Kolar Gold Limited

Directors' Report and Financial Statements

30 June 2013

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## Directors, Company Secretary and Advisors

### Directors:

Harvinderpal Singh Hungin *(Non-Executive Chairman)*
Nicholas Taylor Spencer *(Chief Executive Officer)*
Stephen Charles Coe *(Non-Executive Director)*
Stephen Douglas Oke *(Non-Executive Director)*
Vaidyanathan Venkateswaran Sivakumar *(Non-Executive Director)*

**Registered Office of the Company**
Frances House
Sir William Place
St. Peter Port
Guernsey GY1 1GX

**Administrator and Company Secretary**
JTC (Guernsey) Limited
PO Box 156
Frances House
Sir William Place
St. Peter Port
Guernsey GY1 4EU

**Nominated Adviser and Joint Broker**
N + 1 Singer
One Bartholomew Lane
London EC2N 2AX
United Kingdom

**Auditors**
KPMG Audit Plc
15 Canada Square
London E14 5GL
United Kingdom

**Joint Broker**
Ocean Equities Limited
3 Copthall Avenue
London EC2R 7BH
United Kingdom

**Financial/Public Relations**
Tavistock Communications
131 Finsbury Pavement
London EC2A 1NT
United Kingdom

Churchgate Advisory Private Limited
Plot No. 49, Bank Colony
Krishnapuri
West Marredpally
Secunderabad
India

**Company's telephone number** 00 44 (0)1481 723573

**Company's website** www.kolargold.com.au

**English Counsel to the Company**
Memery Crystal LLP
44 Southampton Buildings
London WC2A 1AP
United Kingdom

**Indian Counsel to the Company**
Singhania & Partners LLP
S & P House
H - 186, Sector – 63
Noida – 201 301
Delhi, India

**Guernsey Counsel to the Company**
Carey Olsen
Carey House Les Banques
St. Peter Port
Guernsey GY1 4BZ.

**Mauritian Counsel to the Company**
Juristconsult Chambers
Level 6, Newton Tower
Sir William Newton Street
Port Louis, Mauritius

**Australian Counsel to the Company**
Hynes Lawyers
Level 1, 25 Montpelier Road
Bowen Hills Qld 4006
PO Box 196, Fortitude Valley
Queensland 4006 Australia

**Registrars**
Computershare (Guernsey) Limited
Kingsway House
Havilland Street
PO Box 393
St. Peter Port
Guernsey GY1 3FN

**Competent Person**
Mining Associates Pty Ltd
Level 4, 67 St Paul's Terrace
PO Box 161
Spring Hill
Queensland 4004 Australia

## Chairman's Report

Dear Shareholder

This is my third Chairman's Report to the shareholders of Kolar Gold Limited. It has been a year of several challenges and changes for the Company but as many of you may have seen there have been some very positive developments post year end.

India's deep passion for gold continues and, combined with a low domestic production, this results in India importing nearly 1,000 tonnes per year. India and China are by far the two largest gold consuming countries and India, with some of the most prospective gold terrain in the world, only has one active gold mine, producing just two tonnes per year whilst last year it imported 20% of the world's production. After the importation of energy, gold imports are the second largest contributor to India's current account deficit.

The Government of India is attempting to curb gold imports to try to contain a record current-account deficit that has weakened the rupee to an all-time low, and in August this year it increased import taxes for the third time this year by up to 10%. The Government's strategic rationale to develop gold mines in India remains strong.

The domestic mining regime remains in a state of flux, as I reported in my statement last year as the long anticipated approval of the Mines and Minerals Development and Regulation (MMDR) Bill, which has been approved by Cabinet, still awaits approval by the Indian Parliament. The timing of the passing of this bill and the exact terms are still unclear. This, together with the slow pace in the privatisation of state-owned assets and granting of licences in mining and other industries in India has resulted in a regulatory environment that is not conducive to prompt and timely decision making, even when all the relevant processes are followed diligently.

