Kingsrose Mining Limited

ANNUAL REPORT 2012

ABN 49 112 389 910

Contents

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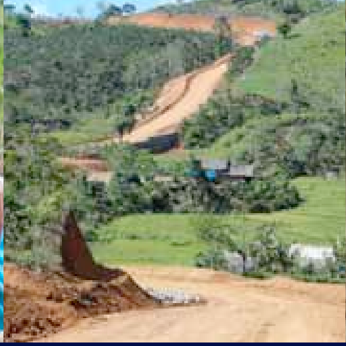

Corporate Directory

Directors
John C. Morris
Non-Executive Chairman

Christopher N. Start
Managing Director

Timothy G. Spencer
Executive Director

J. William Phillips
Non-Executive Director

Andrew P. Spinks
Non-Executive Director

Company Secretary
Jeannette P. Smith

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Perth,
Western Australia 6000

Auditors - Australia
Ernst & Young Australia
11 Mounts Bay Road
Perth,
Western Australia 6000

Auditors - Indonesia
Ernst & Young
Indonesia Stock Exchange Building
Tower 2, 7th Floor
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Indonesia

Share Registry
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Domicile & Country of Incorporation
Australia

Stock Exchange Listings
ASX - Australia
Kingsrose Mining Limited is listed on the Australian Securities Exchange Limited (Home Branch - Perth)

ASX Codes: Ordinary Shares KRM; Options KRMO

OTCQX - United States of America
American Depositary Receipts (ADR's)

Each Kingsrose ADR is equivalent to five (5) ordinary shares of Kingsrose, as traded on the ASX.

OTCQX Code: KGRSY

The Bank of New York Mellon is the depositary bank: www.adrbnymelllon.com

Chairman's Address

Dear Shareholders,

It is with pleasure that I present to you the Annual Report of Kingsrose Mining Limited ('Kingsrose' or 'the Company') for year ended 30 June 2012.

A key objective of the Board has always been to create and then maintain Shareholder value. The dedicated and hard working team at Kingsrose have worked consistently throughout the year to ensure that 2012 has been both productive and positive for the Company.

Against the backdrop of weak and fractured global markets, the Board continued to view the fundamentals of the long term gold price as bullish, and furthermore, maintains a strong confidence in the Company's ability to sustain both production levels and extremely robust cash operating margins at its flagship project, Way Linggo. This belief resulted in the decision to declare a maiden unfranked 4c dividend in May.

Credit must be given to the team at Way Linggo for their aggressive but disciplined approach, which inside of 12 months saw the 'virgin discovery' of Talang Santo in June 2011 followed by the delineation of a maiden resource in December 2011 and the subsequent rapid move towards production with commencement of trial mining in June 2012. It is anticipated that ore from Talang Santo will assist in increasing production levels to enable the company to meet its production forecast of 40,000 to 50,000 ounces of Gold for 2013.

The Company continued to maintain an aggressive exploration campaign with 12 rigs operational on additional high priority targets throughout the licence area. We have been extremely encouraged by initial exploration success, and will continue to evaluate these results as the Company moves towards locating its third mining front.

Our commitment to Sumatra is underpinned not only by our key objective of unlocking the mineral wealth within the Way Linggo project, but also by our fundamental belief that our activities have the potential to provide long lasting, social and economic benefits to the local community and stakeholders. As such, Kingsrose has been an active participant in community development programs including initiatives to improve the health and education within the local communities, as well as stimulating the local economy and providing unique business opportunities.

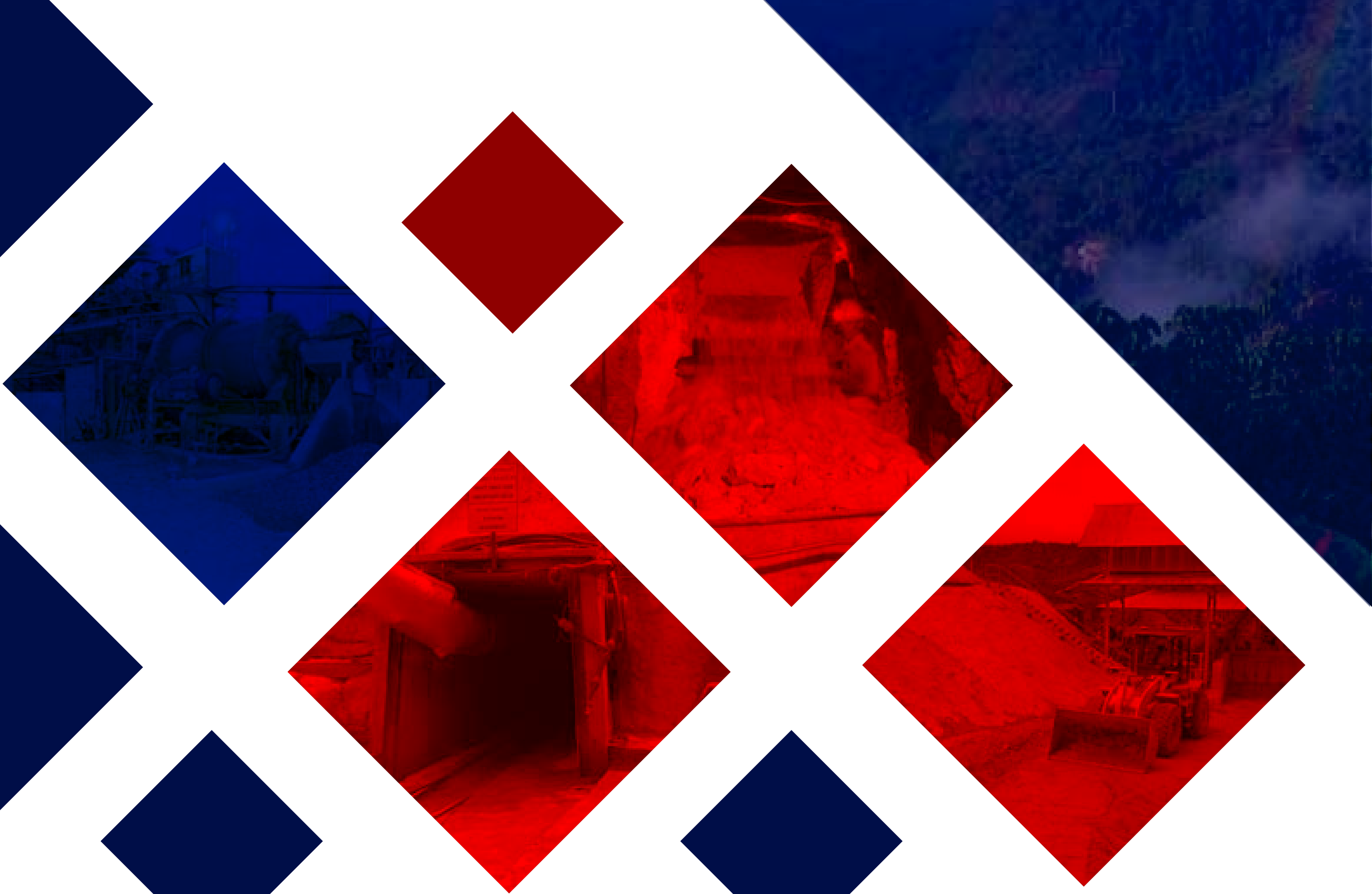
I would like to take this opportunity to thank Mr Peter Cook who stepped down as a Non-Executive Director in August. Peter played an integral part in Kingsrose's growth, especially as we made the transition from explorer to producer. Furthermore, I would like to welcome Mr Andrew Spinks to the Board as a Non-Executive Director. Andrew brings valuable experience to the Company as we embark upon our next chapter of growth.

On behalf of the Board, I thank you for continued support and look forward to sharing in the future success of the Company.

JMorris

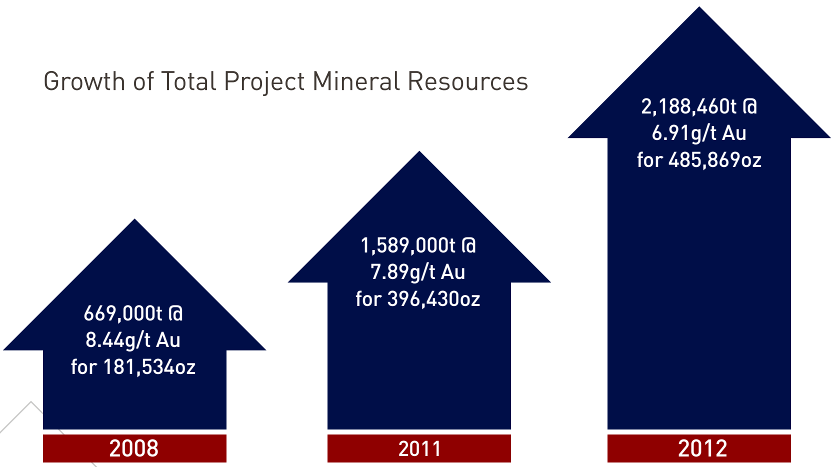
John Morris
Chairman
Kingsrose Mining Limited
6th September 2012

2012: A Review



Kingsrose Mining Limited is a specialist high grade, narrow vein underground gold miner. The Company operates a gold mine in Indonesia.

Growth of Total Project Mineral Resources



HIGHLIGHTS OF 2012

- Net profit after tax attributable to Kingsrose: A$17.6m (2011: A$12.2m)
- Talang Santo Resource increase by 73%
- Way Linggo project production: 37,650 ounces of gold and 432,754 ounces of silver
- Project sales revenue: US$62.4 from the sale of 37,260 ounces of gold
- Cash operating cost after silver credits: US$254/oz
- Cash at bank: A$30.1m at June 30, 2012
- Maiden 4c unfranked dividend declared in May 2012.

THE WAY LINGGO PROJECT:

Kingsrose Mining Limited owns 85% of the Way Linggo Project in Southern Sumatra, situated on the highly prospective Trans Sumatran Fault. The Way Linggo project is a 4th generation Contract of Work (Mining Title) covering an area of 100km^2.

Way Linggo contains high grade, narrow vein, low sulphidation epithermal gold and silver deposits that are extracted utilising simple, underground non-mechanised mining methods. The processing plant consists of a conventional crushing, SAG and ball mill circuit and employs a Merrill Crowe circuit to extract the gold and silver. As a result of the high grades, silver credits and simple mining methods, Way Linggo is a low cost gold producer, generating high cash flow.

Production for the 2012 financial year reached 37,650 ounces of gold and 432,754 ounces of silver at a cash operating cost of US$254 per ounce.

In June 2011, Kingsrose made a virgin discovery at Talang Santo, located 7km to the north of the Way Linggo mine and processing plant. The development of this discovery became the focus for Kingsrose during the 2012 financial year and commenced with an aggressive resource definition drilling campaign.

Successful drill results led to the calculation of a maiden resource for Talang Santo in December 2011 and provided enough confidence to enable the commencement of a mine adit and the sinking of a separate external underlay shaft. The aim of this development was to provide access to the Talang Santo mineralised veins and allow trial mining of parcels of ore. The intersection of the mineralised veins was achieved in June 2012 and allowed the commencement of mine development in ore.

Exploration continues to focus on resource definition and extensional drilling at Way Linggo and Talang Santo, as well as on additional high priority targets within the project area with the aim of locating an additional mining front.

Resource calculation was updated to include drilling and mine depletion to June 30, 2012. See JORC Statement for further details.

Classification	Deposit	Tonnes	Au g/t	Ag g/t	Au Ounces	Ag Ounces
Measured	Way Linggo	339,215	14.45	174.84	157,592	1,906,804
Indicated	Way Linggo	174,145	6.30	61.09	35,273	342,036
Inferred	Way Linggo	14,120	12.15	86.98	5,516	39,486
Subtotal	Way Linggo	527,480	11.71	135.05	198,380	2,288,326
Indicated	Talang Santo	863,625	6.19	16.25	171,873	451,200
Inferred	Talang Santo	797,355	4.51	17.31	115,616	443,751
Subtotal	Talang Santo	1,660,980	5.39	16.77	287,489	894,951
Grand Total		**2,188,460**	**6.91**	**45.28**	**485,869**	**3,183,278**

Managing Director's Report

The 2012 financial year marked a significant turning point for the Company. Our dedicated and disciplined approach to development and production saw Kingsrose consolidate its position as one of the lowest cost gold producers in the world.

Steady production from the Way Linggo mine allowed the Group to close the year with cash and gold inventory of $A34.2m. Gold production for the year totalled 37,650 ounces with 432,754 ounces of silver as a by-product. Cash operating costs were $US254 per gold ounce produced, whilst total costs, including depreciation, amortisation and government royalties totalled US$541 per gold ounce (both cost per ounce figures include a silver by-product credit of US$309 per gold ounce). This allowed the project to generate a healthy operating surplus (EBITDA) of US$51.7m for the full year with Kingsrose's share of the Indonesian operation's after tax profit reaching US$22.5m.

MINING

During the year solid advances were made at the Way Linggo and Talang Santo mines.

Way Linggo

The Way Linggo mine produced 82,539 tonnes of ore at a grade of 13.7g/t gold and 178g/t silver for year.

During the year ore was sourced from a combination of short-hole stoping, level development and sub-level development.

Key Indicators	Unit	Sept-11 Qtr	Dec-11 Qtr	Mar-12 Qtr	Jun-12 Qtr	FY 2012 Total
WAY LINGGO PROJECT						
Ore Mined	t	21,775	17,150	20,309	**23,305**	**82,539**
Mined Grade - Gold	g/t	15.0	16.2	13.2	**10.9**	**13.7**
Mined Grade - Silver	g/t	191	219	164	**147**	**178**

Figure 1: Aerial view of Way Linggo and processing plant.

Figure 2: Talang Santo shaft.

Stoping and sub-level development occurred on the three established levels at 1060mRL, 1020mRL and 970mRL. At times, mining rates were slowed due to some areas requiring additional ground support as well as other areas needing to be back filled and set up for post fill mining methods.

Development of a rail underlay drive below the 3 level (970mRL) commenced to enable production from a new level.

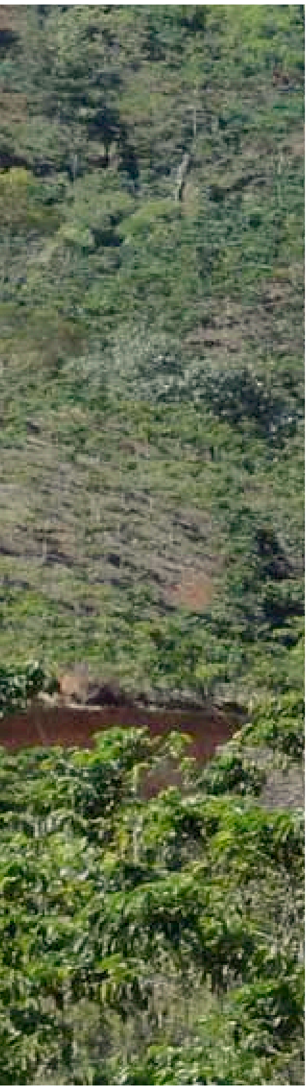
Development also commenced to enable access to the southern portion of the Way Linggo Indicated Resource on the southern side of the dividing Semung River with the sinking of a new shaft (the "Old Camp Shaft"). The Old Camp Shaft was completed to a depth of 30 meters and level development commenced.

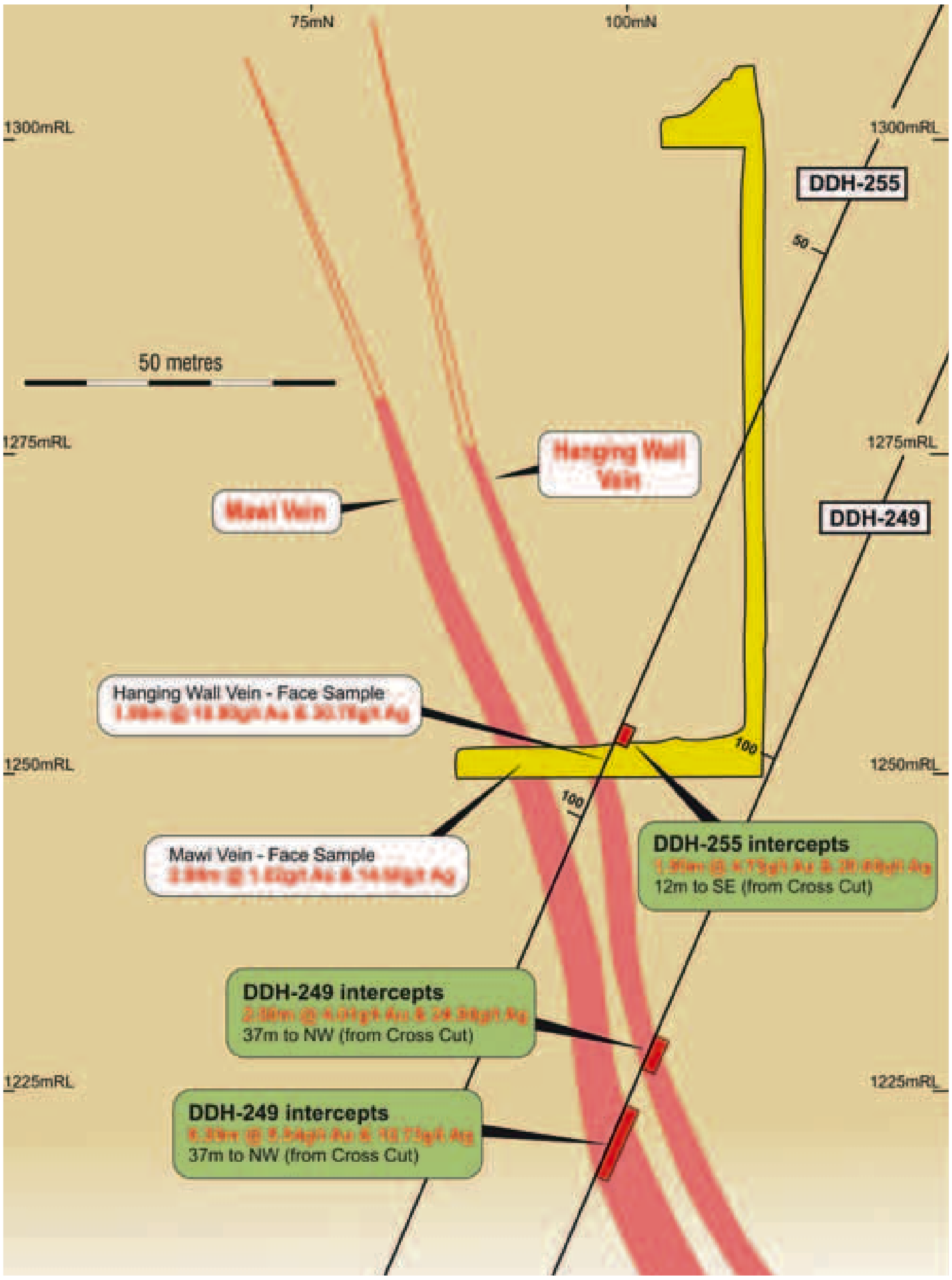
Talang Santo

Since the virgin discovery of Talang Santo in June 2011, Kingsrose continued to work rapidly to move the project into production. By December, the Company had completed the Maiden Mineral Resource estimate calculation. It was anticipated that trial parcels of ore could be fed to the Company's processing plant adjacent to the Way Linggo mine, 7km due south of Talang Santo by the end of June 2012. Working to that timeline, the Company moved quickly to establish a mine adit into the upper parts of the outcropping vein system and the sinking of an underlay shaft to access the ore at the 3 level.

