance levels; however the company believes it will still generate a very healthy return from the high grade Pearse orebody. It is anticipated that this projected return will enable the repayment of outstanding suppliers as well as generating cash to continue to explore for further high-grade surface deposits (such as the recently announced Pearse North zone) and further exploring and developing the large Mineral Hill underground resource.

Mineral Hill Mine, NSW

KBL 100% Ownership

Mine and Mill Production

During the half-year up to December 2015, KBL saw the transformation of Mineral Hill from an underground base metals operation to high grade gold and silver open pit mine operation bringing forward the higher value ore production into the ore production plan for 2015-2016. Mill upgrades and construction of a cyanide-in-leach circuit (CIL) started in June 2015 in conjunction with pre-stripping of the Pearse open pit. In September the plant was reconfigured in conjunction with ongoing construction of the new CIL and the emplacement of the additional flotation circuit to allow processing of the gold-silver ore. Commissioning of the CIL circuit was commenced during December 2015 with testing and loading of the CIL leach circuit, with the first gold pours successfully realised in early January 2016.

Completion of the zinc thickener, concentrate rotary kiln dryer, refurbishment of the fine ore bins and commissioning of the CIL circuit, site lab and gold room were concluded over the December 2015 Quarter enabling mill processing capabilities for future gold, silver, copper, lead and zinc production from the Mineral Hill deposits both open pit and underground.

For the half year 67,173 tonnes of underground ore (copper-gold and lead-zinc streams) was processed and 69,990 tonnes of open cut gold-silver ore was processed.

Currently high grade sulphide ore from the Pearse open pit is being processed through the flotation circuits with average gold recoveries in December of 53%. CIL recoveries are currently adding up to 11% with optimisation works ongoing, giving total overall recoveries around 65% for the all Pearse ore feed.

For the months of July and August, underground production was dominated by material extracted from the Southern Ore Zone ('SOZ'), delivering copper, lead and zinc concentrates. September through to December saw Pearse transitional and sulphide ore as the sole mill feed. Underground development over the half year continued in preparedness for the completion of the Pearse open pit in 10-12 months' time and an expected resumption of underground mining as the mill feed source, with the main decline pushed down to the 1000 mRL level, and the first two levels of G Lode also developed during that time.

Open cut activities at the Pearse deposit were rapidly implemented over the last half year, with pre-strip waste mining, haul road and waste dump construction completed along with drainage and settling dam works all within schedule. Monthly total movements of 158,000-205,000 BCM per month were achieved. With Pearse open pit production realised, underground mining was put into hiatus during November and December, with a return to development planned in April/May 2016. Ore production tonnes and grades from Pearse to date continue to exceed KBL's mine models and plans. The development of both stages of the Pearse open pit over the December quarter platforms lower required volumes over the coming three quarters with access to remaining reserves of near to 200 kt in-situ.

Lower than expected recoveries to start with were primarily a result of optimisation required for grinding, flotation and filtration facilities for the vastly different Pearse ore type. This has been off-set with higher than anticipated grades particularly within the fresher sulphide ore where encountered. A consistent mined feed of high grade sulphide ore assisted in the production of near to forecast shipment quantities of gold and silver concentrate to date. Electrowinning and gold room functions were commenced in the latter half of December, with the first gold pours of CIL gold/silver doré conducted from early January 2016 on.

Work on the CIL plant neared completion during December's end, with only the carbon regeneration kiln and other minor works outstanding, these were completed in February 2016.

Securing the Future

During the period, KBL consolidated open pit mining operations, having now fully developed both stages of the higher grade Pearse open cut gold and silver reserves, establishing considerably lower cost production for the next 6-8 months prior to potentially returning to the underground SOZ reserves or continuing with surface opportunities.

KBL Mining Limited
Directors' report
31 December 2015

Within the Southern Ore Zone (SOZ) underground development of the main and west G Lode lenses has availed potential stoping of +60,000 tonnes between the 1025 and 1060 mRL, with development poised to access the main H Lode lens, and provide further level tonnages. Three underground diamond drilling locations have also been developed ready for infill and exploration drilling of a number of different SOZ lodes (primarily for the purposes of targeting A and G/H Lodes). The SOZ decline, now at 300 metres below surface, is on course to develop the next two levels of the SOZ (a further 50m in depth) to access the higher grade zones of the defined resource of both the G and H Lode mineralisation.