It is hoped that the MMDR, once passed, will create a better legislative environment for attracting investment and technology to the mining sector. This would help India to develop its mining sector to its full potential with companies in the sector operating to international best practice standards. Recent clampdowns on illegal mining will also assist the industry to progress and develop in a responsible manner.

During our last financial year the Board undertook a review of the rate of progress of activities in India and the environment for our business. The slow pace of progress amongst the federal and state authorities involved in gold mining led to the slower than anticipated grant of new licences to our new affiliate Geomysore Services India Private Limited ("GMSI"). The anticipated exploration licences in respect of North and East Kolar have not yet materialised and consents to progress with exploration activities on existing licences from, for example, the Forestry Commission were slow. Consequently, the Board reviewed the company's strategy in order to ensure cash resources were utilised to create the best value for shareholders over the near and medium term in the gold exploration and mining development sector of India. As part of the refined strategy, management and cash resources were focused on assisting and working with GMSI to procure the granting of prioritised, later stage key gold exploration and mining licenses. A number of cost saving measures were also implemented including the scale down of the Company's Brisbane office with key management moving to the well-established GMSI office in Bangalore.

As part of the refined strategy, the Company entered into a heads of agreement with GMSI in August 2013, in exchange for the dissolution of the Option Agreement and Mine Operators agreement between the Company and GMSI (entered into at the time of listing in June 2011 to acquire a 30% direct equity interest in GMSI for a cash consideration of £700,000 plus the cancellation of a £300,000 advance to GMSI during the reporting period. Kolar Gold acquired a 30% direct equity interest in GMSI in August 2013. This strategy allows us to work with GMSI and focus on a number of key advanced gold projects as well as gaining exposure to a larger number of licence applications with preferential rights. In October 2013, GMSI announced in India the grant of a mining licence in respect of the Jonnagiri application, which is the first grant of such a licence in India since 2003 and marks a significant value creation step for the Company, which we would not have otherwise had access to. This is a major step forward for both Kolar Gold and GMSI. We are now working with GMSI to scope a pre-feasibility study for the development of the Jonnagiri Mine which has 710k ounces of JORC resources.

Equally important, is our focus on the proposed acquisition of the Bharat Gold Mines Limited (BGML). Tendering for these assets was and has remained a key objective of the Company since it joined the AIM Market in June 2011. The historic Kolar Gold Fields have produced 25 million ounces of gold at 15.9 grams per tonne over the 120 years of their operation until their closure in 2001 and represent significant development potential. Our relationship with the BGML ex-employees and their representative unions remains strong and together we are pushing for the mine sale and revival via the Right of First Refusal the workers have with our collaboration. The historic BGML mine revival project reached a very important milestone also by achieving a verdict in the Supreme Court in July where the Government of India was instructed to proceed with the sale tender process. We are currently awaiting the start of this process.

We also continue to review a number of additional quality gold exploration projects in India with a view to expanding our portfolio of licences and licence applications, as we believe that is an enhanced way of developing shareholder value within a reasonable timeframe.

Our balance sheet remains strong, with £5.4m in cash at year end, providing us with sufficient funds to conduct preparatory work ahead of the start of the BGML tender process and secure other identified priority gold projects, which is under constant review and action.

It is widely recognised that we are in some very prospective gold provinces and have now established our presence in India. Our foundations are set, and the Company has a significant portfolio of licences and licence applications and our priority focus remains the execution of permit awards in key areas with our collective resources and local partners and the subsequent development of quality gold assets. We are committed to building the leading gold explorer and mine developer in India.

Finally, there have been two changes to the Board, Mr Richard Johnson, our former COO in India, stepped down as a director during the financial year and Mr Shiv Khemka departed subsequent to the year end. Mr Khemka was a non-executive director and SUN Mining's representative on the Board. He was replaced by Mr Sivakumar the Managing Director of SUN's Delhi office. I would like to record the Board's gratitude to Shiv and Richard for their efforts and commitment, over the past years. The Company remains well served by a strong corporate team which will expand as Kolar Gold grows.