Development in the mine adit extended over 100 metres and a 50 metre internal winze and short crosscut were established to intersect the Mawi veins (hanging wall and main). Ore development commenced in June 2012 with parcels of ore being extracted just 12 months after discovery.

Sinking of the underlay shaft progressed to 3 level and intersected the Mawi hanging wall vein by the end of June 2012 and then the main vein shortly thereafter. Preparations for establishing services to allow ore development commenced.





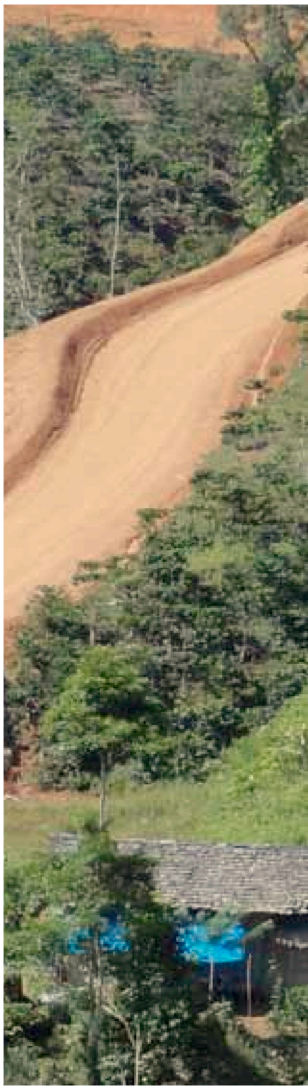


Figure 3. Talang Santo winze and cross cut progress showing comparison between drill results and face sampling.

The wash-out of gold/silver bearing acrylic altered clays during the drilling and core preparation process make estimation of grade challenging with the processing of development ore ultimately providing the more accurate grade estimation.

Managing Director's Report (continued)

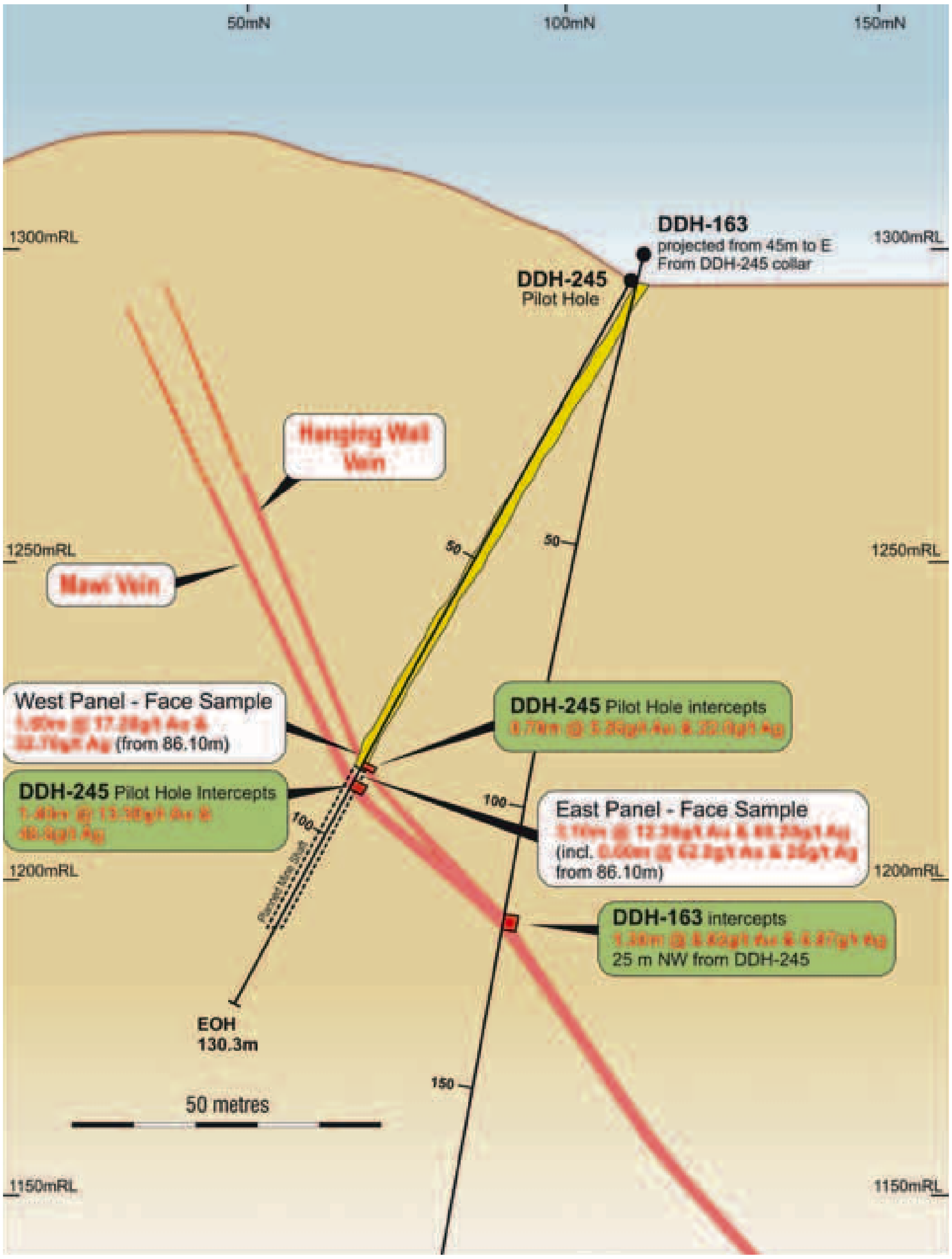


Figure 4. Talang Santo mine shaft progress comparison between drill results and face sampling.

Exposure of the Mawi vein during mine development has revealed significant clay bands within the quartz lodes that were not present (potentially washed out) in the core extracted during the diamond drilling process.

Face sampling results have also returned higher than expected grades than those originally indicated from diamond drilling intercepts.

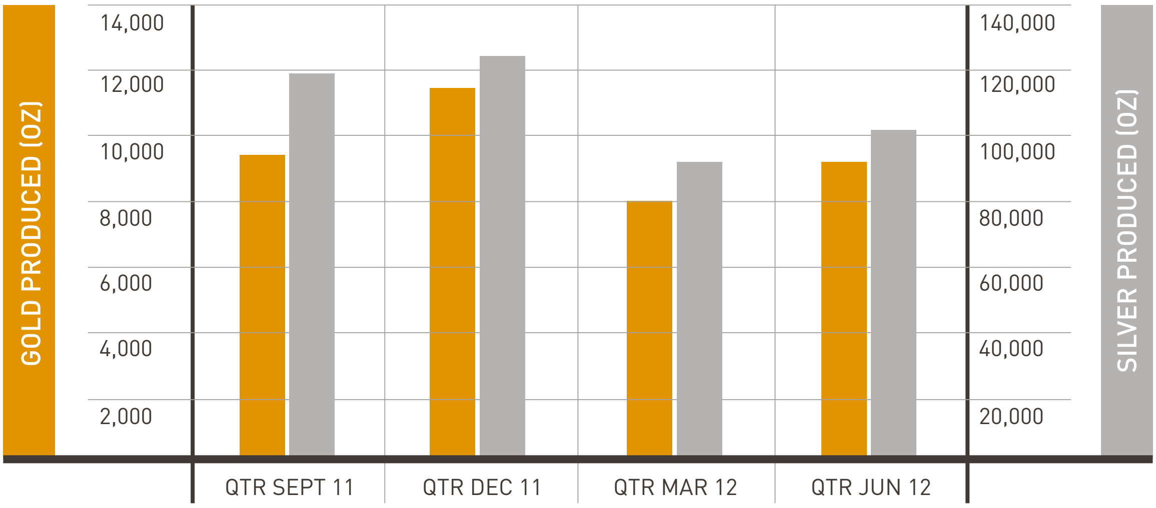
This is similar to what occurred at the Way Linggo mine and is thought to be responsible for grade overcalls in the heavily clay altered parts of that ore system. Whilst it is still too early to draw any definitive conclusions, Kingsrose is encouraged by this and believes that the higher than expected grades vindicates the decision for early mine development at Talang Santo.

PROCESSING

A total of 37,650 ounces of gold and 432,754 ounces of silver were produced in 2012, representing an increase of 37% for gold and 36% increase for silver production compared to the previous year. Production statistics for the year are shown below.

The successful installation and commissioning of the SAG mill adjacent to the Way Linggo mine in September 2011 was central to eliminating processing bottlenecks and reducing materials handling issues. This enabled production rates to increase to around 30,000 tonnes in the September and December quarters, or approximately 325tpd by feeding stockpiled ore in addition to mine feed.

The higher throughput rates in the September and December quarters resulted in lower gold and silver recovery rates largely due to reduced leach residence time and CCD wash efficiences.



Plant trials also indicated that higher throughput rates of up to 400tpd would negatively impact gold and silver recovery rates further. To mitigate this, a PSA oxygen plant and a 6th CCD were installed. The PSA oxygen plant has increased leach kinetics and the 6th CCD has improved wash efficiency with the combined effect of raising gold and silver metal recoveries at mill throughputs of up to approximately 400tpd.

The added benefit of the SAG mill installation is that grinding capacity of up to approximately 600tpd is now in place. This will become a significant advantage as mined ore tonnages increases with production from Talang Santo. It is anticipated that overall processing plant capacity could be increased to 600tpd with additional leach and Merril Crowe circuit capacity.

Metallurgical testwork completed on a composite of vein intercepts from Talang Santo during the year obtained gold recoveries of 92.3% and silver recoveries of 96% under similar conditions to the Way Linggo ore processing circuit. It is anticipated that Talang Santo ore will be amenable to processing in the Way Linggo processing plant.

EXPLORATION

Early in 2011, Kingsrose initiated an aggressive scout diamond drilling program with the objective of first pass drilling a number of the 15 high priority target areas generated in earlier reconnaissance.

Success was achieved in June 2011 with the discovery of a mineralised vein at Talang Santo.

The focus for the past year has been resource and extensional drilling at Talang Santo, scout drilling at Linggo-Sapta, Semung Kecil and the Rowo Rejo prospects as well as reconnaissance exploration at several other propsects. A total of 66,682 metres of diamond drilling were completed during the year utilising a total of 13 drill rigs.

Managing Director's Report (continued)

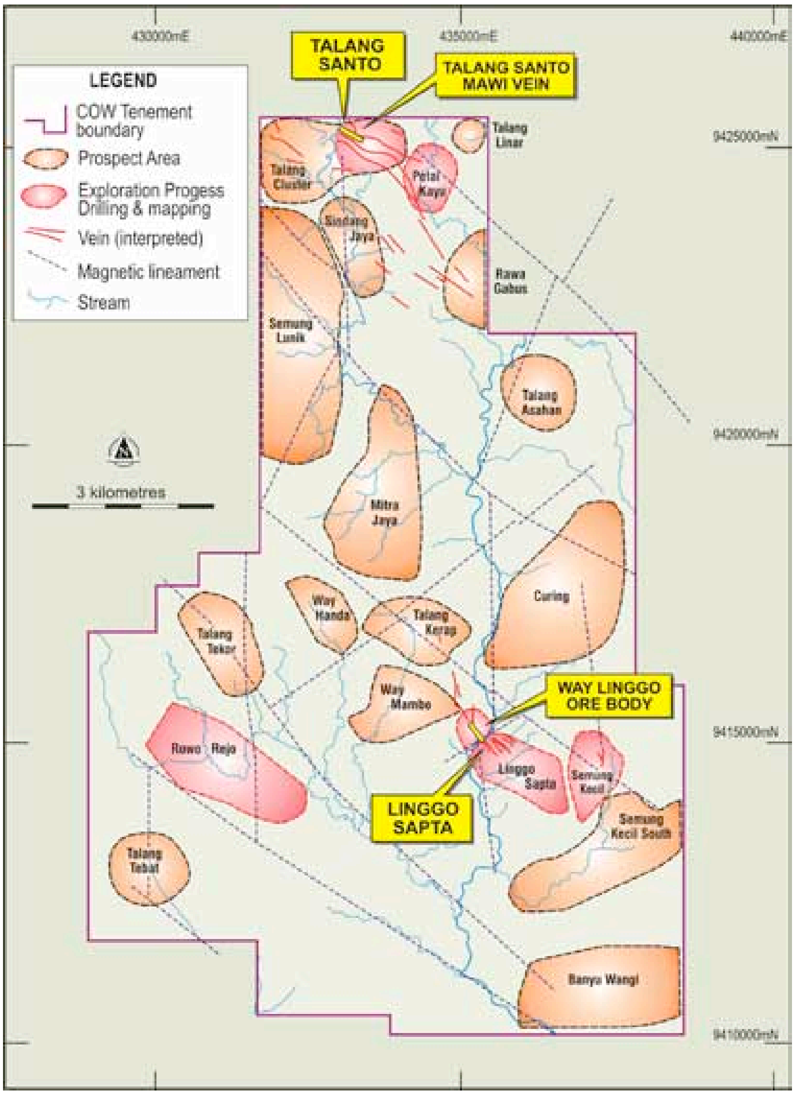


Figure 5. Contract of Work showing target areas

Following the drilling of a discovery hole in June 2011, resource definition drilling in the first half of the year culminated in the estimation of a Maiden Resource for Talang Santo. The Total Inferred Resource comprised 879,000 tonnes at 5.89g/t gold and 14.63 g/t silver containing an estimated 166,400 ounces of gold and 413,000 ounces of silver.

Further drilling in the second half of the year to test the extent of mineralisation was successful in extending the strike length of the Mawi vein to over 1.2km in length. Deeper drilling has proven that the vein still exists at 400 meters depth and the system remains open in all directions.

Talang Santo

Talang Santo is located 7km to the north of the Way Linggo mine and processing plant. Access is provided by a 17km all weather access road.

Numerous drill intersections containing significant gold and silver mineralisation were encountered with the some of the better intersections tabulated below.

Drill Hole	Results
DDH-208	10.65m @ 8.27g/t gold and 11g/t silver from 251.1m
DDH-226	4.65m @ 16.31g/t gold and 47g/t silver from 305.6m
DDH-246	3.65m @ 8.38 g/t gold and 36g/t silver from 417.1m
DDH-249	6.30m @ 5.54g/t gold and 11g/t silver from 131.45m
DDH-253	5.45m @ 8.56g/t gold and 21g/t silver from 111.4m
DDH-362	1.80m @ 33.59g/t gold and 17g/t silver from 27.1m; and 1.75m @ 19.11g/t gold and 99.1g/t silver from 228.9m

For further results please refer to the periodic market releases during the year which detail drill results at Talang Santo with >1 g/t gold.

Managing Director's Report (continued)

The Talang Santo Mineral Resource estimation was updated as at 30 June 2012 to include the additional extensional and infill drilling. The updated Mineral Resource estimation increased in total contained ounces of gold by 73% to 287,489 ounces and total contained silver by 116% to 894,951 ounces.

Classification	Deposit	Tonnes	Au g/t	Ag g/t	Au ounces	Ag ounces
Indicated	Talang Santo	863,625	6.19	16.25	171,873	451,200
Inferred	Talang Santo	797,355	4.51	17.31	115,616	443,751
TOTAL	**Talang Santo**	**1,660,980**	**5.39**	**16.77**	**287,489**	**894,951**

Over the next 12 months, the focus will continue on infill and extensional drilling with the aim of identifying more high grade epithermal areas that can be developed into additional mining fronts and expand mine output at Talang Santo.

Linggo-Sapta Prospect

Linggo-Sapta is located approximately 200 metres south-east of the Way Linggo mine and is separated from it by the Semung River. It is considered to possibly be an offset southerly extension of the Way Linggo ore system.
A number of narrow sub-parallel veins have been outlined over a strike of approximately 600 metres and a width of 300 metres.

Geological reconnaissance and fieldwork undertaken during the year outlined a number of outcropping epithermal veins which led to a wide spaced drill program, aimed at intersecting multiple veins in each hole. Numerous holes intersected narrow veins with significant gold and silver mineralisation. The better intersections included:

Figure 6. Drilling activity at Linggo-Sapta

Linggo-Sapta remains a focus for the Company as a highly prospective target for a possible third mining front.

Drill Hole	Results
DDH-302	1.70m @ 6.02g/t gold and 3g/t silver from 38.6m
DDH-316	1.00m @ 22.80 g/t gold and 1g/t silver from 29.0m; and 1.90m @ 10.57g/t gold and 5g/t silver from 64.2m
DDH-328	4.60m @ 4.21 g/t gold and 1g/t silver from 20.2m; and 2.90m @ 12.02g/t gold and 4g/t silver from 32.0m
DDH-347	1.30m @ 7.94g/t gold and 324g/t silver from 31.0m; and 0.60m @ 13.74 g/t gold and 58g/t silver from 154.4m

For further results please refer to the periodic market releases during the year which detail drill results at Linggo Sapta with >1 g/t gold.

Semung Kecil Prospect

Semung Kecil is located approximately 2km East South-East of the Way Linggo mine in rugged terrain with challenging access and logistics. During the year a field camp was established to provide a base for fieldwork and geological reconnaissance. A number of targets were defined, and subsequently five scouting diamond drill holes were completed utilising helicopter support.

The better results included.

Drill Hole	Results
DDH-261	85m @ 1.01g/t gold and 3g/t silver from 327.9m
DDH-303	4.00m @ 2.62g/t gold and 18g/t silver from 348.7m
DDH-342	0.45m @ 1.44g/t gold and 3 g/t silver from 332.95m

For further results please refer to the periodic market releases during the year which detail drill results at Semung Kecil with >1 g/t gold.

Whilst Semung Kecil remains a compelling target based on outcrop and stream sediment results, drilling at the prospect has been deferred in favour of more immediate targets at Talang Santo and Linggo-Sapta.

Figure 7: Exploration activity at Rowo Rejo.

Rowo Rejo Prospect

The Rowo Rejo Prospect contains a large sinter zone associated with brecciation. CSAMT traverses conducted during the year defined a well-developed resistivity zone, considered to be the feeder of the anomaly. Detailed mapping and grid based soil geochemistry provided evidence of epithermal gold mineralization and provided the impetus for scout drilling. More detailed mapping and a re-assessment of the CSAMT and BLEG sampling in conjunction with the knowledge obtained from the holes drilled will occur before further drilling is undertaken.