Additional infill and extension drilling at the Pearse North deposit commenced late in the period indicated higher than currently modelled gold and silver grades with further drilling planned for 2016. This may allow for upgrading of the resource in terms of metal content and resource categorisation.

Current life of mine plans propose continued campaign treatment of the various ores from the Pearse open cut, a return to underground base metal ores and thereafter back to open pit ores from the Pearse North deposit, utilising the expanded process plant to produce separate gold, copper, lead and zinc concentrates as well as gold/silver bullion.

KBL is focused on upgrading open pit resources including Pearse North, Jack's Hut, Missing Link and EOZ-Mt Marshall which include gold-silver, oxide gold-copper and sulphide copper-gold mineralisation. Work is also in progress to develop and upgrade the depth and extent of underground resources, specifically those lodes within the Southern Ore Zone (SOZ), but also including the GD140 area and Parker's Hill areas, which are predominantly polymetallic, copper-gold and lead-zinc mineralisation.

Exploration and Drilling

KBL has continued the re-evaluation of near surface copper-gold and gold-silver exploration opportunities commensurate with recent expansion of the ore treatment capabilities of the Mineral Hill processing plant.

The historic Jacks Hut copper-gold deposit emerged as a potential open cut opportunity and was the focus of exploration drilling completed in June 2015. Results received during the reporting period further supported a conceptual sulphide Exploration Target comprising 500-550kt at 1.4–1.6% Cu (at a 1% Cu cut-off) with significant intersections including:

- 4m at 1.6% Cu & 5.1g/t Au (KMHRC149)
- 7m at 2.7% Cu & 0.2g/t Au (KMHRC150)
- 7m at 1.9% Cu & 0.1g/t Au (KMHRC152)
- 6m at 2.6% Cu & 0.5g/t Au (KMHRC154)
- 5m at 1.6% Cu & 1.7g/t Au (KMHRC156)¹

KBL intend to undertake additional geological modelling in 2016 to better understand the controls on high-grade gold distribution within the broader system.

Infill and extensional drilling at the Pearse North deposit, just 200 metres northwest of the operating Pearse open cut gold mine, commenced in late December, 2015. Results received to date are encouraging with the initial two diamond drill holes intersecting high grade gold mineralisation close to surface. Significant intersections included:

- 7 metres at 6.7g/t Au and 7.4g/t Ag from 6m including 2 metres at 14g/t Au and 12.5g/t Ag; and
- 35 metres at 8.6g/t Au and 133.5g/t Ag from 18m including 15.6 metres at 13.3g/t Au and 114.4g/t Ag (KMHDD030)
- 10.2 metres at 3.3g/t Au and 39.9g/t Ag from 47m (KMHDD031)²

The program is continuing and is expected to provide an update to the existing Inferred Mineral Resource of 203kt @ 2.1g/t Au and 21.1g/t Ag³.

At the Southern Ore Zone, ore development in G Lode has been completed at 1060mRL and 1025mRL levels with preparations underway for the commencement of grade control drilling. Three additional underground drilling platforms have been prepared for exploration targeting the down dip extents of the gold–copper rich B, G and H lodes; and the polymetallic A and D lodes below the lowest current development level at 1020RL.

¹ As released 29 October 2015 'Quarterly Activities Report End September 2015'

² As released 9 February 2016 'High Grade Gold Assays from Pearse North – Drilling Continues'

³ Cut-off Grade 1g/t Au Oxide–Transitional & 2g/t Au Fresh (As released 25 July 2013)

Sorby Hills, WA

KBL: 75% Ownership

Project and Approvals

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

The Project consists of nine shallow high grade deposits within a linear north-south mineralised trend extending over a 10 kilometre strike length. To date, the total Resource of the trend, as defined by KBL stands at 16.5 Mt at 4.7% Pb, 0.7% Zn and 53 g/t Ag⁴, which has the potential to support a multi decade operation.