I would like to thank all employees, my fellow directors and our partners who have participated in our progress this year.

**Harvinder Hungin**
**Chairman**
**Kolar Gold Limited**

**19 November 2013**

## Chief Executive Officer's Report

In the last 12 months, we have made solid progress following a comprehensive review of our business and exploration strategies.

Our first priority has been to develop a closer cooperation with our established partner, GMSI, a Bangalore based exploration group, and work together to focus on pursuing selected advanced gold exploration and mining licences that have been prioritised. The primary route for this process was through a Heads of Agreement ("HoA") with GMSI that was signed in August 2013 resulting in the Company acquiring a 30% equity stake in GMSI.

Secondly, management focussed on the delivery of these key licence applications, especially given the slower than expected grant of new licences. GMSI and their local partners have applied considerable resources and effort to expedite permitting on the priority licences. Permitting in India is a complex and lengthy process that needs continual application of management resources to move files through a large number of bureaucratic steps. GMSI is one of the only private groups that has succeeded, having previously secured 22 Reconnaissance Permits, and now having 2 Prospecting Licences (PL) and a Mining Lease in the gold sector. We continue to work with GMSI and their partners who have successfully achieved the granting of permits in the past.

### *Heads of Agreement (HoA) with GMSI*

Under the terms of the HoA, the Kolar Gold Group (KG) acquired a 30% equity interest in GMSI, who together with KG, will explore and develop its portfolio of 49 gold projects, thus enabling us to accelerate our operations in India. It will also increase our access to gold projects that are nearer production and spread licence risk across a larger portfolio. GMSI's portfolio includes project and first application rights to 11 Reconnaissance Permits, 32 Prospecting Licences, including 2 granted, and 6 Mining Leases covering over 11,000 $km^2$ across India with 1.36Moz JORC resources defined.

Under the HoA, Kolar Gold Resources Limited (KGM), KG's Mauritius based subsidiary, is entitled to nominate one director to the board of GMSI and any GMSI resolution or corporate action with respect to certain corporate and operational matters will require KGM's consent.

It is pleasing to report that this new approach has already achieved success as GMSI has now successfully been granted the Mining Lease at Jonnagiri, located in Andhra Pradesh, Southern India, post financial year end in October 2013. The Jonnagiri mining lease has an open pittable deposit of 2.9 Mt at an average grade of 2.1 g/t Au containing a JORC indicated resource of 190,000 ozs Au and an underground deposit of 3.7 Mt at an average grade of 4.3 g/t Au containing a JORC inferred resource of 520,000 ozs Au. There are significant gold intersections in the main Dona Temple block of 41 m grading 5.83 g/t Au at a depth of 400m and 22.7 m at 7.52 g/t Au at a depth of 320 m. Our Competent Person, Mr James Lally of Mining Associates has suggested there is a high potential to increase the size of deposits through definition of extensions to existing lodes and discovery of new lodes and has identified a 2-5Moz exploration target.

### *Exploration Programme*

During the year Kolar Gold has been working closely with GMSI geologists on exploration work at South Kolar. We continued with geological mapping, trenching and geochemical soil sampling programme to better identify the prospective anomalies in the non-forestry areas of the South Kolar Lease area. A drill plan had also been prepared for an additional 160 drill holes in the Chigargunta and Mallappakonda areas, to be implemented upon obtaining forestry permission and subject to prioritizing the use of our cash resources. The application for this permit has been submitted to the authorities and is being expedited with our partners.