Drill Hole	Results
DDH-251	0.80m @ 14.69g/t gold and 17g/t silver from 302.4m
DDH-300	4.00m @ 1.52g/t gold and 27g/t silver from 94.3m

For further results please refer to the periodic market releases during the year which detail drill results at Rowo Rejo with >1 g/t gold.

CORPORATE SOCIAL RESPONSIBILITY

Community

Across all of its activities in Sumatra, Kingsrose recognises the need to be socially responsible. The Company is committed to building a lasting, mutually rewarding relationship with the surrounding communities.

Kingsrose's Corporate Social Responsibility program has three key goals.

1. Assist local community development to achieve a better quality of life;
2. Assist the local community to develop their own businesses;
3. Improve the relationship between the Company and local community.

Health initiatives include equipment and food donations, health care maintenance, subsidised medical care and assistance with malaria and birth control programs.

Education initiatives include the provision of student scholarships, school book donations, school building renovations and teacher allowances.

Economic stimulation and providing the tools to build a long term and long lasting local economic structure that can extend beyond the life of the mine is pivotal to Kingsrose's Corporate Social Responsibility Program. The Company provides micro-loans aimed at assisting local entrepreneurs to start their own businesses.

One of the biggest benefits to the local community is the opportunity to work at the locally-managed mine. Many of Kingsrose's 1,000 employees are Sumatran with many coming from nearby villages. Training programs help to broaden their skills, equipping them for work at Way Linggo and other businesses in the future.

Kingsrose works closely with local government to ensure that community objectives are met. The Company provides financial and technical assistance to local infrastructure projects, such as the upgrading of roads, building bridges, water drainage and assisting with development of micro hydroelectric systems for power generation.

Kingsrose is particularly proud of the positive social and economic benefits that its activities have had on this area. The Company looks forward to continuing to build on its relationship with the local government and local communities to assist in helping them achieve a better quality of life.

Environment

Kingsrose strives to ensure the appropriate level of environmental care is achieved within the project areas and to conduct all operations in an environmentally sustainable manner. To date, environmental impacts have been minimal and the Company will continue to take all necessary measures to mitigate any potential adverse impacts on both the environment and the community.

Safety

Kingsrose is committed to upholding the highest safety standards with respect to our employees, the environment and the community in which we co-exist. Building a culture of safety awareness is crucial to the continuous improvements that are being achieved at the Way Linggo project.

SARINC Project

The SARINC Zinc/Lead Tailings Retreatment Project is located in Sardinia, Italy.

The Project was put on hold in January 2012 due to the metallurgical complexity and marginality of the project at current metal prices combined with a lack of active cooperation from the local authorities. The Project consists of multiple tailings deposits located in areas visible to the local communities so it is very important that the local and regional governments provide support in assuring that all stakeholders, including the local populace, understand the merits of the project and its potentially large scale and long life.

CORPORATE

Dividend

The Company declared a maiden unfranked 4c dividend in May. The declaration followed an extremely successful period for Kingsrose, culminating in the Company having $43m in cash and bullion at the end of the March Quarter. Furthermore, it reflected the Board's confidence in the Way Linggo project and its ability to continue to increase production levels whilst keeping cash costs circa US$300 an ounce.

Indonesian Divestment

In March 2012, new foreign investment and ownership rules were introduced into Indonesia that require some foreign companies to divest their stake in Indonesian mining projects down to a maximum of 49% over a 10 year period. The remaining 51% is to be owned by either an Indonesian government body or an Indonesian national.

The new law does not directly affect Kingsrose or its 85% owned subsidiary, PT Natarang Mining (PTNM), operator of the Way Linggo Project. However, the Company is obligated to follow a similar timetable under PTNM's Contract of Work (CoW), which is a legal agreement between the Government of the Republic of Indonesia and PTNM.

The Company must offer for sale equity tranches in PTMN, which, if taken up, would result in the Company's share of PTNM reducing down to 49% over a 10 year period following commencement of production in accordance with the divestment schedule outlined in the CoW. Each tranche is to be offered for sale at a fair market price to either an Indonesian government body or Indonesian national. Applying Article 24 of the CoW, the Company's obligation to offer for sale equity in PTNM should commence in March 2016, six years after the commencement of production. The Company believes it is in a strong position to follow the CoW timetable and is currently waiting formal advice from the Ministry to confirm this. Should a tranche offered for sale not be purchased by the government or an Indonesian national within the requisite three month window (April to June) it must be offered again in the following year. There is no penalty on the Company if the tranche is not sold but it remains available for sale.

The CoW system was created in 1967 and was used to grant concessions and define mining rights and obligations to foreign companies in a transparent manner. It provides security of tenure, allowing the mining company to proceed from general survey through exploration all the way through to mine development, production, processing and marketing. Of fundamental importance is the provision of security of investment, covered as "lex specialis" treatment, which assures that the investment is not subject to changes in government laws or policies after signing for the period in force. The PTNM CoW is valid until 2034.

JORC Resource Statement

As at 30 June 2012, the Measured, Indicated and Inferred Mineral Resources were as follows:

Classification	Deposit	Tonnes	Au g/t	Ag g/t	Au ounces	Ag ounces
Measured	Way Linggo	339,215	14.45	174.84	157,592	1,906,804
Indicated	Way Linggo	174,145	6.30	61.09	35,273	342,036
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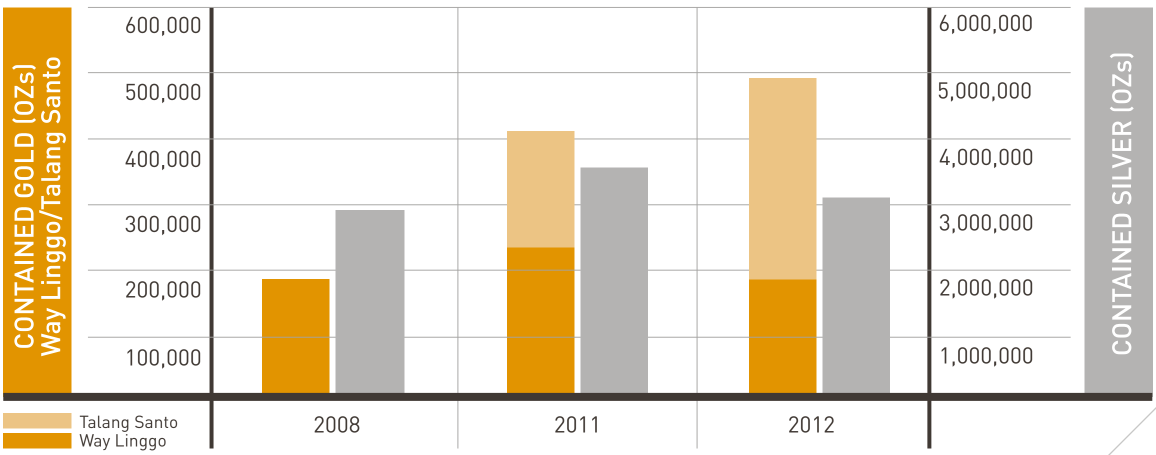
Grand Total		**2,188,460**	**6.91**	**45.28**	**485,869**	**3,183,278**

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 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 resource estimation, the geology model was formed via the incorporation of geological mapping, face production sampling and drill hole data. Talang Santo grade estimates have been based upon development and drill hole data.
- The void files used to deplete the respective models were current as at 30 June 2012.
- The Classified Mineral Resource is reported above a 2.5g/t Au cut-off grade.
- A top-cut of 150.00g/t Au and 1,800g/t Ag was used during estimation at Way Linggo. A top-cut of 25.00g/t Au and 75g/t Ag was used during estimation at Talang Santo.
- At Way Linggo, the portion of the resource in the area above existing mine development north of 10,050mN is considered as Measured. Fans of drilling completed to circa 900mRL allow the zone between the current base of mine development at 930mRL and 900mRL north of 10,050mN to be considered Indicated. Drilling to the north of current development also allows the mineralisation north of the main ore body to be considered Indicated. The mineralised zones to the south of 10,050mN are currently considered Inferred in those areas which have not been intersected by mine development, which in turn are considered Indicated. Mineralised zones peripheral to the main Way Linggo zone are primarily considered Inferred.
- At Talang Santo the well-drilled portion of the primary Mawi Vein and its two 300° trending footwall structures are considered Indicated. The remainder of the Mawi Vein, the footwall structures and all other peripheral mineralised zones are considered Inferred.
- Following a critical appraisal of all Measured resource blocks by the Chief Geologist at the Way Linggo site, a decision was made to factor the resource down by 15% to account for the non-recoverability of mining pillars.
- Note that small discrepancies may have occurred due to rounding.

The graph below shows a substantial increase in the resource at the Way Linggo Project from the original calculation in 2008 to 30 June, 2012.



Competent Person Statement

The information in this report that relates to exploration results, mineral resources and ore reserves is based on the information compiled by Mr Peter Cook, BSc Applied Geol, MSc (Min Econ), who is a member of the Australasian Institute of Mining and Metallurgy and a consultant to Kingsrose Mining Limited.

Mr Cook has sufficient experience which is relevant to the styles of mineralisation and types of deposits and to the activity he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral resources and Ore Reserves ('JORC Code').

Mr Cook consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Key Indicators

Key Indicators	Unit	Sept-11 Qtr	Dec-11 Qtr	Mar-12 Qtr	Jun-12 Qtr	FY 2012 Total
WAY LINGGO PROJECT						
Ore Mined	t	21,775	17,150	20,309	23,305	82,539
Mined Grade - Gold	g/t	15.0	16.2	13.2	10.9	13.7
Mined Grade - Silver	g/t	191	219	164	147	178
Ore processed	t	30,779	29,860	20,380	22,306	103,326
Head Grade - Gold	g/t	11.3	12.8	12.5	13.0	12.3
Head Grade - Silver	g/t	148	161	155	157	155
Recovery - Gold	%	89.8	91.6	93.0	93.4	91.7
Recovery - Silver	%	82.9	82.4	83.3	86.5	83.6
Gold Recovered [1]	oz	9,997	11,235	7,168	8,694	37,545
Silver Recovered [1]	oz	120,698	126,944	84,787	97,449	429,878
Gold Produced [i]	oz	9,702	11,576	7,609	8,763	37,650
Silver Produced [i]	oz	120,663	126,495	85,169	100,427	432,754
Cash Operating Cost (before Ag Credit)	US$/oz	484	584	649	547	563
Less Silver By-Product Credit	US$/oz	(330)	(291)	(351)	(272)	(309)
Cash Operating Cost [ii]	**US$/oz**	**153**	**293**	**298**	**275**	**254**
Total Production Costs [iii]	US$/oz	385	587	557	640	541
Capitalised Mine Development	US$m	0.6	1.7	1.5	1.7	5.5
Capital Plant & Equipment	US$m	1.6	1.0	0.8	1.3	4.7
Exploration	US$m	4.2	3.3	3.3	4.3	15.0
Gold Sold	oz	8,519	12,152	6,430	10,159	37,260
Average Gold Price Received	oz	1,728	1,685	1,694	1,606	1,675
Silver Sold	oz	101,017	118,000	92,515	89,016	400,549
Average Silver Price Received	US$/oz	32	29	29	27	29

(i) Gold and silver production is actual metal poured.
(ii) Includes all expenditure incurred at site plus dore transportation and refining costs less by-product.
(iii) Includes cash operating costs plus government royalties, depreciation and mine development amortisation.

Kingsrose Mining Limited

Financial Report

For the year ended 30 June 2012

ACN 112 389 910

Kingsrose Mining Limited

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 2012.

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 (Appointed 17 August 2007)

Mr. Morris has over 40 years experience in exploration, project development and management of public 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 also serves on the Company's Remuneration Committee.

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

Christopher Start – Managing Director (Appointed 1 July 2011)

Mr. Start was appointed General Manager of Kingsrose in March 2011. He was subsequently appointed Managing Director in July 2011. He graduated from RMIT as a Metallurgical Engineer with honours in 1988 and has over 24 years of experience in the mining industry. He has worked as a metallurgist, in management positions and as a consultant at a number of mine sites including Kidston, Murrin Murrin, Granny Smith and Boddington.

Mr. Start also has international experience working as the Processing Manager at Mt Muro gold and silver mine in Indonesia and as the General Manager at the Musselwhite gold mine in Canada. In addition to his extensive operational experience Mr. Start has several years of corporate experience with Dominion Mining and Australian Goldfields and has a Master of Science Degree in Mineral Economics.

Mr. Start does not hold any other directorships of public companies.

Timothy Spencer – Executive - Finance Director (Appointed 28 March 2009)

Mr. Spencer has over 18 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. Until his resignation in June 2012, Mr. Spencer served on the Remuneration Committee.

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

J. William (Bill) Phillips – Non-Executive Director (Appointed 12 January 2005)

Mr. Phillips has over 32 years experience in mining contracting and mine management, much of which has been gained in Western Australia. He is highly regarded as a leading specialist in underground narrow vein mining.

He 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 and processing plant in the southern Philippines. Mr. Phillips also serves on the Remuneration Committee.

Mr. Phillips does not hold any other directorships.

Kingsrose Mining Limited

Peter Cook – Non-Executive Director (Appointed 1 October 2010 – Resigned 21 August 2012)

Mr. Cook is a Geologist and Mineral Economist and has considerable experience in the fields of exploration and project and corporate management of mining companies. He is the current Non-Executive Chairman of Metals X Limited, Pacific Niugini Limited and Aziana Limited. He is also a director of Westgold Resources Limited. From 21 June 2012 until his resignation, Mr. Cook also served on the Company's Remuneration Committee.

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

- Metals X Limited – appointed 23 July 2004
- Westgold Resources Limited – appointed 19 March 2007
- Pacific Niugini Limited – appointed 31 August 2009
- Aziana Limited – appointed 30 May 2011

Andrew P. Spinks – Non-Executive Director (Appointed 21 August 2012)

Mr. Spinks is a geologist with over 24 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 and was 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 has been appointed a Member of the Remuneration Committee.

Mr Spinks is currently a director of Kibaran Resource Limited and Rarus 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
- Kibaran Resources Limited – appointed 20 July 2012

EXECUTIVE AND/OR KEY MANAGEMENT PERSONNEL

Herryansjah - President Director – Board of Directors, PT Natarang Mining

Mr. Herryansjah, an Indonesian citizen, is a geology graduate having over 26 years experience of gold and base metal exploration. He has held the post of Senior Geologist or Chief Geologist with a number of Australian and Indonesian 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.

Terry Butler

Until his resignation in November 2011, Mr. Terry Butler was the Operations Manager for the Way Linggo Gold Project in Indonesia. He had extensive experience in the mining industry spanning 26 years in various senior management roles including mining, maintenance (fixed plant and mine fleet), processing and site management through to operations manager level. The majority of experience was gained with involvement in green field or new project work, from feasibility, commissioning and then to senior operational management roles in overseas locations.

Kingsrose Mining Limited

Ron Clarke

Mr. Clarke is the Operations Manager for the Way Linggo Project in Indonesia. He has held this position since December 2011. He has extensive experience gained over 35 years in the mining industry, having held various senior management positions and consultancy roles both within Australia and overseas.

He has held key managerial and operational positions during the processing and commissioning phases for various base metals and gold producers, including Resolute Limited, Hill 50 Gold, Harmony Gold Australia and BHP Billiton's Olympic Dam operations. More recently, Mr. Clarke was the consultant Processing Manager at Centamin plc in Egypt.

Jeannette Smith

Mrs. Smith has been the Company Secretary of Kingsrose Mining Limited for the past five years. She has over 30 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.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

At the date of this report, the interests of the Directors in the shares and options of Kingsrose Mining Limited were:

Director	Fully Paid Ordinary Shares	Unlisted expiring (various)* $1.54
J.C. Morris	7,250,000	-
C.N. Start	-	3,000,000
T.G. Spencer	1,050,000	-
J.W. Phillips	16,150,000	
P.G. Cook **	2,000,000	-
A.P. Spinks **	-	-

*In respect of 1m options: vesting date 17.09.2011; expiry date 17.09.2013.
In respect of 1m options: vesting date 01.10.2012; expiry date 01.10.2014.
In respect of 1m options: vesting date 01.10.2013; expiry date 01.10.2015.

**Resigned/Appointed 21 August 2012

DIVIDENDS

In accordance with its Dividend Policy, on 23 May 2012 the Company declared a maiden dividend of $0.04 cents per ordinary share to those shareholders registered on 19 June 2012. The unfranked dividend of $11,566,173 was paid to shareholders on 4 July 2012. The amount attributable to conduit foreign income was $0.02016 per share.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN THOSE ACTIVITIES

The principal activities during the year of the entities within the Group were production of gold and silver at the Way Linggo Gold Project in Sumatra, Indonesia. Exploration activities, primarily for gold and silver, continued during the year within the 10,000 hectare Way Linggo property whilst the SARINC zinc/lead tailings project in Sardinia, Italy was put on hold due to the complexity and marginality of the project combined with a lack of cooperation from the local authorities.

Directors' Report (continued)

For the year ended 30 June 2012

Kingsrose Mining Limited

REVIEW OF OPERATIONS

The financial year ended 30 June 2012 saw the Group expand its flagship Way Linggo Gold Project located in Sumatra, Indonesia. Further drilling at the Talang Santo vein system, discovered mid-2011, resulted in a maiden JORC resource statement being issued for it in December 2011. Ore production from the Way Linggo mine continued strongly although depletion of the pre-commissioning high-grade stockpile by December 2011 affected gold production in the second half of the reporting period. Gold production reached 37,650 ounces (2011: 27,056 ounces) with 432,754 ounces (2011: 318,869 ounces) of silver produced as a by-product. Cash operating costs were US$254 (2011: US$142) per gold ounce produced whilst total costs, including depreciation, amortisation and government royalties totalled US$541 (2011: US$421) per gold ounce (both cost per ounce figures include a silver by-product credit of US$309 (2011: US$323) per gold ounce).

Financial Results

The Group's profit after tax for the year was $21,393,693 (2011: $14,905,273). The share of the profit after tax attributable to the owners of the Parent was $17,551,550 in the current year (2011: $12,244,784).

Review of Financial Condition

Liquidity and capital resources

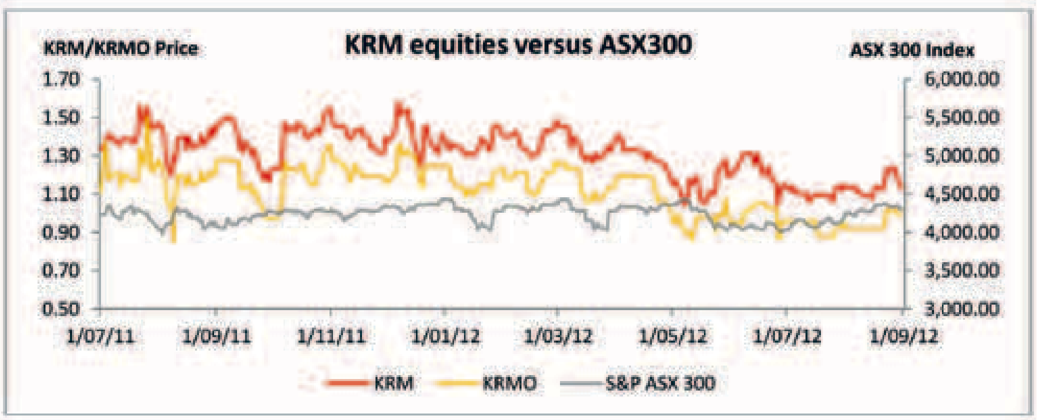
Cash and cash equivalents as at 30 June 2012 totalled $30,125,139 (2011: $23,951,112).