In late 2013, KBL announced a maiden Ore Reserve estimate for the Sorby Hills DE deposit. The Probable Ore Reserve of 2.4 Mt @ 5% lead and 54g/t silver⁵ (applying a cut off of 2% lead), underpins the plan for an initial 10 year open cut operation, processing over 400ktpa. In conjunction with the Reserve, a new Mineral Resource estimate for DE Deposit totalled 5.8 Mt @ 3.5% lead, 0.4% zinc and 41g/t silver⁶ (applying a cut off of 1% lead). The Mineral Resource is inclusive of the Ore Reserve and consists of both Indicated and Inferred Mineral Resources.

While the Company is focused on the Mineral Hill mine for short to medium term production the Sorby Hills project is the focus for development of new long life lead-silver production. A recent gap analysis indicated that there are no significant issues for the project to progress to a full feasibility study. KBL expects a range of funding options will be available for its share of the development costs due to the robust project economics, the low risk of development and operating parameters, well developed infrastructure, proximity to port, and strong international demand for the off take. The development task will be assisted by the Company's operating experience and expertise already in place with the Mineral Hill operation and the support of its 25% Joint Venture partner, Yuguang with its large lead, zinc and copper smelting facilities in China.

Sales Arrangements

KBL shipped approximately 6,217 dry metric tonnes of concentrates containing 143 tonnes of copper, 709 tonnes of lead, 531 tonnes of zinc, 6,837 ounces of gold and 66,455 ounces of silver during the half year.

Additional Information

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

Significant changes in the state of affairs

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

Events after the reporting period

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

1. On 19 January 2016 the company announced that Mr Brian Wesson had resigned as Managing Director and Mr Greg Starr had been appointed as Managing Director.
2. On 22 February 2016 the company announced that it had entered into revised payment arrangements with four of its largest service providers. As at 31 December 2015 these providers were owed some \$17 million plus interest.

The revised arrangements agreed with the four key suppliers involve a restructure of the Company's repayment profile for their outstanding amounts. Under the arrangements:

- Interest will be added to outstanding amounts where that was not previously incurred.
- Certain interest will be paid through an issue of shares.
- Revised repayment obligations for the balance of the outstanding amounts are based on actual revenue received. Under the revised payment arrangements, all amounts due to these providers are expected to be paid by around October 2016.
- In certain circumstances, portions of amounts outstanding will be converted to shares.

The shares to be issued will satisfy approximately \$2.9 million owing to these suppliers.

⁴ Resource Estimate released 22 December 2011. Updated to incorporate 29 November 2013 DE Resource Estimate

⁵ Reserve estimate released 29 November 2013

⁶ Updated Resource estimate released 29 November 2013

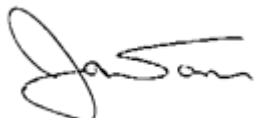
KBL Mining Limited
Directors' report
31 December 2015

Auditor's independence declaration

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

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

On behalf of the directors



James Wall
Director

29 February 2016
Sydney

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

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

As lead auditor for the review of KBL Mining Limited for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

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

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



Gareth Few
Partner

BDO East Coast Partnership

Sydney, 29 February 2016

KBL Mining Limited
Interim financial report
31 December 2015

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General information

The interim financial report covers KBL Mining Limited as a consolidated entity consisting of KBL Mining Limited and the entities it controlled during the interim half-year reporting period ended 31 December 2015. The interim financial report is presented in Australian dollars, which is KBL Mining Limited's functional and presentation currency.

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

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

Level 3, 2 Elizabeth Plaza
North Sydney
NSW 2060

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

The interim financial report was authorised for issue, in accordance with a resolution of directors, on 29 February 2016. The directors have the power to amend and reissue the interim financial report.

KBL Mining Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2015

		Consolidated	
	Note	31/12/2015	31/12/2014
		\$	\$
Revenue from continuing operations	3	13,835,336	13,473,122
Other income	3	9,828	876,049
Expenses			
Raw materials, consumables used and metal purchased	4	(11,265,402)	(12,364,887)
Finance costs	4	(1,431,516)	(1,476,287)
Employee benefits expense	4	(3,238,350)	(2,566,623)
Depreciation and amortisation expense	8,9	(3,371,535)	(1,666,336)
Loss from foreign exchange		(3,334,705)	-
Share of joint venture loss		(14,895)	(12,224)
General and administration costs	4	<u>(1,375,374)</u>	<u>(1,640,820)</u>
Loss before income tax expense		(10,186,613)	(5,378,006)
Income tax expense	5	<u>-</u>	<u>-</u>
Loss after income tax expense for the half-year attributable to the members of the parent entity		(10,186,613)	(5,378,006)
Other comprehensive income for the half-year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the half-year attributable to members of the parent entity		<u>(10,186,613)</u>	<u>(5,378,006)</u>
		Cents	Cents
Basic earnings per share		(1.71)	(1.36)
Diluted earnings per share		(1.71)	(1.36)