Total Group assets grew to $94,072,454 as at 30 June 2012 (2011: $68,456,965), a 37% increase over the previous period. Net assets were $66,479,766 (2011: $50,280,884). The ratio of current assets to current liabilities changed from 2.50 in 2011 to 1.45 in 2012 due to the $11,566,173 dividend declared in May 2012. Investment in plant and equipment totalled $4,394,187 (2011: $6,966,136), $12,769,617 (2011: $8,101,562) was spent on exploration and evaluation activities and $416,631 (2011: $9,881,017) in repayment of borrowings and interest.

Shareholder Returns

The Company's return to its shareholders, whilst not positive, was assisted by the maiden four cent dividend declared in May 2012 and outperformed its peers. The Company's shareholder return declined by 11% during the reporting period as compared to the S&P/ASX All Ordinaries Gold Index which fell by 33% over the same 12 month period.

The following graph shows the closing price of the Company's ordinary fully paid shares and listed options during the year ended 30 June 2012 [KRM – ordinary shares; KRMO – listed options]



Kingsrose Mining Limited

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no other significant changes in the state of affairs of the Group other than those referred to elsewhere in this Directors' Report and in the Financial Statements and notes thereto.

SIGNIFICANT EVENTS AFTER BALANCE DATE

- On 4 July 2012, the Company's $0.04 per share maiden, unfranked dividend, totaling $11,566,613, was paid to shareholders (it was declared on 23 May 2012).

- On 26 July 2012, the Company announced that it had commenced quotation to trade American Depositary Receipts (ADRs) on the US based exchange, OTCQX International, through the ADR program.

  The ADRs will be tradable through licensed US brokers in the ordinary course of trading in the Over-The-Counter (OTC) Markets in the US. Each Kingsrose ADR is equivalent to five (5) ordinary shares in Kingsrose, as traded on the ASX. The Company's OTCQX ticker symbol is KGRSY.

  Kingsrose believes that the ADR listing will assist in attracting new investors to the Company and will help provide greater access to US capital markets.

  Dahlman Rose & Co, LLC (Dahlman) has been appointed as the Company's Principal American Liaison for the Company in connection with its listing on the OTCQX International. The Bank of New York Mellon is the depositary bank for the ADR program.

- On 21 August 2012, the Company announced the appointment of Mr. Andrew Spinks as a Non Executive Director of the Company. Full details on Mr. Spinks' credentials and experience are located in the Directors' section of this report. On the same day, Mr. Peter Cook announced his resignation as a Non Executive Director due to his increasing work commitments.

- Please refer to Securities Issued/Exercised during the Year section of this report for options issued and exercised subsequent to balance date.

There have been no other significant events, other than those mentioned in Note 27 to the Financial Statements 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.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Kingsrose is committed to growing through exploration and through the acquisition of new projects. The Company's Board and management are confident that the Way Linggo property will yield further high grade epithermal vein discoveries to assist in increasing both the life and production level of the Project.

Over the next 1 – 3 years, the Company aims to continue:

- boosting production of gold and silver at the Way Linggo Project by bringing online new production areas, such as Talang Santo;
- continued exploration at Way Linggo to discover additional ore sources;
- assess potential growth opportunities with the focus being on primary gold projects with low entry level costs and potential to fast track to production.

Kingsrose Mining Limited

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group strives to maintain a high level of environmental performance and is subject to stringent environmental regulation in respect to its activities. The Directors of the Company are not aware of any breach of environmental legislation during the year under review.

EMPLOYEES

The Group had 760 full-time employees as at 30 June 2012 (2011: 603).

SHARE OPTIONS

(a) Unissued shares

As at the date of this report, there were 10,281,413 ordinary shares under options as follows:

No. Listed	No. Unlisted		Exercise Price	Vesting Date	% vested	Expiry Date
	ESOP	*Non-ESOP*				
1,206,413			$0.20	n/a	n/a	31-Dec-12
		1,500,000	$0.25	13-Oct-07	100%	31-Dec-12
	3,000,000		$1.54	17-Sep-11	33.3%	17-Sep-13
				1-Oct-12	33.3%	1-Oct-14
				1-Oct-13	33.3%	1-Oct-15
	150,000		$0.73	8-Mar-10	100%	8-Mar-15
	75,000		$1.59	21-Dec-10	100%	21-Dec-12
	2,000,000		$1.59	2-Dec-11	50%	2-Dec-13
				2-Dec-12	50%	2-Dec-14
	250,000		$1.42	22-Dec-11	100%	22-Dec-13
	1,000,000		$1.53	17-Dec-12	-	17-Dec-14
				17-Dec-13	-	17-Dec-15
		500,000	$1.53	22-Feb-12	100%	22-Feb-14
	500,000		$1.26	23-Jan-13	-	23-Jan-15
			$1.26	23-Jan-14	-	23-Jan-16
	100,000		$1.27	14-Feb-13	-	14-Feb-15

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.

Kingsrose Mining Limited

(b) Shares issued as a result of the exercise of options

During the financial year, employees and executives have exercised options to acquire 2,900,000 fully paid ordinary shares in the Company at a weighted average exercise price of $0.20 per share.

SECURITIES ISSUED/EXERCISED DURING THE YEAR

	Issue date	# securities issued	Issue price/ exercise price	Issued to/ reason for issue	Allotment under ASX LR 7.1	ESOP	Listed
Ordinary Shares	Nil						
Options issued over	13-Jul-11	250,000 *	$1.58	Employee		Yes	No
fully paid shares	22-Dec-11	1,000,000	$1.53	Employee		Yes	No
Option conversions	From 01-Jul-11	21,393,790	$0.20	Listed options	**		Yes
	to	1,000,000	$0.14	Unlisted options		Yes	No
	30-Jun-12	2,410,000	$0.25-$0.39	Unlisted options	Yes		No
Options issued	23-Jul-12	500,000	$1.26	Unlisted options		Yes	No
subsequent to	14-Aug-12	100,000	$1.27	Unlisted Options		Yes	No
year end							
Options exercised	31-Jul-12	17,922	$0.20	Listed			Yes
subsequent to	31-Jul-12	7,500	$0.20	Listed			Yes
year end	15-Aug-12	7,350	$0.20	Listed			Yes
	3-Sep-12	75,000	$0.20	Listed			Yes

* cancelled 23/11/11
** 1:2 non-renounceable rights issue (pursuant to IPO - November 2007)

INDEMNIFICATION OF DIRECTORS AND OFFICERS

An indemnity agreement has been entered into between the Company and each of the Directors named earlier in this report and with each full-time Officer, including persons who act as Directors on behalf of the Company on the Boards of any company in which the Company has a financial interest. Under the agreement, the Company has agreed to indemnify those officers against any claim or for any expenses or costs, to the extent permitted by law, which may arise as a result of work performed in their respective capacities. In addition, the agreement provides for the Company to procure and pay the premium for an insurance policy to cover, to the extent permitted by law, such claims and expenses, and to continue maintaining an insurance policy for a period of seven years after an officer has ceased to act in that capacity.

Kingsrose Mining Limited

INSURANCE OF DIRECTORS AND OFFICERS

The Company has paid an insurance premium in respect of a contract insuring each of the Directors of the Company named earlier in this report and the Officers of the Company against liabilities and expenses, to the extent permitted by law, arising from claims made against them in their capacity as Directors and Officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company, viz

(a) Willful breach of duty

(b) A contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

During the financial year the Company has paid D&O insurance premiums of $22,250 in respect of liability of any current and future directors and officers of the Company.

DIRECTORS' MEETINGS

During the financial year:

- Six Directors' meetings were held. In addition to formal Board meetings, matters requiring Board approval were dealt with via circular resolutions: 13 circular resolutions were signed by all the Directors during the financial year.
- Three Remuneration Committee meetings were held: four circular resolutions were signed by all the Members during the financial year.

	Directors' Meetings	
Director	Number meetings held whilst a director	Number meetings attended
	6	**6**
J.C. Morris	6	6
C.N. Start	6	6
T.G. Spencer	6	6
P.G. Cook *	6	6
J.W. Phillips	6	6
A.P. Spinks **	0	0

* Resigned 21 August 2012
** Appointed 21 August 2012

	Remuneration Committee Meetings	
Director	Number meetings held whilst a director	Number meetings attended
	3	**3**
J.C. Morris	3	3
J.W. Phillips	3	3
T.G. Spencer *	2	2
P.G. Cook **	1	1
A.P. Spinks ***	0	0

* Resigned 21 June 2012
** Appointed 21 June 2012 and resigned 21 August 2012
*** Appointed 21 August 2012

Kingsrose Mining Limited

REMUNERATION REPORT (audited)

This report for the year ended 30 June 2012 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented as follows:

1. Introduction

The remuneration 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.

For the purposes of this report, the term 'executive' includes the Chief Executive Officer (CEO), executive directors, senior executives, general managers and secretary of the Company and the Group.

Details of Directors and KMP of the Company and the Group are set out below:

Name	Position	Date of appointment	Date of resignation
Directors			
J.C. Morris	Non-Executive Chairman	17-Aug-07	-
C.N. Start	Managing Director *	17-Mar-11	-
T.G. Spencer	Finance Director	28-Mar-09	-
J.W. Phillips	Non-Executive Director	12-Jan-05	-
P.G. Cook	Non-Executive Director	1-Oct-10	21-Aug-12
Other Key Management Personnel			
Herryansyjah	President Director – PT Natarang Mining	27-Feb-09	-
T. Butler	Operations Manager (Way Linggo) – PT Natarang Mining	18-May-10	8-Nov-11
R. Clarke	Operations Manager (Way Linggo) – PT Natarang Mining	17-Dec-11	-

* Mr. C.N. Start was appointed as General Manager on 17 March 2011 and became the Managing Director on 1 July 2011.

Other than the resignation of P.G. Cook, there were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

Kingsrose Mining Limited

REMUNERATION REPORT (audited) (cont'd)

2. Remuneration governance

The Board has established a formal Remuneration Committee that makes recommendations to the Board on the remuneration arrangements for non-executive directors (NED's) and executives.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of NED's and executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing director and executive team. Details of the nature and amount of emoluments of each director are disclosed elsewhere in the remuneration report.

The Board approves the remuneration arrangements of the CEO and executives and all awards made under the long term (LTI) plan. The Board also sets the aggregate remuneration of NED's that is subject to shareholder approval.

Remuneration Committee

The Remuneration Committee comprises three independent NEDs.

The role of the Remuneration Committee is to assist the Board of Directors of the Company in fulfilling its corporate governance responsibilities with respect to remuneration by reviewing and making appropriate recommendations on:

a) remuneration packages of executive directors, non-executive directors and senior executives; and
b) employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

The Remuneration Committee has delegated decision making authority for some matters related to the remuneration arrangements for NEDs and executives and is required to make recommendations to the Board on other matters.

Specifically, the Board approves the remuneration arrangements of the CEO and other executives and all awards made under the long-term incentive (LTI) plan, following recommendations from the Remuneration Committee. The Board also sets the aggregate remuneration of NEDs, which is then subject to shareholder approval, and NED fee levels. The Remuneration Committee approves, having regard to the recommendations made by the CEO, the level of the Group short-term incentive (STI) pool.

The Remuneration Committee meets regularly through the year. The CEO attends certain remuneration committee meetings by invitation, where management input is required. The CEO is not present during any discussions related to his own remuneration arrangements.

Remuneration Strategy

The Company's remuneration strategy is designed to attract, motivate and retain employees and NED's by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

The objective of the Remuneration Committee is to help the Board achieve its objective of ensuring the Company:

- Has coherent remuneration policies and practices to attract and retain executives and directors who will create value for shareholders;
- Offer competitive remuneration benchmarked against the external market;
- Observes those remuneration policies and practices; and
- Fairly and responsibly rewards executives having regard to the performance of the Company, the performance of the executives and the general pay environment.

Kingsrose Mining Limited

REMUNERATION REPORT (audited) (cont'd)

Remuneration structure

In accordance with best practice corporate governance, the structure of NED and executive remuneration is separate and distinct.

Use of remuneration consultants

To ensure the Remuneration Committee is fully informed when making remuneration decisions, it seeks external remuneration advice.

New legislation was introduced in 2011 that impacts how companies can seek advice, which includes a remuneration recommendation in relation to KMP remuneration. Therefore, in the 2012 financial year the Board underwent a formal appointment process and Guerdon Associates was appointed as the remuneration advisors to the Company.

In order to ensure the Remuneration Committee is provided with advice, and as required, remuneration recommendations, free from undue influence by members of the KMP to whom the recommendations may relate, the engagement of Guerdon Associates by the Remuneration Committee was based on an agreed set of protocols and would be followed by Guerdon Associates, members of the Remuneration Committee and members of the KMP.

During the 2012 financial year, Guerdon Associates provided the Company with:

- Insights on remuneration trends regulatory developments and shareholder views;
- Market data in relation to CEO and executive remuneration;
- Advice in relation to the share options plan and long-term share performance rights.

Remuneration Report approval at AGM for 2011 financial year

The Remuneration Report for the 2011 financial year received positive shareholder support at the 2011 AGM. Results were as follows:

- Open 0.59%
- For 69.45%
- Against 2.10%
- Abstain 27.86%

Company performance and the link to remuneration

Short-term incentive (STI) 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 key management individual as well as Group performance but do not apply a specific set of service and performance conditions. This approach is taken because the Group's operations are considered to be highly variable, given its early growth stage, and a pre-determined, prescriptive list of service and performance would likely become redundant. STI payments, in general, do not exceed 10% of an individual's fixed remuneration.

Options are issued with vesting periods, requiring the recipient of the options to complete a minimum period of employment with satisfactory performance before the options vest.

Satisfactory performance is determined by the Board of Directors in relation to senior executives and key management personnel. It is not based on a pre-agreed set of measurement parameters but takes into account the individual's performance in relation to the expectations of the Board of Directors, particularly comparing how well the individual has achieved the key responsibilities as detailed in that person's employment agreement and/or job description.

Kingsrose Mining Limited

REMUNERATION REPORT (audited) (cont'd)

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

Group Performance

The table below shows the performance of the Group (as measured by the Group's EPS from continuing operations) since listing on the ASX on 7 December 2007.

Year	2008	2009	2010	2011	2012
EPS (cents/share)					
- Basic	(17.40)	(4.20)	(3.18)	4.76	6.44
- Diluted	(17.40)	(4.20)	(3.18)	4.45	6.42
Share price	$0.25	$0.37	$1.04	$1.33	$1.15

The improvement in the return to shareholders is reflected through the earnings per share that has improved over the past five years. EPS grew by 44% in 2012 in comparison to the previous year (on a diluted basis).

3. Non-executive Director (NED) remuneration arrangements

Remuneration policy

The Company's policy is to remunerate non-executive directors at market rates (for comparable companies) for time, commitment and responsibilities. Fees for 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 amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NED's of comparable companies.

Payments to non-executive directors reflect the demands that are made on and the responsibilities of the NEDs. Non-executive directors' fees and payments are reviewed annually by the Remuneration Committee. The Company's constitution and the ASX listing rules specify that the NED fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2008 Annual General Meeting (AGM) held on 25 November 2008 when shareholders approved an aggregate fee pool of $110,000 per year (excluding share-based payments).

An amount not exceeding the approved aggregate fee pool is then divided between the non-executive directors as agreed. Each non-executive director currently receives $30,000 for being a Director of the Company. They may also be remunerated at market rates for additional work undertaken as required on behalf of the Group.

The Board will seek any increase for the NED pool at the 2012 Annual General Meeting to $300,000 to cover the remuneration payable to the non-executive Chairman (previously an executive) as well as to allow for the appointment of additional NEDs if required and the adjusting of NED fees to reflect market rates.

4. Executive and Key Management Personnel (KMP) remuneration arrangements

Remuneration levels and mix

The Group aims to reward KMP with a level and mix of remuneration commensurate with their position and responsibilities within the Group and aligned with market practice. Senior management are typically remunerated with a base salary, statutory retirement benefits and share options. Details of these are disclosed in Table 1.

KMP remuneration and incentive policies and practices must be performance based and aligned with the Company's vision, values and overall business objectives. The Company undertakes periodic remuneration reviews to determine the remuneration positioning against the market as well as individual performance and contribution.

Kingsrose Mining Limited

REMUNERATION REPORT (audited) (cont'd)

Executive contractual arrangements

Remuneration arrangements for KMP are formalised in employment agreements and includes base pay, superannuation and long-term incentives through the issue of options. STI's are not specified in the employment agreements.

Non-Executive Chairman

The Company commenced remunerating Mr. Morris as a non-executive Director on 1 December 2007 and thereafter as an executive Director from 1 May 2009 until 1 July 2011 when he again reverted to non-executive. The terms of employment were formalised on 1 October 2009 at which time Mr. Morris entered into a three-year contract with the Company. He receives a salary of $150,000 per annum plus statutory superannuation. One month's notice by either party is required to terminate employment.

Managing Director

In March 2011 Mr. Start joined the Company as General Manager at which time he entered into a three-year contract with the Company. On 1 July 2011 he was appointed Managing Director of the Company. Under the terms of his contract, which was amended in August 2012, he receives a salary of $300,000 per annum and statutory superannuation. He also receives a vehicle allowance of up to $20,000 per annum.

Finance Director - Executive

In February 2009 Mr. Spencer entered into a three-year contract with the Company and receives an annual salary of $250,000 per annum and statutory superannuation. His contract was renewed in August 2012, but made retrospective to February 2012, for an indefinite period. He also receives a vehicle allowance of up to $20,000 per annum.

Non-Executive Directors

As Non-Executive Directors, Mr. Cook and Mr. Phillips are each paid Director's fees of $30,000 per annum.

Non-Executive Directors are paid consulting fees for time spent on Company business, including reasonable expenses incurred by them on business of the Company, details of which are contained in the Remuneration Table.

Board of Directors - PT Natarang Mining

Mr. Herryansjah is employed under an Indonesian employment contract with no fixed term. He receives an annual salary of US$250,000, which is equivalent to $242,272. One month's notice is required by either party to terminate employment.

Operations Managers – Way Linggo

In May 2010, Mr. Terry Butler was appointed Operations Manager of the Company's subsidiary, PT Natarang Mining (PTNM), at which time he entered into a one year contract. His contract was subsequently renewed for a further year. His annual salary was $300,000 per annum. He resigned on 8 November 2011.

In December 2011, Mr. Ron Clarke was appointed Operations Manager of PTNM at which time he entered into a one-year renewable contract. His annual salary is $275,000. He was also granted 1,000,000 unlisted options under the Company's Employee Share Option Plan. The options were issued at an exercise price of $1.53 and are subject to the following vesting periods:

- 500,000 options will vest on 17 December 2012 with an expiry date of 17 December 2014
- 500,000 options will vest on 17 December 2013 with an expiry date of 17 December 2015

REMUNERATION REPORT (AUDITED) (cont'd)

Table 1: Remuneration of key management personnel of the Company and the Group for the year ended 30 June 2012

	Short Term				Post employment	Termination benefits	Long Term		Share-based payments		Total	Performance related	Share-based payments
	Salary and fees	Cash bonus +	Non-monetary benefits	Consulting Fees	Superannuation		Incentive plans	Long service leave	Shares	Options ++			
	$	$	$	$	$	$	$	$	$	$	$	%	%
Executive Directors													
C.N. Start (i)	300,000	30,000	3,996	-	15,775	-	-	-	-	793,593	1,143,364	3%	69%
T.G. Spencer	247,662	25,000	2,125	-	15,775	-	-	-	-	-	290,562	9%	-
Sub-total Executive Directors	547,662	55,000	6,121	-	31,550	-	-	-	-	793,593	1,433,926		-
Non-Executive Directors													
J.C. Morris	145,000	-	-	-	13,050	-	-	-	-	-	158,050	-	-
J.W. Phillips	25,000	-	-	93,032	-	-	-	-	-	-	118,032	-	-
P.G. Cook	25,000	-	-	75,800	2,250	-	-	-	-	-	103,050	-	-
Sub-total Non-Executive Directors	195,000	-	-	168,832	15,300	-	-	-	-	-	379,132		-
Other KMP													
Herryansjah	188,972	-	10,991	-	-	-	-	-	-	-	199,963	-	-
R.Clarke (ii)	145,803	-	3,690	-	2,230	-	-	-	-	198,794	350,517	-	57%
T.Butler (iii)	100,000	-	1,419	-	-	150,000	-	-	-	-	251,419	-	-
Sub-total Other KMP	434,775	-	16,100	-	2,230	150,000	-	-	-	198,794	801,899		
TOTAL	1,177,437	55,000	22,221	168,832	49,080	150,000	-	-	-	992,387	2,614,957		

(i) Appointed Managing Director 1 July 2011
(ii) Appointed 17 December 2011
(iii) Resigned 8 November 2011
+ Details of performance conditions for the cash bonus are stated in section 2 of the Remuneration Report. All amounts have vested and were paid during the year. There were no forfeitures during the year.
++ Details of performance conditions for the options are stated in section 2 of the Remuneration Report. The amount included as remuneration relating to options is not related to or indicative of the benefit (if any) that the individual may ultimately realise. The fair value of these options as at their date of grant was determined in accordance with AASB 2 "Share Based Payments" applying valuation models. Details of the assumptions underlying the valuations are set out in Note 23 to the Financial Statements.

REMUNERATION REPORT (AUDITED) (cont'd)

Table 2: Remuneration of key management personnel of the Company and the Group for the year ended 30 June 2011

	Short Term				Post employment	Termination benefits	Long Term		Share-based payments		Total	Share-based payments
	Salary and fees	Cash bonus	Non-monetary benefits +	Consulting Fees	Superannuation		Incentive plans	Long service leave	Shares	Options ++		
	$	$	$	$	$	$	$	$	$	$	$	%
Executive Directors												
J.C. Morris (i)	140,000	-	-	-	12,600	-	-	-	-	-	152,600	-
T.G. Spencer	204,250	-	1,041	-	15,200	-	-	-	-	-	220,491	-
Sub-total Executive Directors	344,250	-	1,041	-	27,800	-	-	-	-	-	373,091	-
Non-Executive Directors												
J.W. Phillips	20,000	-	-	97,048	-	-	-	-	-	-	117,048	-
P.G. Cook (ii)	15,000	-	-	44,200	1,350	-	-	-	-	-	60,550	-
M.J. Andrews (iii)	9,462	-	-	-	-	-	-	-	-	-	9,462	-
Sub-total Non-Executive Directors	44,462	-	-	141,248	1,350	-	-	-	-	-	187,060	-
Other KMP												
Herryansjah*	121,310	-	7,357	-	-	-	-	-	-	-	128,667	-
C.N. Start* (iv)	87,500	-	-	-	4,433	-	-	-	-	357,439	449,372	80%
T.Butler*	269,750	-	-	-	-	-	-	-	-	-	269,750	-
Sub-total Other KMP	478,560	-	7,357	-	4,433	-	-	-	-	357,439	847,789	
TOTAL	867,272	-	8,398	141,248	33,583	-	-	-	-	357,439	1,407,940	

(i) Changed to non-executive 1 July 2011
(ii) Appointed 1 October 2010
(iii) Resigned 21 December 2010
(iv) Appointed General Manager 17 March 2011; Appointed Director 1 July 2011
+ Amounts represent the annual charge for Life Insurance cover provided for T.G. Spencer and employer contribution to social security program for Herryansjah.
++ Details of performance conditions for the options are stated in section 2 of the Remuneration Report.
No elements of remuneration are performance based.

REMUNERATION REPORT (AUDITED) (cont'd)

Equity Instruments

Table 3: Compensation options granted to directors and other key management personnel during the year (Consolidated)

	Granted		Terms and conditions for each Grant				Vested	
	No of options	Grant date	Fair value per option at grant date	Exercise price per option	Vesting date / First exercise date	Expiry date / Last exercise date	Vested no. of options	% of options vested
Executives								
R.Clarke	500,000	21-Dec-11	$0.42	$1.53	17-Dec-12	17-Dec-14	-	0%
	500,000	21-Dec-11	$0.67	$1.53	17-Dec-13	17-Dec-15	-	0%
	1,000,000						-	

There were no forfeitures during the year.

Table 4: Value of options granted, exercised and lapsed during the year

	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
Directors				
J.Morris	-	2,240,500	-	-
T.Spencer	-	1,238,000	-	-
Executives				
R.Clarke	543,000	-	-	57%

Table 5: Shares issued on exercise of options (Consolidated)

The following compensation options were exercised during the financial year:

	Shares Issued #	Paid per share $	Unpaid per share $
Directors			
J.Morris	1,900,000	$0.23	-
T.Spencer	1,000,000	$0.14	-
Total	2,900,000		

End of Remuneration Report.

Kingsrose Mining Limited

AUDITOR'S INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES

The auditor's independence declaration for the year ended 30 June 2012 is on page 38. 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.

Timothy G. Spencer
Finance Director

Perth, 6 September 2012

Auditor's Independence Declaration

For the year ended 30 June 2012

ERNST & YOUNG

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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 financial year ended 30 June 2012, 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

G H Meyerowitz
Partner
6 September 2012

Liability limited by a scheme approved
under Professional Standards Legislation

Consolidated Income Statement

For the year ended 30 June 2012

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
Continuing operations			
Sale of goods	5(a)	**71,743,929**	45,240,223
Other revenue	5(a)	**1,518,319**	491,347
Total revenue		**73,262,248**	45,731,570
Cost of sales	5(b)	**(31,526,655)**	(20,790,133)
Gross profit		**41,735,593**	24,941,437
Other income	5(c)	**1,295,063**	12,190
Administration expenses	5(d)	**(6,407,259)**	(4,279,058)
Exploration and evaluation expenditure		**(129,501)**	(568,684)
Other expenses	5(e)	**(138,946)**	(3,084,766)
Finance costs	5(f)	**(30,017)**	(599,810)
Profit from continuing operations before income tax		**36,324,933**	16,421,309
Income tax expense	6(a)	**(14,931,240)**	(1,760,333)
Profit from continuing operations after income tax		**21,393,693**	14,660,976
Discontinued operations			
Income from discontinued operations after income tax	15(a)	**-**	244,297
Net profit for the year		**21,393,693**	14,905,273
Profit for the year is attributable to:			
Owners of the parent		**17,551,550**	12,244,784
Non-controlling interests		**3,842,143**	2,660,489
		21,393,693	14,905,273
Earnings per share from continuing operations attributable to the ordinary equity holders of the parent:		**Cents**	Cents
Basic earnings per share – cents per share	7	**6.44**	4.76
Diluted earnings per share – cents per share	7	**6.42**	4.45
Earnings per share attributable to the ordinary equity holders of the parent:			
Basic earnings per share – cents per share	7	**6.44**	4.85
Diluted earnings per share – cents per share	7	**6.42**	4.54

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

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	2012 $	2011 $
Net profit for the year	**21,393,693**	14,905,273
Other comprehensive income/(loss)		
Foreign currency translations	**619,913**	(5,164,423)
Income tax	**-**	-
Other comprehensive income/(loss) for the year, net of tax	**619,913**	(5,164,423)
Total comprehensive income/(loss) for the year	**22,013,606**	9,740,850
Total comprehensive income/(loss) for the year is attributable to:		
Owners of the parent	**18,048,909**	8,094,203
Non-controlling interests	**3,964,697**	1,646,647
	22,013,606	9,740,850

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

Consolidated Statement of Financial Position

As at 30 June 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Note	2012 $	2011 $
Current Assets			
Cash and cash equivalents	9	**30,125,139**	23,951,112
Trade and other receivables	10	**2,776,239**	1,907,461
Inventories	11	**4,334,366**	4,593,606
Other		**457,722**	231,549
Total Current Assets		**37,693,466**	30,683,728
Non-Current Assets			
Other receivables	10	**1,607,114**	809,232
Plant and equipment	12	**10,103,953**	10,634,842
Mine properties and development	13	**27,090,027**	18,095,382
Exploration and evaluation assets	14	**17,151,051**	8,233,781
Deferred tax assets	6(d)	**426,843**	-
Total Non-Current Assets		**56,378,988**	37,773,237
TOTAL ASSETS		**94,072,454**	68,456,965
Current Liabilities			
Trade and other payables	16	**22,315,071**	10,882,191
Interest-bearing liabilities	17	**312,666**	296,146
Income tax payable	6(d)	**2,962,048**	1,233,485
Provisions	18	**433,348**	168,045
Total Current Liabilities		**26,023,133**	12,579,867
Non-Current Liabilities			
Trade and other payables	16	**-**	4,010,325
Interest-bearing liabilities	17	**181,995**	379,993
Deferred tax liabilities	6(d)	**-**	423,718
Provisions	18	**1,387,560**	782,178
Total Non-Current Liabilities		**1,569,555**	5,596,214
TOTAL LIABILITIES		**27,592,688**	18,176,081
NET ASSETS		**66,479,766**	50,280,884
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	19	**62,144,725**	57,066,067
Reserves	20	**139,458**	(2,339,739)
Retained earnings/(Accumulated losses)		**254,324**	(5,632,387)
		62,538,507	49,093,941
Non-controlling interests		**3,941,259**	1,186,943
TOTAL EQUITY		**66,479,766**	50,280,884

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 2012

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		**65,575,345**	57,652,436
Payment to suppliers and employees		**(30,103,591)**	(21,654,231)
VAT refund received		**1,216,663**	-
Interest received		**1,463,214**	412,650
Interest paid		**(25,196)**	(914,818)
Income tax paid		**(14,148,303)**	-
Net cash flows from operating activities	21(a)	**23,978,132**	35,496,037
Cash flows from investing activities			
Payments for plant and equipment		**(4,394,187)**	(6,966,136)
Payments for mine properties and development		**(5,369,761)**	(1,512,660)
Payments for exploration and evaluation expenditure		**(12,769,617)**	(8,101,562)
Buyback of third party's royalty entitlement		**(278,500)**	(262,668)
Proceeds from sale of financial assets held for trading		**-**	2,143,451
Proceeds from sale of plant and equipment		**157,796**	54,743
Net cash flows used in investing activities		**(22,654,269)**	(14,644,832)
Cash flows from financing activities			
Proceeds from issue of shares/options		**5,078,658**	4,511,399
Repayment of borrowings		**-**	(8,520,000)
Repayment of hire purchases		**(391,435)**	(446,199)
Net cash flows from/(used in) financing activities		**4,687,223**	(4,454,800)
Net increase in cash and cash equivalents		**6,011,086**	16,396,405
Cash and cash equivalents at beginning of the year		**23,951,112**	7,833,315
Effects of exchange rate changes on cash held		**162,941**	(278,608)
Cash and cash equivalents at end of the year	9	**30,125,139**	23,951,112

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 2012

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Note	Equity attributable to Equity Holders of the Parent							
		Issued Capital $	Option Premium Reserve $	General Reserve $	Foreign Currency Translation Reserve $	Retained Earnings / (Accumulated Losses) $	Subtotal $	Non-Controlling Interests $	Total $
At 1 July 2010		**50,889,668**	**3,427,450**	**-**	**(2,076,643)**	**(17,877,171)**	**34,363,304**	**(459,704)**	**33,903,600**
Net profit for the year		-	-	-	-	12,244,784	12,244,784	2,660,489	14,905,273
Other comprehensive loss for the year		-	-	-	(4,150,581)	-	(4,150,581)	(1,013,842)	(5,164,423)
Total comprehensive income/(loss) for the year		-	-	-	(4,150,581)	12,244,784	8,094,203	1,646,647	9,740,850
Transactions with owners in their capacity as owners:									
Issue of share capital		1,665,000	-	-	-	-	1,665,000	-	1,665,000
Proceeds from exercise of options		4,511,399	-	-	-	-	4,511,399	-	4,511,399
Share-based payments		-	460,035	-	-	-	460,035	-	460,035
At 30 June 2011		**57,066,067**	**3,887,485**	**-**	**(6,227,224)**	**(5,632,387)**	**49,093,941**	**1,186,943**	**50,280,884**
Net profit for the year		-	-	-	-	17,551,550	17,551,550	3,842,143	21,393,693
Other comprehensive income for the year		-	-	-	497,359	-	497,359	122,554	619,913
Total comprehensive income/(loss) for the year		-	-	-	497,359	17,551,550	18,048,909	3,964,697	22,013,606
Transactions with owners in their capacity as owners:									
Proceeds from exercise of options		5,078,658	-	-	-	-	5,078,658	-	5,078,658
Share-based payments		-	1,883,712	-	-	-	1,883,712	-	1,883,712
Dividends	8	-	-	-	-	(11,566,713)	(11,566,713)	(1,210,381)	(12,777,094)
Transfers		-	-	98,126	-	(98,126)	-	-	-
At 30 June 2012		**62,144,725**	**5,771,197**	**98,126**	**(5,729,865)**	**254,324**	**62,538,507**	**3,941,259**	**66,479,766**

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 2012

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 2012 was authorised for issue in accordance with a resolution of the Directors on 6 September 2012.

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.

(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.

(b) New accounting standards and interpretations

(i) Changes in accounting policies and disclosures

From 1 July 2011, the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2011. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

- AASB 124 (Revised) — *Related Party Disclosures (December 2009)*
- AASB 2009-12 — *Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]*
- AASB 2010-4 — *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASBs 1, 7, 101, 134 and Interpretation 13]*
- AASB 2010-5 — *Amendments to Australian Accounting Standards [AASBs 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]*
- AASB 2010-6 — *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASBs 1 & 7]*

(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 2012. These are outlined in the following table. The impact on adoption of these new and revised standards and interpretations has not been determined by the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are 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. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 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. (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. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ▸ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▸ The remaining change is presented in profit or loss 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. 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.	1 January 2015	1 July 2015

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and Interpretation 112 *Consolidation – Special Purpose Entities*. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under Australian Accounting Standards for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under Australian Accounting Standards when fair value is required or permitted by Australian Accounting Standards. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 119 (Revised)	Employee Benefits	The main amendments to the standard relating to defined benefit plans are as follows :- • Elimination of the option to defer the recognition of actuarial gains and losses (the 'corridor method'); • Remeasurements (essentially actuarial gains and losses) to be presented in other comprehensive income; • Past service cost will be expensed when the plan amendments occur regardless of whether or not they are vested; and • Enhanced disclosures for Tier 1 entities. The distinction between short-term and other long-term employee benefits under the revised standard is now based on expected timing of settlement rather than employee entitlement. The revised standard also requires termination benefits (outside of a wider restructuring) to be recognised only when the offer becomes legally binding and cannot be withdrawn.	1 January 2013	1 July 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	These amendments arise from the issuance of AASB 9 *Financial Instruments* that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. This Standard shall be applied when AASB 9 is applied.	1 January 2013	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: ▸ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▸ The remaining change is presented in profit or loss 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.	1 January 2013	1 July 2013
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate *SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets* into AASB 112.	1 January 2012	1 July 2012
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards	Consequential amendments to AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates* as a result of the adoption of AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements* and AASB 12 *Disclosure of Interests in Other Entities*.	1 January 2013	1 July 2013
AASB 2011-8	Amendments to Australian Accounting Standards arising from the Fair Value Measurement Standard	Consequential amendments to existing Australian Accounting Standards as a result of the adoption of AASB 13 *Fair Value Measurement*.	1 January 2013	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2011-9	Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	1 July 2012
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1 January 2013	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities;	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation 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 equivalent to net settlement.	1 January 2014	1 July 2015

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

Reference	Title	Summary	Application date of standard	Application date for Group
Annual Improvements 2009–2011 Cycle	Annual Improvements to IFRSs 2009–2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: IFRS 1 First-time Adoption of International Financial Reporting Standards • Repeated application of IFRS 1 • Borrowing costs IAS 1 Presentation of Financial Statements • Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment • Classification of servicing equipment IAS 32 Financial Instruments: Presentation • Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting • Interim financial reporting and segment information for total assets and liabilities	1 January 2013	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle; and	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following: • repeat application of AASB 1 is permitted (AASB 1); and • clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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 interest 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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:

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 two trading days 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 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 they are treated as by-products.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

Items of property, plant and equipment are depreciated using the straight line or diminishing value method at a rate of 5% to 25% per annum, depending on the item of property, plant and equipment.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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 mine property after the commencement of production, such expenditure is carried forward as part of the 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.

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 reserves and active and significant 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

At each reporting date, the Group reviews the carrying value of its assets for impairment. 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 to sell 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

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

Long-term obligations
The only long-term employee benefits within the Group relates to PTNM employees. These benefits are unfunded. The liability recognised is the present value of the defined project benefit obligation at the balance sheet date adjusted for unrecognised actuarial gains or losses and past service costs. 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 are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting year exceed the greater of 10% of the higher of the present value of the benefits obligation (before deducting plan assets) or the fair value of plan assets at that date. Such actuarial gains or losses are recognised as income or expense on a straight-line basis over the expected average remaining working lives of the employees. Past service costs arising from the introduction of the defined benefit plan or changes in the benefits payable of an existing plan are amortised over the period until the benefits concerned become vested.