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

KBL Mining Limited
Statement of financial position
As at 31 December 2015

		Consolidated	
	Note	31/12/2015	30/06/2015
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	6	21,770	4,139,475
Trade and other receivables	7	4,727,207	2,149,378
Other financial assets		162,000	200,000
Inventories		2,308,560	2,004,891
Total current assets		<u>7,219,537</u>	<u>8,493,744</u>
Non-current assets			
Other financial assets		1,497,000	1,497,000
Property, plant and equipment	8	23,441,310	16,039,693
Mining property	9	25,330,361	18,091,942
Investment in joint venture		12,394,510	12,168,406
Exploration and evaluation	10	826,333	311,248
Total non-current assets		<u>63,489,514</u>	<u>48,108,289</u>
Total assets		<u>70,709,051</u>	<u>56,602,033</u>
Liabilities			
Current liabilities			
Trade and other payables	11	17,544,153	9,838,128
Financial liabilities	12	9,347,432	2,925,414
Deferred revenue		3,675,147	3,988,485
Provisions		459,296	397,865
Total current liabilities		<u>31,026,028</u>	<u>17,149,892</u>
Non-current liabilities			
Financial liabilities		1,905,285	1,723,834
Provisions		684,488	645,115
Deferred revenue	13	26,897,238	18,251,098
Convertible notes		10,524,332	10,524,332
Total non-current liabilities		<u>40,011,343</u>	<u>31,144,379</u>
Total liabilities		<u>71,037,372</u>	<u>48,294,271</u>
Net assets		<u>(328,321)</u>	<u>8,307,762</u>
Equity			
Issued capital		71,214,350	69,930,268
Reserves		3,043,691	3,253,515
Accumulated losses		(74,586,362)	(64,876,021)
Total equity		<u>(328,321)</u>	<u>8,307,762</u>

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

KBL Mining Limited
Statement of changes in equity
For the half-year ended 31 December 2015

	Issued capital \$	Consolidated Reserves \$	Accumulated Losses \$	Total equity \$
Balance at 1 July 2015	69,930,268	3,253,515	(64,876,021)	8,307,762
Profit after income tax expense for the half-year	-	-	(10,186,613)	(10,186,613)
Other comprehensive income for the half-year, net of tax	-	(476,272)	476,272	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the half-year	-	(476,272)	(9,710,341)	(10,186,613)
<i>Transactions with owners in their capacity as owners:</i>				
Ordinary shares issued	1,434,082	-	-	1,434,082
Transaction costs	(150,000)	-	-	(150,000)
Share based payments	-	266,448	-	266,448
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2015	<u>71,214,350</u>	<u>3,043,691</u>	<u>(74,586,362)</u>	<u>(328,321)</u>

	Issued capital \$	Consolidated Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2014	67,846,445	2,651,120	(31,015,893)	39,481,672
Loss after income tax expense for the half-year	-	-	(5,378,006)	(5,378,006)
Other comprehensive income for the half-year, net of tax	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the half-year	-	-	(5,378,006)	(5,378,006)
<i>Transactions with owners in their capacity as owners:</i>				
Share based payments	-	52,028	-	52,028
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2014	<u>67,846,445</u>	<u>2,703,148</u>	<u>(36,393,899)</u>	<u>34,155,694</u>

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

KBL Mining Limited
Statement of cash flows
For the half-year ended 31 December 2015

	Consolidated	
	31/12/2015	31/12/2014
	\$	\$
Cash flows related to operating activities		
Receipts from customers (inclusive of GST)	14,818,756	14,904,707
Payments to suppliers and employees (inclusive of GST)	<u>(11,436,471)</u>	<u>(16,171,988)</u>
	3,382,285	(1,267,281)
Interest received	36,935	52,093
Interest and other finance costs paid	<u>(733,240)</u>	<u>(574,010)</u>
Net cash from/(used in) operating activities	<u>2,685,980</u>	<u>(1,789,198)</u>
Cash flows related to investing activities		
Payments for mine development	(9,710,929)	(2,751,236)
Payments for property, plant and equipment	(8,300,641)	(373,371)
Payments for exploration and evaluation	(515,084)	(61,481)
Investment in joint venture	(241,000)	(255,000)
Payments for other financial assets	(162,000)	-
Receipts from sale of property, plant and equipment	<u>-</u>	<u>-</u>
Net cash used in investing activities	<u>(18,929,654)</u>	<u>(3,441,088)</u>
Cash flows related to financing activities		
Proceeds from issue of equity securities, net of transaction costs	1,284,082	-
Receipts for deferred revenue	7,300,745	-
Proceeds from borrowings	3,945,849	-
Repayment of borrowings	<u>(404,707)</u>	<u>(1,066,405)</u>
Net cash provided by/(used) in financing activities	<u>12,125,969</u>	<u>(1,066,405)</u>
Net decrease in cash and cash equivalents	(4,117,705)	(6,296,691)
Cash and cash equivalents at the beginning of the half-year	<u>4,139,475</u>	<u>7,285,309</u>
Cash and cash equivalents at the end of the half-year	<u><u>21,770</u></u>	<u><u>988,618</u></u>

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

KBL Mining Limited
Notes to the financial statements
31 December 2015

Note 1. Significant accounting policies

These interim financial statements for the interim half-year reporting period ended 31 December 2015 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by the company during the interim half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

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

Going concern

These interim financial statements have been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business for a period of at least 12 months from the date of authorising the financial report for issue.

For the half year ended 31 December 2015, the consolidated entity reported a net loss of \$10,186,613 (2014:\$5,378,006). At 31 December 2015, the consolidated entity is in a net current liability position \$23,806,491 (2015: \$8,656,148) and a net liability position of \$328,321 (2015 net asset: \$8,307,762).

The net liability position reflects amounts outstanding to trade payables and MRI Trading AG. On 22 February 2016 the consolidated entity announced that it had entered into revised payment arrangements with four of its largest service providers. As at 31 December 2015, these providers were owed some \$17 million plus interest.

The revised arrangements agreed with the four key suppliers involve a restructure of the Company's repayment profile for their outstanding amounts. Under the arrangements:

- Interest will be added to outstanding amounts where that was not previously incurred.
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- Revised repayment obligations for the balance of the outstanding amounts are based on actual revenue received. Under the revised payment arrangements, all amounts due to these providers are expected to be paid by around October 2016.
- In certain circumstances, portions of amounts outstanding will be converted to shares.

The shares to be issued will satisfy approximately \$2.9 million owing to these suppliers.

Management will also be contacting other suppliers with a view to agreeing repayment terms that tie in with the company's projected cash flows.

Management are in discussions with a number of parties which would provide short term finance through either a convertible note or loan. These discussions are at an advanced stage and have non-binding term sheets.

KBL Mining Limited
Notes to the financial statements
31 December 2015

Going concern (continued)

Management have prepared a cash flow forecast which indicates that the consolidated entity will have sufficient cash subject to negotiating revised payment arrangements with a number of service providers (in addition to the four already agreed) and raising additional short-term finance. The cash flow includes the effect of the regeneration kiln, which is now working as anticipated, and the installation of the new filter, this has been delivered and commissioning is planned for the next two weeks. The cash flow also assumes an equity raise later in the year.

Management believe that negotiations with service providers will have a positive outcome, short-term funding will be successful, production forecasts are achievable and a successful equity raise is likely if required. As such, these interim financial statements have been presented on a going concern basis.