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 Share Option Plan (ESOP), 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 is determined using a Black-Scholes based model, further details of which are provided in Note 23. 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 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Employee benefits (cont'd)

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.

Equity-settled transactions granted by the Company to employees of subsidiaries are recognised in the Company's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by the Company in relation to equity-settled transactions only represents the expense associated with grants to employees of the Company. The expense recognised by the Group is the total expense associated with all such awards.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Income tax and other taxes (cont'd)

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 utilized, 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.

- 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 utilized.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become 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 realized 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;
- Receivables and payables, which are stated with the amount of GST/VAT included.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

(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 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 or options 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
- 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

The Group identified two operating segments by nature of product, namely gold and zinc.

(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 to sell.

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 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 is determined by using a Black & Scholes based model, with the assumptions detailed in Note 25. 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 report period but may impact expenses and equity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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 2012 (cont'd)

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Risk exposures and responses

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, credit risk and liquidity 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.

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.

(i) 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:

	2012	2011
	$	$
Financial Assets		
Cash and cash equivalents	**30,125,139**	23,951,112
Financial Liabilities		
Interest-bearing liabilities	**-**	-
Net exposure	**30,125,139**	23,951,112

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Risk exposures and responses (cont'd)

(i) Interest rate risk (cont'd)

At 30 June 2012, 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)**	
	2012	2011	**2012**	2011
Judgements of reasonably possible movements:	**$**	$	**$**	$
+2% (200 basis points)	**421,752**	335,316	**-**	-
-2% (200 basis points)	**(421,752)**	(335,316)	**-**	-

(ii) 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 (US$) and large purchases of goods and services are denominated in Indonesian Rupiah (IDR) and US$, the Group's income statement and statement of financial position can be affected significantly by movements in the A$/IDR and A$/US$ 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. There are also minor purchases of goods and services denominated in Euros (EUR); however the exposure to foreign exchange movements is minimal.

At 30 June 2012, the Group had the following exposure to US$, IDR and EUR foreign currencies:

	2012 US$ A$	2011 US$ A$	**2012 IDR A$**	2011 IDR A$	**2012 EUR A$**	2011 EUR A$
Financial Assets						
Cash and cash equivalents	**4,491,507**	3,935,036	**840,882**	299,828	**2,995**	1,611
Trade and other receivables	**-**	-	**3,938,087**	1,911,216	**28,986**	37,073
	4,491,507	3,935,036	**4,778,969**	2,211,044	**31,981**	38,684
Financial Liabilities						
Trade and other payables	**(2,346,990)**	(551,910)	**(1,502,237)**	(1,282,249)	**(12,728)**	(46,628)
Interest-bearing liabilities	**(389,966)**	(605,359)	**(104,695)**	(70,779)	**-**	-
	(2,736,956)	(1,157,269)	**(1,606,932)**	(1,353,028)	**(12,728)**	(46,628)
Net exposure	**1,754,551**	2,777,767	**3,172,037**	858,016	**19,253**	(7,944)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Risk exposures and responses (cont'd)

(ii) Foreign currency risk (cont'd)

At 30 June 2012, 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)	
	2012	2011	**2012**	2011
Judgements of reasonably possible movements:	**$**	$	**$**	$
A$/US$ +10%	**(111,653)**	(176,767)	**-**	-
A$/US$ -10%	**136,465**	216,049	**-**	-
A$/IDR +10%	**(201,857)**	(54,601)	**-**	-
A$/IDR -10%	**246,714**	66,734	**-**	-
A$/EUR +10%	**(1,225)**	506	**-**	-
A$/EUR -10%	**1,497**	(618)	**-**	-

The IDR movements in profit in 2012 are more sensitive than in 2011 due to the higher level of IDR cash, receivables and payables at balance date.

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 10% was calculated by taking the USD spot rate as at balance date, moving this spot rate by 10% and then re-converting the USD 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.

(iii) 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 bank overdrafts and finance leases.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Risk exposures and responses (cont'd)

(iii) Liquidity risk (cont'd)

	Maturity Analysis							
	2012				2011			
	Within 1 year $	1 to 5 years $	After 5 years $	Total $	Within 1 year $	1 to 5 years $	After 5 years $	Total $
Financial Liabilities								
Trade and other payables	**(18,097,539)**	**-**	**-**	**(18,097,539)**	(4,866,705)	-	-	(4,866,705)
Interest-bearing liabilities								
- Finance lease liabilities	**(330,901)**	**(186,025)**	**-**	**(516,926)**	(322,791)	(389,861)	-	(712,652)
	(18,428,440)	**(186,025)**	**-**	**(18,614,465)**	(5,189,496)	(389,861)	-	(5,579,357)

(iv) 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 polices 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 two trading days 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.

(v) Fair values

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

4. 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, and zinc. PT Natarang Mining (PTNM), operator of the Way Linggo Project, is the primary entity that produces gold whilst SARINC srl is the primary entity that is evaluating the SARINC Zinc Tailings Retreatment Project.
- 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 bullion at its Way Linggo Project in Indonesia and is evaluating a project in Italy that will produce a zinc based concentrate.

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). In the previous year, income tax expense has not been calculated for the reported segments as both segments have made operating losses.

Major customers

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

	2012		2011	
	Revenue	**% of External Revenue**	Revenue	% of External Revenue
	$	**%**	$	%
Customer A	**64,695,355**	**90%**	37,764,852	83%
Customer B	**-**	**-**	5,302,572	12%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

4. OPERATING SEGMENTS (cont'd)

	Year ended 30 June 2012				Year ended 30 June 2011			
	Gold & Silver	Zinc	Unallocated Items	Total	Gold & Silver	Zinc	Unallocated Items	Total
	$	$	$	$	$	$	$	$
Revenue								
External sales - gold (a)	**60,473,405**	**-**	**-**	**60,473,405**	36,421,375	-	-	36,421,375
External sales – silver (a)	**11,270,524**	**-**	**-**	**11,270,524**	8,818,848	-	-	8,818,848
Total segment revenue	**71,743,929**	**-**	**-**	**71,743,929**	45,240,223	-	-	45,240,223
Interest revenue	**-**	**-**	**1,518,319**	**1,518,319**	-	-	491,347	491,347
Total revenue	**71,743,929**	**-**	**1,518,319**	**73,262,248**	45,240,223	-	491,347	45,731,570
Segment profit/(loss) before income tax	**38,249,392**	**(88,968)**	**-**	**38,160,424**	18,522,627	(580,598)	-	17,942,029
Interest revenue	**-**	**-**	**1,518,319**	**1,518,319**	-	-	491,347	491,347
Corporate costs	**-**	**-**	**(3,353,810)**	**(3,353,810)**	-	-	(1,942,994)	(1,942,994)
Finance costs	**-**	**-**	**-**	**-**	-	-	(69,073)	(69,073)
Profit/(Loss) before income tax	**38,249,392**	**(88,968)**	**(1,835,491)**	**36,324,933**	18,522,627	(580,598)	(1,520,720)	16,421,309
Income tax expense	**(14,931,240)**	**-**	**-**	**(14,931,240)**	(1,760,333)	-	-	(1,760,333)
Net profit/(loss) for the year	**23,318,152**	**(88,968)**	**(1,835,491)**	**21,393,693**	16,762,294	(580,598)	(1,520,720)	14,660,976
Depreciation and amortisation	**9,051,995**	**6,135**	**18,882**	**9,077,012**	7,206,005	593	5,078	7,211,676

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

	2012	2011
	$	$
United Kingdom	**70,944,022**	39,937,651
Indonesia	**799,907**	5,302,572
Total external sales revenue	**71,743,929**	45,240,223

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

4. OPERATING SEGMENTS (cont'd)

	Year ended 30 June 2012				Year ended 30 June 2011			
	Gold & Silver	Zinc	Unallocated Items	Total	Gold & Silver	Zinc	Unallocated Items	Total
	$	$	$	$	$	$	$	$
Segment operating assets	**66,833,928**	**51,379**	**-**	**66,885,307**	48,495,274	10,352	-	48,505,626
Unallocated assets	**-**	**-**	**26,760,304**	**26,760,304**	-	-	19,951,339	19,951,339
Deferred tax assets	**426,843**	**-**	**-**	**426,843**	-	-	-	-
Total assets	**67,260,771**	**51,379**	**26,760,304**	**94,072,454**	48,495,274	10,352	19,951,339	68,456,965
Mine development, exploration and capital expenditure	**24,445,583**	**-**	**31,343**	**24,476,926**	19,933,594	-	53,215	19,986,809
Segment operating liabilities	**(15,393,373)**	**(12,728)**	**-**	**(15,406,101)**	(17,012,047)	(46,628)	-	(17,058,675)
Unallocated liabilities	**-**	**-**	**(12,186,587)**	**(12,186,587)**	-	-	(693,688)	(693,688)
Deferred tax liabilities	**-**	**-**	**-**	**-**	(423,718)	-	-	(423,718)
Total liabilities	**(15,393,373)**	**(12,728)**	**(12,186,587)**	**(27,592,688)**	(17,435,765)	(46,628)	(693,688)	(18,176,081)

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

	2012	2011
	$	$
Australia	**64,563**	52,102
Indonesia	**56,311,334**	37,710,783
Italy	**3,091**	10,352
Total non-current assets	**56,378,988**	37,773,237

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

		2012 $	2011 $
5.	**REVENUES AND EXPENSES**		
(a)	**Revenue**		
	Sale of goods		
	Gold	**60,473,405**	36,421,375
	Silver	**11,270,524**	8,818,848
		71,743,929	45,240,223
	Other revenue		
	Interest	**1,518,319**	491,347
	Total revenue	**73,262,248**	45,731,570
(b)	**Cost of sales**		
	Mine production costs	**19,381,136**	15,215,598
	Royalties	**1,633,250**	1,315,019
	Depreciation	**5,501,911**	3,787,324
	Amortisation	**3,540,505**	3,406,903
	Inventory movements	**1,469,853**	(2,934,711)
	Total cost of sales	**31,526,655**	20,790,133
(c)	**Other income**		
	Gain on disposal of plant and equipment	**58,396**	5,685
	Net gain on foreign exchange	**1,236,563**	-
	Sundry income	**104**	6,505
	Total other income	**1,295,063**	12,190
(d)	**Administration expenses**		
	Corporate costs	**4,488,951**	3,801,574
	Depreciation	**34,596**	17,449
	Share-based payments	**1,883,712**	460,035
	Total administration expenses	**6,407,259**	4,279,058
(e)	**Other expenses**		
	Loss on sale of financial assets held for trading	**-**	263,407
	Net loss on foreign exchange	**-**	2,726,720
	Non-current assets written off	**-**	94,639
	Sundry expenses	**138,946**	-
	Total other expenses	**138,946**	3,084,766
(f)	**Finance costs**		
	Borrowing costs	**-**	33,073
	Loans from related parties	**-**	505,392
	Finance charges payable under finance leases	**25,196**	32,354
		25,196	570,819
	Unwinding of discount on rehabilitation provision	**4,821**	28,991
	Total finance costs	**30,017**	599,810

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

	2012 $	2011 $
5. REVENUE AND EXPENSES (cont'd)		
(g) Depreciation and amortisation		
Plant and equipment	**5,536,507**	3,804,773
Mine properties	**3,540,505**	3,406,903
Total depreciation and amortisation	**9,077,012**	7,211,676
Included in:		
Cost of sales	**9,042,416**	7,194,227
Administration expenses	**34,596**	17,449
Total depreciation and amortisation	**9,077,012**	7,211,676
(h) Employee benefits expense		
- Wages and salaries	**8,624,091**	5,439,619
- Defined contribution superannuation expense	**77,602**	69,711
- Share-based payments	**1,883,712**	460,035
- Other employee benefits	**733,017**	417,822
Total employee benefits expense	**11,318,422**	6,387,187

6. INCOME TAX

(a) Income tax expense

The components of income tax expense are:		
Income Statement		
Current income tax		
Current income tax charge	**15,792,972**	1,336,615
Deferred income tax		
Relating to origination of temporary differences	**(861,732)**	423,718
Income tax expense reported in the income statement	**14,931,240**	1,760,333

(b) Amounts charged or credited directly to equity

Deferred income tax related to items charged/(credited) directly to equity	**-**	-
Income tax expense reported in equity	**-**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

6. INCOME TAX (cont'd)

(c) Numerical reconciliation of accounting profit to tax expense

A reconciliation between tax expense and the accounting profit before income tax multiplied by the entity's applicable income tax rate is as follows:

	2012 $	2011 $
Accounting profit before income tax	**36,324,933**	16,665,606
At the entity's Australian statutory income tax rate of 30% (2011: 30%)	**(1,043,773)**	(702,989)
At the entity's Indonesian statutory income tax rate of 35% (2011: 35%)	**13,922,646**	6,737,789
At the entity's Italian statutory income tax rate of 27.5% (2011: 27.5%)	**6,927**	(66,530)
Overprovision in prior year	**-**	(5,344)
Non-deductible expenses/(Non-assessable income)	**917,523**	(1,989,993)
Income tax benefits not recognised/(recognised)	**99,094**	(2,212,600)
Indonesian withholding tax on dividend from subsidiary not assessable in Australia	**1,028,823**	-
Aggregate income tax expense	**14,931,240**	1,760,333

(d) Recognised deferred tax assets and liabilities

	2012 Current Income Tax $	**2012 Deferred Income Tax $**	2011 Current Income Tax $	2011 Deferred Income Tax $
At 1 July	**(1,233,485)**	**(423,718)**	-	-
Charged to income	**(15,792,972)**	**861,732**	(1,336,615)	(423,718)
Charged to equity	**-**	**-**	-	-
Payments	**14,148,303**	**-**	-	-
Foreign exchange translation (loss)/gain	**(83,894)**	**(11,171)**	103,130	-
At 30 June	**(2,962,048)**	**426,843**	(1,233,485)	(423,718)
Income tax expense in income statement		**14,931,240**		1,760,333

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

6. INCOME TAX (cont'd)

	BALANCE SHEET	
	2012	2011
	$	$
Deferred income tax at 30 June relates to the following:		
Deferred tax assets:		
Provisions	**751,767**	442,245
Plant and equipment	**816,831**	514,137
Finance leases	**108,736**	78,383
Capital raising expenses	**-**	3,446
Unrealised foreign exchange movements	**9,856**	-
Australian losses available for offset against future taxable income	**2,147,458**	2,037,638
Gross deferred tax assets	**3,834,648**	3,075,849
Deferred tax liabilities:		
Accrued income	**(54,963)**	(23,609)
Mine development	**(1,182,323)**	(1,404,532)
Gross deferred tax liabilities	**(1,237,286)**	(1,428,141)
Net deferred tax assets	**2,597,362**	1,647,708
Unrecognised net deferred tax assets	**(2,170,519)**	(2,071,426)
Net deferred tax assets/(liabilities)	**426,843**	(423,718)

Tax losses
The Group has Australian carried forward tax losses of $7,158,193 (tax effected at 30%, $2,147,458) as at 30 June 2012 (2011: $6,792,127 (tax effected at 30%, $2,037,638)). In view of the Group's Australian trading position, the Directors have not included this 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 2012, 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 (2011: $nil).

Tax consolidation
The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 27 February 2009. The Company and its wholly-owned Australian controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the separate taxpayer within group approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

7. EARNINGS PER SHARE

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

	2012	2011
	$	$
(a) Earnings per share		
The following reflects the income used in the calculation of basic and diluted earnings per share computations:		
Net profit from continuing operations attributable to ordinary equity holders of the parent	**17,551,550**	12,000,487
Profit attributable to discontinued operations attributable to ordinary equity holders of the parent	**-**	244,297
Net profit attributable to ordinary equity holders of the parent	**17,551,550**	12,244,784
(b) Weighted average number of shares	**No. of shares**	No. of shares
Weighted average number of ordinary shares for basic earnings per share	**272,603,195**	252,200,579
Effect of dilution:		
Share options	**601,974**	17,686,795
Weighted average number of ordinary shares adjusted for the effect of dilution	**273,205,169**	269,887,374

(c) Information on the classification of securities

Options
Options granted to employees (including KMP) as described in Note 23 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.

Details of shares and options issued between the reporting date and the date of completion of these financial statements are described in Note 27.

8. DIVIDENDS PAID AND PROPOSED

Dividends declared during the year on ordinary shares: Unfranked dividend for 2012 of 4 cents per share, payable on 4 July 2012 (2011: Nil)	**11,566,713**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

9. CASH AND CASH EQUIVALENTS

	2012 $	2011 $
Current		
Cash at bank and in hand	**15,225,139**	8,951,112
Short-term deposits	**14,900,000**	15,000,000
	30,125,139	23,951,112

Terms and conditions

(a) Cash at bank and short-term deposits earn interest at floating rates based on bank deposit rates.

(b) The Group has to maintain a minimum cash balance of $4,000,000 as part of the Credit Suisse International pre-paid silver transaction entered into in December 2010 (refer to Note 16(c) for details).

10. TRADE AND OTHER RECEIVABLES

	2012 $	2011 $
Current		
Trade receivables (a)	**2,301**	12,317
Other receivables (b)	**2,773,938**	1,895,144
	2,776,239	1,907,461
Non-Current		
Other receivables (b)	**1,607,114**	809,232

Terms and conditions

(a) Details of the terms and conditions of trade receivables are set out in Note 2(g).

(b) Other receivables consist primarily of VAT recoverable from PTNM operations which can be recovered within 7 to 24 months.