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

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

KBL Mining Limited
Notes to the financial statements
31 December 2015

Note 2. Operating segments

Identification of reportable operating segments

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

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

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

Intersegment transactions

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

Operating segment information

Consolidated	Mineral Hill	Sorby Hills	Other Exploration	Corporate	Total
31/12/2015	\$	\$	\$	\$	\$
Revenue and other income					
Sales to external customers	13,792,411	-	-	-	13,792,411
Total sales revenue	13,792,411	-	-	-	13,792,411
Other income	9,828	-	-	-	9,828
Total revenue and other income	13,802,239	-	-	-	13,802,239
Segment results	(4,036,219)	-	-	(1,375,374)	(5,411,593)
Depreciation and amortisation	(3,371,535)	-	-	-	(3,371,535)
Interest revenue	-	-	-	42,925	42,925
Finance costs	-	-	-	(1,431,516)	(1,431,516)
Share of loss from joint venture	-	(14,895)	-	-	(14,895)
Loss before income tax expense	(7,407,754)	(14,895)	-	(2,763,965)	(10,186,613)
Income tax expense	-	-	-	-	-
Loss after income tax expense	(7,407,754)	(14,895)	-	(2,763,965)	(10,186,613)
Segment assets	53,899,724	12,394,511	826,333	1,907,713	69,028,281
Cash and cash equivalents					21,770
Security Deposit					1,659,000
Total assets					70,709,051
Segment liabilities	49,263,323	-	-	-	49,263,323
Financial liabilities					11,249,717
Convertible notes					10,524,332
Total liabilities					71,037,372

KBL Mining Limited
Notes to the financial statements
31 December 2015

Note 2. Operating segments (continued)

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

	Consolidated	
	31/12/2015	31/12/2014
	\$	\$
Note 3. Revenue from continuing operations and other income		
<i>Revenue from continuing operations</i>		
Sale of metals	13,792,411	13,421,733
Interest	42,925	51,389
	<u>13,835,336</u>	<u>13,473,122</u>
<i>Other income</i>		
Gain from foreign exchange and hedging	-	876,049
Other	9,828	-
	<u>9,828</u>	<u>876,049</u>
Revenue and other income	<u>13,845,164</u>	<u>14,349,171</u>

KBL Mining Limited
Notes to the financial statements
31 December 2015

	Consolidated	
	31/12/2015	31/12/2014
	\$	\$
Note 4. Expenses		
Loss before income tax includes the following specific expenses:		
<i>Cost of sales</i>		
Cost of sales including freight and metal purchased	11,009,718	11,860,912
Change in inventory	165,684	503,975
Cost of sales	<u>11,265,402</u>	<u>12,364,887</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	<u>1,413,516</u>	<u>1,476,287</u>
<i>Employee benefits</i>		
Wages and salaries	<u>3,238,350</u>	<u>2,566,623</u>

Note 5. Income tax

Current tax	<u>-</u>	<u>-</u>
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There is no tax charge in the half-year as the company had tax losses brought forward from 30 June 2015 of \$55,035,678; this has a tax effect of \$16,510,703.

	Consolidated	
	31/12/2015	30/06/2015
	\$	\$
Note 6. Cash and cash equivalents		
Cash at bank and in hand	<u>21,770</u>	<u>4,139,475</u>
Note 7. Trade and other receivables		
Trade receivables	3,978,513	1,293,868
Other receivables	435,342	234,346
GST receivable	313,351	621,164
Trade and other receivables	<u>4,727,207</u>	<u>2,149,378</u>

Note 8. Property, plant and equipment

Cost	29,930,663	21,629,262
Accumulated depreciation	(6,489,353)	(5,589,569)
Carrying amount at end of the period	<u>23,441,310</u>	<u>16,039,693</u>
Balance at beginning of the period	16,039,693	10,648,748
Additions	8,300,641	6,968,381
Depreciation	(899,024)	(1,577,436)
Carrying amount at end of the period	<u>23,441,310</u>	<u>16,039,693</u>

KBL Mining Limited
Notes to the financial statements
31 December 2015

	Consolidated	
	31/12/2015	30/06/2015
	\$	\$
Note 9. Mining property		
Cost	59,494,374	49,783,445
Impairment	(25,917,413)	(25,917,413)
Accumulated amortisation	(8,246,600)	(5,774,090)
Carrying amount at end of the period	<u>25,330,361</u>	<u>18,091,942</u>
Balance at beginning of the period	18,091,942	31,060,382
Additions	9,710,930	5,313,162
Impairment	-	(17,275,640)
Transfer from exploration and evaluation	-	1,057,661
Amortisation	(2,472,511)	(2,063,623)
Carrying amount at end of the period	<u>25,330,361</u>	<u>18,091,942</u>

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

Key assumptions used:

- Life of mine remaining – 9 years
- Discount rate of 13% post-tax (pre-tax 16.9%)
- Exchange rate of AUD/USD 0.71
- Commodity prices:
 - Copper US\$4,580 per tonne
 - Gold US\$1,212 per ounce
 - Silver US\$15 per ounce
 - Lead US\$1,821 per tonne
 - Zinc US\$1,678 per tonne

Note 10. Exploration and evaluation

Balance at beginning of the period	311,248	2,419,130
Additions	515,085	339,920
Transfer to mining property	-	(1,057,661)
Impairment	-	(1,390,141)
Carrying amount at end of the period	<u>826,333</u>	<u>311,248</u>

Note 11. Trade and other payables

Trade payables	16,567,905	6,404,613
Other payables	976,248	3,433,515
Trade and other payables	<u>17,544,153</u>	<u>9,838,128</u>

KBL Mining Limited
Notes to the financial statements
31 December 2015

	Consolidated	
	31/12/2015	30/06/2015
	\$	\$
Note 12. Financial liabilities – current		
Amount due to insurance premium funding	366,031	66,805
Amount due on HP facilities	549,843	257,152
Amount due to MRI Trading AG	8,431,558	2,601,457
Financial liabilities – current	<u>9,347,432</u>	<u>2,925,414</u>

Note 13. Deferred revenue – non-current

Revenue in advance	<u>26,897,238</u>	<u>18,251,098</u>
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Note 14. Financial instruments

Fair value and transfers of financial instruments

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

All amounts are classed as Level 3. The fair value of hedges is determined using a valuation technique which uses only observable market data. There were no transfers between levels during the half-year.

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

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

Note 14. Events after the reporting period

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

1. On 19 January 2016 the company announced that Mr Brian Wesson had resigned as Managing Director and Mr Greg Starr had been appointed as Managing Director.
2. On 22 February 2016 the company announced that it had entered into revised payment arrangements with four of its largest service providers. As at 31 December 2015 these providers were owed some \$17 million plus interest.

The revised arrangements agreed with the four key suppliers involve a restructure of the Company's repayment profile for their outstanding amounts. Under the arrangements:

- Interest will be added to outstanding amounts where that was not previously incurred.
- Certain interest will be paid through an issue of shares.
- Revised repayment obligations for the balance of the outstanding amounts are based on actual revenue received. Under the revised payment arrangements, all amounts due to these providers are expected to be paid by around October 2016.
- In certain circumstances, portions of amounts outstanding will be converted to shares.

The shares to be issued will satisfy approximately \$2.9 million owing to these suppliers.

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

KBL Mining Limited
Notes to the financial statements
31 December 2015

Note 15. Legal matters

During the year to 30 June 2015, 23 tonnes of SMBS were disposed of into the tailings dam, an investigation was undertaken and subsequent reports recommended the product remained insitu. We have not had any acceptance or rejection from the EPA on the documents provided. In addition a small amount of process water seeped through the side of the fresh water drain in March 2015, an investigation was undertaken and subsequent reports to the EPA suggested the impacts were very minor. However the water quality above and below the seepage area would be monitored. We have not had any acceptance or rejection from the EPA on the documents provided.

Both these incidents are considered relatively minor in nature. There have been no penalty notices regarding these incidents, but, based on analogous cases, any penalty would not be sufficiently material to adversely affect the Financial Statements.

Note 16. Related party transactions

During the half-year the company engaged Westech International (HK) Pty Limited, a director related entity of Brian Wesson, to provide engineering services in relation to the construction of the CIL plant. The amount included in the half-year financial report is \$355,265.

Note 17. Contingent liabilities

Deferred revenue totalling \$27,035,651 would become payable in cash in the event of a default.

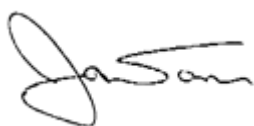
KBL Mining Limited
Directors' declaration

In the directors' opinion:

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

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

On behalf of the directors



James Wall
Director

29 February 2016
Sydney

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of KBL Mining Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of KBL Mining Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of KBL Mining Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful deferment and renegotiation of payment terms with creditors, conversion of creditors to equity, successful commissioning of processing plant, raising of necessary funding through debt and equity and the successful exploration and subsequent exploitation of the consolidated entity's tenements. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO East Coast Partnership



Gareth Few
Partner

Sydney, 29 February 2015