11. INVENTORIES

	2012 $	2011 $
Current		
Ore stockpiles at cost	**162,082**	2,013,850
Gold in circuit at cost	**172,875**	285,886
Gold bullion at cost	**1,025,424**	408,638
Consumables and spares at cost	**2,973,985**	1,885,232
	4,334,366	4,593,606

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

12. PLANT AND EQUIPMENT

	2012 $	2011 $
Non-Current		
Plant and Equipment		
Cost	**18,075,984**	11,866,455
Accumulated depreciation	**(9,197,286)**	(3,964,983)
Net carrying amount	**8,878,698**	7,901,472
Leased Equipment		
Cost	**1,344,672**	1,130,228
Accumulated depreciation	**(785,102)**	(368,034)
Net carrying amount	**559,570**	762,194
Capital Work in Progress		
Cost	**665,685**	1,971,176
Total Plant and Equipment	**10,103,953**	10,634,842
Movements in Plant and Equipment		
Plant and Equipment		
Carrying amount at 1 July	**7,901,472**	8,342,552
Additions	**2,463,985**	4,561,781
Transfer from capital work in progress	**3,320,360**	274,124
Disposals	**(92,995)**	(55,643)
Depreciation charge for the year	**(5,126,160)**	(3,449,715)
Foreign exchange translation gain/(loss)	**412,036**	(1,771,627)
Carrying amount at 30 June	**8,878,698**	7,901,472
Leased Equipment		
Carrying amount at 1 July	**762,194**	139,395
Additions	**177,642**	1,060,278
Disposals	**(6,405)**	-
Depreciation charge for the year	**(410,347)**	(355,058)
Foreign exchange translation gain/(loss)	**36,486**	(82,421)
Carrying amount at 30 June	**559,570**	762,194
Capital Work in Progress		
Carrying amount at 1 July	**1,971,176**	-
Additions	**1,930,202**	2,410,096
Transfer to plant and equipment	**(3,320,360)**	(274,124)
Disposals	**-**	-
Foreign exchange translation gain/(loss)	**84,667**	(164,796)
Carrying amount at 30 June	**665,685**	1,971,176

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

13. MINE PROPERTIES AND DEVELOPMENT

	2012 $	2011 $
Non-Current		
Cost	**33,984,497**	21,265,360
Accumulated amortisation	**(6,894,470)**	(3,169,978)
	27,090,027	18,095,382
Movements in Mine Properties and Development		
Carrying amount at 1 July	**18,095,382**	22,469,879
Additions (i)	**5,369,761**	3,440,328
Transfer from exploration and evaluation assets	**6,227,227**	-
Expenditure written off	**-**	(93,795)
Amortisation charge for the year	**(3,540,505)**	(3,406,903)
Change in rehabilitation provision	**50,485**	59,165
Foreign exchange translation gain/(loss)	**887,677**	(4,373,292)
Carrying amount at 30 June	**27,090,027**	18,095,382

(i) Included in the amount capitalised during the previous year ended 30 June 2011 were the costs of a net smelter return royalty bought back from Aurora Gold Limited for $1,927,669. The Company paid cash of $262,668 and allotted 1,500,000 ordinary fully paid shares in the capital of Kingsrose as the consideration. Refer to Note 19(i) for further details.

14. EXPLORATION AND EVALUATION ASSETS

	2012 $	2011 $
Non-Current		
At cost	**17,151,051**	8,233,781
Movements in Exploration and Evaluation Assets		
Carrying amount at 1 July	**8,233,781**	1,558,196
Additions	**14,535,336**	7,532,878
Transfer to mine properties and development	**(6,227,227)**	-
Foreign exchange translation gain/(loss)	**609,161**	(857,293)
Carrying amount at 30 June	**17,151,051**	8,233,781

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

15. DISCONTINUED OPERATIONS

During the year ended 30 June 2010, the Company reached an agreement with Reed Resources Limited for the termination of their Joint Venture Agreement (Comet Vale) for consideration of cash amounting to $1,000,000 by 31 October 2009, another $1,000,000 in cash in exchange for the Company's mining equipment by 30 June 2010 and a $2,000,000 equivalent in Reed Resources Limited shares by 2 June 2010.

The sale of the Comet Vale joint venture operation was completed on 31 May 2010, resulting in a net gain on disposal after income tax of $3,181,889. Subsequent to the disposal of this operation, proceeds from the sale of the ore stockpile on hand at 30 June 2010 of $1,358,504 was recognised during the year ended 30 June 2011. Details of the disposal and sale of ore stockpile are presented below:

	2011 $
(a) Financial performance of the Comet Vale joint venture operations for the year until disposal	
Revenue	1,358,504
Expenses	(1,114,207)
Gross profit	244,297
Gain on disposal	-
Income from discontinued operations before income tax	244,297
Income tax expense	-
Income from discontinued operations after income tax	244,297
Earnings per share (cents per share):	
Basic earnings per share from discontinued operations	0.09
Diluted earnings per share from discontinued operations	0.09
(b) Cash flow information of Comet Vale joint venture operations until disposal	
Operating activities	1,350,048
Net cash inflow	1,350,048

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

16. TRADE AND OTHER PAYABLES

	2012 $	2011 $
Current		
Trade creditors (a)	**4,119,562**	2,991,390
Accruals	**1,161,321**	1,717,403
Sundry creditors (a)	**249,062**	157,912
Dividend payable (b)	**12,567,594**	-
Unearned revenue (c)	**4,217,532**	6,015,486
	22,315,071	10,882,191
Non-Current		
Unearned revenue (c)	**-**	4,010,325

Terms and conditions

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

(b) Dividend payable to Kingsrose's shareholders ($11,566,711) and PTNM's minority shareholder ($1,000,883) is due on 4 July 2012.

(c) On 20 December 2010, PTNM entered into a 2-year silver forward structure whereby PTNM agreed to sell a total of 480,120 silver ounces over 24 months from March 2011 and received the total advance proceeds of the total sales (US$12,896,000 or equivalent to A$13,000,000) in December 2010.

17. INTEREST-BEARING LIABILITIES

	2012 $	2011 $
Current		
Finance lease liabilities (a), 26(c)	**312,666**	296,146
Non-Current		
Finance lease liabilities (a), 26(c)	**181,995**	379,993

Terms and conditions

(a) The 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. The lease liabilities are secured by the assets leased.

18. PROVISIONS

	2012 $	2011 $
Current		
Employee entitlements	**292,657**	168,045
Other	**140,691**	-
	433,348	168,045
Non-Current		
Employee entitlements (a)	**1,007,497**	473,916
Rehabilitation (b)	**380,063**	308,262
	1,387,560	782,178

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

18. PROVISIONS (cont'd)

(a) The non-current provision for employee entitlements relates to provision for Indonesian employee termination benefits. The provision for employee termination benefits recognised is based on independent actuarial valuation reports. The calculation is based on the following assumptions:

	2012 $	2011 $
Discount rate	7.5% per annum	8.5% per annum
Salary increase	9% per annum	10% per annum
Normal retirement age	60 years of age	
Mortality	Indonesia Mortality Table 1999 (TM II)	

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

	2012 $	2011 $
Benefit Liability		
Present value of defined benefit obligation	**1,094,294**	602,810
Unfunded obligation	**1,094,294**	602,810
Unrecognised actuarial losses (net)	**(86,797)**	(128,894)
	1,007,497	473,916
Movements in Benefit Liability		
At 1 July	**473,916**	299,245
Net benefits expense	**552,837**	260,005
Benefits paid	**(4,960)**	(22,244)
Foreign exchange translation (gain)/loss	**(14,296)**	(63,090)
At 30 June	**1,007,497**	473,916
Net Benefit Expense		
Current service cost	**461,624**	232,545
Interest cost	**80,056**	27,441
Amortisation of unrecognised actuarial losses	**11,157**	19
	552,837	260,005

(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.

	2012 $	2011 $
Movements in Rehabilitation Provision		
At 1 July	**308,262**	283,972
Provision recognised during the year (net)	**50,485**	-
Utilised during the year	**(169)**	-
Unwinding of discount	**4,821**	88,156
Foreign exchange translation (gain)/loss	**16,664**	(63,866)
At 30 June	**380,063**	308,262

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

19. CONTRIBUTED EQUITY

	2012 $	2012 Number	2011 $	2011 Number
Ordinary Shares				
Issued and fully paid	**62,144,725**	**282,210,845**	57,066,067	264,407,055
Movements in ordinary shares on issue				
At 1 July	**57,066,067**	**264,407,055**	50,889,668	241,433,060
Shares issued in settlement of royalty (i)	**-**	**-**	1,665,000	1,500,000
Exercise of options – listed	**4,278,758**	**21,393,790**	3,091,799	15,458,995
Exercise of options – unlisted	**799,900**	**3,410,000**	1,419,600	6,015,000
At 30 June	**62,144,725**	**289,210,845**	57,066,067	264,407,055

(i) On 23 September 2010, 1,500,000 fully paid ordinary shares were allotted to Harmony Gold Mining Co Limited's fully owned subsidiary, Aurora Gold Limited (AGL), to relinquish and terminate AGL's right to receive royalty under a 1995 Royalty Agreement. The shares were issued within the discretionary capacity of the Board under ASX Listing rule 7.1.

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 on issue
The total number of options on issue as at 30 June 2012 is 9,789,185 (2011: 33,092,975).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

19. CONTRIBUTED EQUITY (cont'd)

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 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.

	2012	2011
	$	$
Total borrowings *	**22,809,732**	15,568,655
Less: Cash and cash equivalents	**(30,125,139)**	(23,951,112)
Net debt	**(7,315,407)**	(8,382,457)
Total equity	**66,479,766**	50,280,884
Total capital	**59,164,359**	41,898,427
Gearing ratio	-	-

* 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.

20. RESERVES

Nature and purpose of reserves

Option premium reserve

The option premium reserve is used to record the value of options provided to shareholders and share-based payments provided to 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

21. STATEMENT OF CASH FLOWS RECONCILIATION

	2012 $	2011 $
(a) Reconciliation of net profit after income tax to net cash flows from operating activities		
Net profit after income tax	**21,393,693**	14,905,273
Adjustments for:		
Depreciation of plant and equipment	**5,536,507**	3,804,773
Amortisation of mine properties	**3,540,505**	3,406,903
Unrealised net foreign exchange (gain)/loss	**(2,737,262)**	2,343,691
Share-based payments	**1,883,712**	460,035
Gain on disposal of plant and equipment	**(58,396)**	(5,685)
Non-current assets written off	**-**	94,639
Exploration and evaluation expenditure classified under investing activities	**129,501**	568,684
Loss on held for trading financial assets	**-**	263,407
Change in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(1,680,519)**	(1,078,623)
(Increase)/decrease in inventories	**259,240**	(2,913,813)
(Increase)/decrease in derivative financial instruments	**-**	24,175
(Increase)/decrease in other assets	**(226,173)**	(158,151)
(Increase)/decrease in deferred tax assets	**(426,843)**	-
Increase/(decrease) in trade and other payables	**(5,760,878)**	11,927,976
Increase/(decrease) in income tax payable	**1,728,563**	1,233,485
Increase/(decrease) in provisions	**820,200**	195,550
Increase/(decrease) in deferred tax liabilities	**(423,718)**	423,718
Net cash flows from operating activities	**23,978,132**	35,496,037
(b) Non-cash investing and financing activities		
Settlement of third party's royalty entitlement with shares (refer Note 19)	**-**	1,665,000
Acquisition of assets by means of finance leases (refer Note 12)	**177,642**	1,060,278

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

22. PARENT ENTITY DISCLOSURES

	2012 $	2011 $
Current Assets	**26,695,741**	23,792,492
Non-Current Assets	**42,610,427**	26,932,564
Total Assets	**69,306,168**	50,725,056
Current Liabilities	**(12,433,394)**	(1,085,152)
Non-Current Liabilities	**-**	-
Total Liabilities	**(12,433,394)**	(1,085,152)
Net Assets	**56,872,774**	49,639,904
Issued Capital	**62,144,725**	57,066,067
Accumulated Losses	**(11,043,148)**	(11,313,648)
Option Premium Reserve	**5,771,197**	3,887,485
Total Shareholder's Equity	**56,872,774**	49,639,904
Profit of the parent entity	**11,837,213**	9,099,870
Total comprehensive income of the parent entity	**11,837,213**	9,099,870

Kingsrose has not entered into any guarantees in relation to the debts of its controlled entities.

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

23. SHARE-BASED PAYMENTS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year was $1,833,712 (2011: $460,035). The share-based payment plan is described below.

(b) Employee Share Option Plan

The Company has a share-based payment Employee Share Option Plan ("ESOP") which was approved by shareholders in general meeting in May 2008. It was renewed by shareholders at the Annual General Meeting held on 9 November 2010.

The terms of the options issued under the ESOP are described below:

Expiry Date - The Option will expire at 5.00 pm Western Standard Time on expiry dates stated above.

Exercise Price - Unless otherwise determined by the Board pursuant to clause 6 of the ESOP, the Exercise Price of each Option will be the Market Value of a Share when the Board resolves to offer the Options. Market Value means the weighted average closing sale price of the Shares recorded on the ASX over the last five trading days on which sales of the Shares were recorded preceding the day on which the Board resolves to invite an Application for an Option plus a 15% premium.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

23. SHARE-BASED PAYMENTS (cont'd)

(b) Employee Share Option Plan (cont'd)

Unlisted Options - The Option will not be listed for quotation on the ASX or any other stock exchange. The Options will only be transferrable to the extent permitted by the Scheme.

Exercise of Options - If any Performance Criteria are imposed on a Holder, that Holder may only exercise their Options upon satisfaction of the Performance Criteria and prior to the Expiry Date.

Notwithstanding the above, all Options may be exercised:

- during a Takeover Period; or
- in the Board's absolute discretion, in the event of the death or Permanent Disablement of an Eligible Employee.

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.

Reconstruction of capital - In the event that, prior to the expiry of any Options, there is a reconstruction (including consolidation, subdivision, reduction, return or pro-rata cancellation) of the issued capital of the Company, then the number of Options to which each Holder is entitled or the Exercise Price or both will be reconstructed in the manner required by the Listing Rules.

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 during the currency of the Options.

If there is a bonus issue (Bonus Issue) to Shareholders, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the holder would have received if the Option had been exercised before the record date for the Bonus Issue (Bonus Shares). The Bonus Shares must be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in the Bonus Issue, and upon issue will rank equally in all respects with the other Shares on issue as at the date of issue of the Bonus Shares.

In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the Expiry Date, all rights of an Option holder are to be changed in a manner consistent with the Listing Rules.

In the event that the Company makes a pro rata issue of securities, the exercise price of the Options will be adjusted in accordance with the formula set out in Listing Rule 6.22.2.

(c) Summary of options granted during the year

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

	2012 Number	**2012 WAEP**	2011 Number	2011 WAEP
Outstanding at the beginning of the year	**11,585,000**	**1.07**	13,075,000	0.44
Granted during the year	**1,750,000**	**1.54**	5,825,000	1.55
Exercised during the year	**(4,610,000)**	**0.23**	(6,815,000)	0.23
Lapsed/cancelled during the year	**(250,000)**	**1.58**	(500,000)	1.52
Outstanding at the end of the year	**8,475,000**	**1.61**	11,585,000	1.07
Exercisable at the end of the year	**4,225,000**	**1.05**	6,335,000	0.26

The outstanding balance as at 30 June 2012 is represented by the following table:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

23. SHARE-BASED PAYMENTS (cont'd)

(c) Summary of options granted during the year (cont'd)

Grant date	Issue date	Vesting date	Expiry date	Exercise price	Number of options at beginning of year	Options granted	Options exercised	Options lapsed / cancelled	Number of options On issue	Number of options Vested
Directors										
3-Oct-07	3-Oct-07	3-Oct-07	3-Dec-12	$0.25	3,500,000	-	(2,000,000)	-	1,500,000*	1,500,000*
16-Feb-09	18-Feb-09	18-Feb-09	18-Feb-14	$0.14	1,000,000	-	(1,000,000)	-	-	-
17-Mar-11	17-Mar-11	17-Sep-11	17-Sep-13	$1.54	1,000,000	-	-	-	1,000,000	1,000,000
17-Mar-11	17-Mar-11	1-Oct-12	1-Oct-14	$1.54	1,000,000	-	-	-	1,000,000	-
17-Mar-11	17-Mar-11	1-Oct-13	1-Oct-15	$1.54	1,000,000	-	-	-	1,000,000	-
Commissioner										
22-Feb-12	22-Feb-12	22-Feb-12	22-Feb-14	$1.53	-	500,000	-	-	500,000	500,000
Employees										
8-Mar-10	8-Mar-10	8-Mar-10	8-Mar-15	$0.73	150,000	-	-	-	150,000	150,000
21-Dec-10	21-Dec-10	21-Dec-10	21-Dec-12	$1.59	75,000	-	-	-	75,000	75,000
2-Jun-11	2-Jun-11	2-Dec-11	2-Dec-13	$1.59	250,000	-	-	-	250,000	250,000
2-Jun-11	2-Jun-11	2-Dec-12	2-Dec-14	$1.59	250,000	-	-	-	250,000	-
2-Jun-11	2-Jun-11	2-Dec-11	2-Dec-13	$1.59	250,000	-	-	-	250,000	250,000
2-Jun-11	2-Jun-11	2-Dec-12	2-Dec-14	$1.59	250,000	-	-	-	250,000	-
2-Jun-11	2-Jun-11	2-Dec-11	2-Dec-13	$1.59	500,000	-	-	-	500,000	250,000
2-Jun-11	2-Jun-11	2-Dec-12	2-Dec-14	$1.59	500,000	-	-	-	500,000	-
22-Jun-11	22-Jun-11	22-Dec-11	22-Dec-13	$1.42	250,000	-	-	-	250,000	250,000
13-Jul-11	13-Jul-11	13-Jul-12	13-Jan-14	$1.58	-	125,000	-	(125,000)	-	-
13-Jul-11	13-Jul-11	13-Jul-13	13-Jan-15	$1.58	-	125,000	-	(125,000)	-	-
21-Dec-11	22-Dec-11	17-Dec-12	17-Dec-14	$1.53	-	500,000	-	-	500,000	-
21-Dec-11	22-Dec-11	17-Dec-13	17-Dec-15	$1.53	-	500,000	-	-	500,000	-
Consultants										
13-Jul-09	13-Jul-09	13-Jul-09	13-Jul-14	$0.39	250,000	-	(250,000)	-	-	-
13-Jul-09	13-Jul-09	13-Jul-09	13-Jul-14	$0.39	160,000	-	(160,000)	-	-	-
29-Dec-09	29-Dec-09	29-Dec-10	29-Dec-12	$0.20	1,200,000	-	(1,200,000)	-	-	-
					11,585,000	**1,750,000**	**(4,610,000)**	**(250,000)**	**8,475,000**	**4,225,000**

* Former director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

23. SHARE-BASED PAYMENTS (cont'd)

(c) Summary of options granted during the year (cont'd)

- Weighted average remaining contractual life – The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 is 1.87 years (2011: 2.11 years).
- Range of exercise price – The range of exercise prices for ESOP options outstanding at the end of the year was $0.25 to $1.59 (2011: $0.14 to $1.59).
- Weighted average fair value – The weighted average fair value of options granted during the year was $1.54 (2011: $1.55).
- Option pricing model – The fair value of equity share options granted is estimated at the date agreement was reached to grant the options using the Black-Scholes option 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 2012:

	Granted 13-Jul-11	Granted 13-Jul-11	Granted 21-Dec-11	Granted 21-Dec-11	Granted 22-Feb-12
	ESOP	ESOP	ESOP	ESOP	15% Facility
Number of options granted	125,000	125,000	500,000	500,000	500,000
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Share price at date of grant	$1.39	$1.39	$1.46	$1.46	$1.41
Exercise price	$1.58	$1.58	$1.53	$1.53	$1.53
Volatility	50.00%	77.00%	51.00%	69.00%	55.00%
Risk free rate	4.35%	4.35%	3.20%	3.06%	4.07%
Expiration period	2 years	2 years	2 years	2 years	2 years
Expiry date	cancelled	cancelled	17-Dec-14	17-Dec-15	22-Feb-14
Black-Scholes valuation	$0.36	$0.69	$0.42	$0.67	$0.28

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

23. SHARE-BASED PAYMENTS (cont'd)

(d) Key Management Personnel options

During the year, 1,000,000 unlisted options were issued to key management personnel under the Company's Employee Share Option Plan at a price of $1.53 each. The options are subject to the following vesting periods:

- In respect of 500,000 options – vesting date 17 December 2012; expiry date 17 December 2014; and
- In respect of 500,000 options – vesting date 17 December 2013; expiry date 17 December 2015.

The outstanding balance of options on issue at balance date relating to key management personnel is disclosed in Note 25(c).

24. RELATED PARTIES

(a) Interests in controlled entities

Kingsrose Mining Limited has interests in the following controlled entities:

Entity	Place of Incorporation	Percentage Holding 2012	2011
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%
SARINC UK Ltd	England and Wales (UK)	**100%**	100%
SARINC srl	Sardinia (IT)	**100%**	100%

(b) Key management personnel

Details of transactions with Key Management Personnel are disclosed in Note 25.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel

Name	Position	Date of appointment	Date of resignation
Directors			
J.C. Morris	Non-Executive Chairman	17-Aug-07	-
C.N. Start	Managing Director *	17-Mar-11	-
T.G. Spencer	Finance Director	28-Mar-09	-
J.W. Phillips	Non-Executive Director	12-Jan-05	-
P.G. Cook	Non-Executive Director	1-Oct-10	-
Other Key Management Personnel			
Herryansyjah	President Director - PTNM	27-Feb-09	-
R. Clarke	Operations Manager (Way Linggo) - PTNM	17-Dec-11	-
T. Butler	Operations Manager (Way Linggo) - PTNM	18-May-10	8-Nov-11

* Mr C.N. Start was appointed as General Manager on 17 March 2011 and became the Managing Director on 1 July 2011.

(b) Compensation of Key Management Personnel

	2012	2011
	$	$
Short term benefits	**1,423,490**	1,016,918
Post employment benefits	**49,080**	33,583
Termination benefits	**150,000**	-
Share-based payments	**992,387**	357,439
Total	**2,614,957**	1,407,940

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

25. KEY MANAGEMENT PERSONNEL (cont'd)

(c) Option holdings of Key Management Personnel

30-Jun-12	Balance at 1 July 2011	Granted as remuneration	Options exercised	Net change other ^	Balance at 30 June 2012	Not vested and not exercisable	Vested and exercisable
Directors							
J.C. Morris	1,900,000	-	(1,900,000)	-	-	-	-
C.N. Start (i)	3,000,000	-	-	-	3,000,000	2,000,000	1,000,000
T. G. Spencer	1,000,000	-	(1,000,000)	-	-	-	-
J.W. Phillips	3,000,000	-	-	(3,000,000)	-	-	-
P.G. Cook	-	-	-	-	-	-	-
Other KMP							
Herryansjah	-	-	-	-	-	-	-
R. Clarke (ii)	-	1,000,000	-	-	1,000,000	1,000,000	-
T. Butler (iii)	-	-	-	-	-	-	-
	8,900,000	1,000,000	(2,900,000)	(3,000,000)	4,000,000	3,000,000	1,000,000

(i) Appointed Managing Director 1 July 2011
(ii) Appointed 17 December 2011
(iii) Resigned 8 November 2011

^ These represent change by virtue of sale on the market.

30-Jun-11	Balance at 1 July 2010	Granted as remuneration	Options exercised	Net change other ^	Balance at 30 June 2011	Not vested and not exercisable	Vested and exercisable
Directors							
J.C. Morris	1,500,000	-	-	400,000	1,900,000	-	1,900,000
T. G. Spencer	1,000,000	-	-	-	1,000,000	-	1,000,000
J.W. Phillips	3,000,000	-	-	-	3,000,000	-	3,000,000
P.G. Cook (i)	-		-	-	-	-	-
M.J. Andrews (ii)	1,000,000	-	-	(1,000,000)	-	-	-
Other KMP							
Herryansjah	-	-	-	-	-	-	-
C.N. Start (iii)	-	3,000,000	-	-	3,000,000	3,000,000	-
T. Butler	-	-	-	-	-	-	-
	6,500,000	3,000,000	-	(600,000)	8,900,000	3,000,000	5,900,000

(i) Appointed 1 October 2010
(ii) Resigned 21 December 2010
(iii) Appointed 17 March 2011

^ These represent change by virtue of resignation or acquisition from the market.

All options are exercisable as soon as they are vested, unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

25. KEY MANAGEMENT PERSONNEL (cont'd)

(d) Ordinary shares held by Key Management Personnel

30-Jun-12	Balance held at 1 July 2011	Granted as remuneration	On exercise of options	Net change other ^	Balance held at 30 June 2012
Directors					
J.C. Morris	5,350,000	-	1,900,000	-	7,250,000
C.N. Start (i)	-	-	-	-	-
T.G. Spencer	1,000,000	-	1,000,000	(750,000)	1,250,000
J.W. Phillips	16,150,000	-	-	-	16,150,000
P.G. Cook	4,000,000	-	-	(2,000,000)	2,000,000
Other KMP					
Herryansjah	-	-	-	-	-
R. Clarke (ii)	-	-	-	-	-
T. Butler (iii)	-	-	-	-	-
	26,500,000	-	2,900,000	(2,750,000)	26,650,000

(i) Appointed Managing Director 1 July 2011
(ii) Appointed 17 December 2011
(iii) Resigned 8 November 2011

^ These represent change by virtue of sale on the market.

30-Jun-11	Balance held at 1 July 2010	Granted as remuneration	On exercise of options	Net change other ^	Balance held at 30 June 2011
Directors					
J.C. Morris	5,250,000	-	-	100,000	5,350,000
T.G. Spencer	1,000,000	-	-	-	1,000,000
J.W. Phillips	16,150,000	-	-	-	16,150,000
P.G.Cook (i)	-	-	-	4,000,000	4,000,000
M.J. Andrews (ii)	16,150,000	-	-	(16,150,000)	-
Other KMP					
Herryansjah	-	-	-	-	-
C.N. Start (iii)	-	-	-	-	-
T. Butler	-	-	-	-	-
	38,550,000	-	-	(12,050,000)	26,500,000

^ These represent change by virtue of appointment, resignation or acquisition from the market.

(i) Appointed 1 October 2010
(ii) Resigned 21 December 2010
(iii) Appointed 17 March 2011

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

25. KEY MANAGEMENT PERSONNEL (cont'd)

(e) Loans from Key Management Personnel

Details of aggregate loans from key management personnel are as follows:

Total	Balance at beginning of period $	Additions $	Repayments / Adjustments $	Balance at end of period $	Number in group	Interest Charged $	Interest Paid $
2012	-	-	-	-	-	-	-
2011	7,516,908	-	(7,516,908)	-	6	505,392	(849,391)

Terms and conditions of loans from key management personnel
All loans from key management personnel are unsecured and interest-bearing.

Loan from Directors

(i) Mr. Phillips made a loan to the Company in the amount of $1,200,000 on 30 June 2010. The loan bears interest at 6% per annum and is repayable by 31 December 2010, following extension from the initial repayment date of 30 September 2010. Principal and interest totalling $1,236,000 was repaid in full during the year ended 30 June 2011.

(ii) As part of the Way Linggo Gold Project acquisition, a loan of $4,623,848 from Singapore Mining Ventures Pte Ltd ("SMV"), a company controlled by Dr. Andrews, to PTNM was documented in a Loan Arrangements Deed. This Deed provided that on repayment of the above mentioned sum, $1,000,000 is to be repaid by SMV to Goldcrest Pty Ltd, a company controlled by Mr. Morris and $2,626,940 to be paid to Icon Enterprises Limited ("Icon"). The SMV loan is required to be paid by PTNM from surplus operating cash flows. Principal and interest totalling $5,217,224 was fully repaid to respective companies during the year ended 30 June 2011.

(iii) $186,985 loan from Dr. Andrews, Director of PTNM, was detailed in the same Deed and on the same terms noted above. Principal and interest totalling $211,233 was repaid in full during the year.

(iv) $909,060 loan from Icon was detailed in the same Deed and on the same terms noted above. Messrs. Phillips and Morris are Directors of Icon and Dr. Andrews is the General Manager. Principal and interest totalling $1,026,948 was repaid in full during the year ended 30 June 2011.

(v) $268,657 loan from PT Promincon Indonesia, a company controlled by Messrs. Andrews and Phillips, was detailed in the same Deed and on the same terms noted above. Principal and interest totalling $303,497 was repaid in full during the year ended 30 June 2011.

Loan from other KMP

A $328,358 loan from Mr. Herryansjah, President-Director of PTNM, was detailed in the same Deed and on the same terms noted above. Principal and interest totalling $371,397 was repaid to Mr. Herryansjah during the year ended 30 June 2011.

(f) Other transactions and balances with key management personnel and their related parties

Consulting Services

Mr. Phillips, an independent non-executive director of the Company, received $93,032 (2011: $97,048) consulting fees during the year for professional services provided to the Group outside his normal Board duties. These fees were paid at normal commercial terms. No balance was outstanding at 30 June 2012 and 30 June 2011.

Mr. Cook, an independent non-executive director of the Company, received $75,800 (2011: $44,200) consulting fees during the year for professional services provided to the Group outside his normal Board duties. These fees were paid at normal commercial terms. At 30 June 2012, $2,860 was owing to Mr. Cook (30 June 2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

25. KEY MANAGEMENT PERSONNEL (cont'd)

(f) Other transactions and balances with key management personnel and their related parties (cont'd)

Consulting Services (cont'd)
Minelogix Pty Ltd, an entity related to Mr. Start, received $4,113 for consulting services provided to the Group during the year (2011: $Nil). No balance was outstanding at 30 June 2012 and 30 June 2011.

Mining Services
Westralmen Pty Ltd, an entity related to Mr. Phillips, received $190,000 fees for mining services provided to the Group during the year (2011: $380,000). These fees were paid at normal commercial terms. At 30 June 2012 no amount was owing to Westralmen Pty Ltd (2011: $69,667).

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 ("MMG") and Natarang Offshore Pty Ltd ("NOPL"), inherited various project royalty commitments. These are summarised as follows:

- One tonnage or net profit royalty – calculated with reference to the Company's ownership percentage of PTNM (currently 85%) by 10% of ore tonnes treated by 1.5% of the gold price if principal source of revenue derived by PTNM arises from sale of gold or 5% of net profit if the sale of gold does not provide the principal source of revenue.
- One product (net smelter return) royalty – calculated with reference to the Company's ownership percentage of PTNM (currently 85%) of 2% of the value of gold and silver bullion production.

In relation to the product (net smelter return) royalty, the Company had the right to buy back the first 250,000 ounces of gold produced from the Project area by the payment of US$300,000. During the year, the Company has exercised that right and paid cash of US$300,000 (A$278,500).

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 Works 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 obligation to offer for sale equity in PTNM will commence in March 2016 (six years after the commencement of production). The Ministry of Energy and Minerals has indicated to the Company various (earlier) timetables that it thinks should apply, however the Company's believes it is in a strong position to follow the CoW timetable and is currently waiting formal advice from the Ministry to confirm this.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

26. COMMITMENTS AND CONTINGENCIES (cont'd)

(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 two years with renewal options included in the contracts.

	2012	2011
	$	$
Payable within one year	**50,848**	121,897
Payable after one year but not more than five years	**-**	49,013
Total minimum lease payments	**50,848**	170,910

Finance lease commitments – Group as lessee
The Group has entered into finance leases for various plant and equipment. These leases have an average remaining life of between one and three years with the option to purchase the assets at the completion of the lease term at a nominal value.

	2012	2011
	$	$
Payable within one year	**330,901**	322,791
Payable after one year but not more than five years	**186,025**	389,861
Total minimum lease payments	**516,926**	712,652
Less: Future finance charges	**(22,265)**	(36,513)
Present value of minimum lease payments	**494,661**	676,139
Included in the financial statements as interest-bearing liabilities (Note 17):		
Current	**312,666**	296,146
Non-current	**181,995**	379,993
	494,661	676,139

(d) Contingent Liabilities

There are no significant contingent liabilities at balance date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (cont'd)

27. SUBSEQUENT EVENTS

- On 4 July 2012, the Company's $0.04 per share maiden, unfranked dividend declared on 23 May 2012, totaling $11,566,613, was paid to shareholders.
- On 23 July 2012, 500,000 unlisted options were issued to an employee under the Company's Employee Share Option Plan at an exercise price of $1.26 each. 250,000 options will vest on 23 January 2013 with an expiry date of 23 January 2015 and 250,000 options will vest on 23 January 2014 with an expiry date of 23 January 2016.
- On 26 July 2012, the Company announced that it had commenced quotation to trade American Depositary Receipts (ADRs) on the US based exchange, OTCQX International, through the ADR program.
- On 31 July 2012, 25,422 listed options were exercised at a price of $0.20 each. *
- On 14 August 2012, 100,000 unlisted options were issued to an employee under the Company's Employee Share Option Plan at an exercise price of $1.27 each. The options will vest on 14 February 2013 with an expiry date of 14 February 2015.
- On 15 August 2012, 7,350 listed options were exercised at a price of $0.20 each. *
- On 3 September 2012, 75,000 listed options were exercised at a price of $0.20 each. *

* Options issued pursuant to 1:2 Non-renounceable Rights Issue (pursuant to IPO dated November 2007).

28. AUDITOR'S REMUNERATION

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

	2012	2011
	$	$
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	**102,290**	99,840
(ii) Tax services	**18,500**	-
	120,790	99,840
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	**48,454**	67,300
(ii) Tax services	**-**	2,532
	48,454	69,832

Directors' Declaration

For the year ended 30 June 2012

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 2012 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 2012.

On behalf of the Board

Timothy G. Spencer
Finance Director

Perth, 6 September 2012

Independent Auditor's Report

For the year ended 30 June 2012

ERNST & YOUNG

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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 2012, 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 year's end or from time to time during the financial year.

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, 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.

ERNST & YOUNG

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 2012 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 36 of the Directors' Report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

G H Meyerowitz
Partner
Perth
6 September 2012

Shareholder Information

For the year ended 30 June 2012

SHAREHOLDER INFORMATION

The following additional information was applicable as at 4 September 2012.

There are 289,318,617 ordinary fully paid shares on issue, all of which are listed on the ASX. There are no restricted securities.

SUBSTANTIAL SHAREHOLDERS

The names of the substantial shareholders and the number of shares to which they are entitled are:

Name	Number of Shares	%
National Nominees Limited	59,169,622	20.451
Advance Concept Holdings Limited	32,300,000	11.164
KRM (WA) Pty Limited	20,000,000	6.913
Citicorp Nominees Pty Limited	19,826,342	6.853
HSBC Custody Nominees (Australia) Limited	16,555,746	5.722

FULLY PAID ORDINARY SHARES

a) Holders of fully paid ordinary shares are entitled to one vote per fully paid ordinary share.
b) The number of holders of fully paid ordinary shares is 3,327.
c) The number of fully paid ordinary shareholdings held in less than marketable parcels is 163.
d) The 20 largest fully paid ordinary shareholders together held 75.726% of the securities in this class.
e) Distribution of fully paid ordinary shareholders:

Category (Size of Holding)	Number of Fully Paid Ordinary Shareholders
1 – 1,000	649
1,001 – 5,000	1,368
5,001 – 10,000	596
10,001 – 100,000	596
100,001 – and over	118
TOTAL	3,327

LARGEST FULLY PAID ORDINARY SHAREHOLDERS

Ranking	Name	Number of Shares	%
1	NATIONAL NOMINEES LIMITED	59,169,622	20.451
2	ADVANCE CONCEPT HOLDINGS LTD	32,300,000	11.164
3	KRM (WA) PTY LTD	20,000,000	6.913
4	CITICORP NOMINEES PTY LIMITED	19,826,342	6.853
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	16,555,746	5.722
6	FITEL NOMINEES LIMITED	10,079,900	3.484
7	J P MORGAN NOMINEES AUSTRALIA LIMITED	9,208,139	3.183
8	GOLDCREST CORPORATION PTY LTD	7,100,000	2.454
9	BOND STREET CUSTODIANS LIMITED	7,000,000	2.419
10	SUN HUNG KAI INVESTMENT SERVICES LTD	5,622,892	1.943
11	SUN HUNG KAI INVESTMENT SERVICES	5,550,000	1.918
12	DOG MEAT PTY LTD	5,400,000	1.866
13	JP MORGAN NOMINEES AUSTRALIA LIMITED	4,703,806	1.626
14	OAKAJEE CORPORATION LTD	3,000,000	1.037
15	NEFCO NOMINEES PTY LTD	2,610,000	0.902
16	YANDAL INVESTMENTS PTY LTD	2,250,000	0.778
17	PIPE LINK OF AUSTRALIA PTY LTD	2,225,008	0.769
18	ASIAN STAR INVESTMENTS LTD	2,175,995	0.752
19	UBS WEALTH MANAGEMENT	2,173,400	0.751
20	GOLD RUBY INVESTMENTS LTD	2,140,000	0.740
	TOTAL	219,090,850	75.726

SHAREHOLDER INFORMATION (Cont'd)

There are 1,206,413 listed options on issue, all of which are listed on the ASX. There are no restricted securities.

LISTED OPTIONS

a) The number of holders of listed options is 62.
b) The number of option holders held in less than marketable parcels is 1.
c) The 20 largest fully paid ordinary shareholders together held 83.235% of the securities in this class.
d) Distribution of option holders:

Category (Size of Holding)	Number of Option Holders
1 – 1,000	3
1,001 – 5,000	29
5,001 – 10,000	8
10,001 – 100,000	18
100,0001– and over	2
TOTAL	**62**

LARGEST FULLY OPTION HOLDERS

Ranking	Name	Number of Options	%
1	MR R & MRS R HOMSANY	247,500	20.515
2	MR C & MRS C CHARLESTON	125,000	10.361
3	ABN AMRO CLEARING SYDNEY NOMS PTY LTD	83,772	6.944
4	MISS EMILY JANE SCARFF	71,300	5.910
5	CITICORP NOMINEES PTY LIMITED	59,600	4.940
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	56,000	4.642
7	MR EDDY POPE	50,000	4.145
8	MR WOLFGANG FELDHUS	45,000	3.730
9	MR EDWARD JOHN FLEXMORE ADAMS	44,500	3.689
10	NEFCO NOMINEES PTY LTD	25,000	2.072
11	MR PETER DUNCAN	25,000	2.072
12	MS KATIE HYNDES	25,000	2.072
13	MR J SCHLEICHER & MISS F GRAHAM	25,000	2.072
14	UBS NOMINEES PTY LTD	22,500	1.865
15	ANAITIS NOMINEES PTY LTD	20,000	1.658
16	MR M BELLAMY & MRS G LONG	20,000	1.658
17	DALY & SHAW PTY LTD	16,450	1.364
18	MR PAUL CHRISTIAN ROBINSON	15,000	1.243
19	SHARP SOLUTIONS PTY LTD	14,500	1.202
20	SPEND IT PTY LTD	13,038	1.081
	TOTAL	**1,004,160**	**83.235**

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