The previous drilling in the South Kolar prospect at NE Chigargunta, the Chigargunta Eastern lodes and the Mallappakonda deposit had successfully validated historical drilling results and also provided valuable fresh geological data on the host rocks and structural controls to mineralisation. To date 8,000m of both Reverse Circulation (RC) and diamond drilling has been completed on our target deposits and prospects. A JORC resource of 208,182 oz has been defined with intercepts of 4.7m @ 24.7 g/t from 80m and 21.5m @ 5.5g/t from 98m. Drilling has principally targeted known zones of mineralisation and extensions of auriferous lodes previously mined at the Chigargunta mine in the south and the Bisanatham mine in the north of the licence area.

***Bharat Gold Mines Limited (BGML) Acquisition***

Kolar Gold, jointly with its partner, the combined BGML Ex-employee Unions Society, and with the assistance of SUN Mining, has continued to make progress with the Government of India in the pursuit of the acquisition and development of the BGML gold mine assets. The matter was passed to the Supreme Court for final direction on the tender sale process. We are encouraged with the recent court order from the Supreme Court to proceed with the sale and revival of the BGML mine by tender process, giving the Right of First/Last Refusal to the Society and KG as their technical and financial collaborator.

The Government of India has also recently completed a tender to select the advisor that will be responsible for firstly updating the sale tender documents which were drafted by Ernst & Young as previous advisors to the government. The new advisor will also be responsible for managing the tender process and undertaking a revaluation of the BGML tender assets. Kolar Gold, in conjunction with local partners and the BGML ex-employee unions, are now reviewing its previous work and valuation in order to be able to submit a counter offer at the appropriate time that will meet the requirements of the tender document.

We believe that our exploration and development of the surrounding Kolar Gold Projects, in conjunction with GMSI, who have rights to all adjoining leases in the Kolar Gold Belt, will demonstrate our commitment to gold exploration in this region and should assist this process. Any acquisition of the BGML assets would require additional funding from the market.

***Conclusion***

The next 12 months are expected to be a very busy time for Kolar Gold as we look to build a stronger presence in India and proceed with focused effort on permitting and selective exploration of these potentially world class gold assets. In particular, the development of the Jonnagiri Mining Lease is potentially an excellent operational gold project for the Company to commence gold production in India.

I look forward to continuing our work together to grow the business and our Indian assets. I would also like to thank our shareholders for their continued support of the Company, especially over the last year.

**Nick Spencer**
**Chief Executive Officer**
**Kolar Gold Limited**

**19 November 2013**

## Board of Directors

***Harvinder Hungin (aged 53) (Non-Executive Chairman)***

Mr. Hungin was an investment banker for 18 years until 2002 at Lazard, Hambros and Société Générale ("SG"). As part of his responsibilities, he oversaw the Indian activities of Hambros, subsequently SG, from 1995 onwards. Since 2003 he has been involved in large scale real estate and infrastructure development in the UK, Europe and latterly India, and has built a portfolio of diversified growth businesses in a number of sectors, operating internationally.

***Nicholas Spencer (aged 51) (Chief Executive Officer)***

Mr. Spencer joined the board of Kolar Gold plc in 2004 and has experience in building businesses in mining, logistics, aerospace and engineering services with multinational companies in Australia, the United Kingdom, Asia and the Middle East. He has 25 years experience in international business including mine build and revival, open pit mining, equipment purchase and mine finance. He was responsible for building a $125 million mine in Egypt and spent more than seven years with BHP managing operations and business development in Australia. Mr. Spencer also spent many years in Asia establishing joint ventures for TNT Limited. He is an engineer with an MBA from Cranfield UK who has held senior executive positions with BHP, TNT, Meggitts Aerospace, Babcock Contractors and co-founded private equity fund manager, Crescent Capital Partners.

***Stephen C Coe (FCA, BSc) (aged 47) (Non-Executive Director)***

Mr. Coe is self employed and a Chartered Accountant. He acts as a director of a number of listed and unlisted investment funds and offshore companies including Raven Russia Limited, European Real Estate Investment Trust Limited, South African Property Opportunities Limited Trinity Capital PLC, and Weiss Korea Opportunities Fund Limited (and serves as Chairman of the Audit Committee for these companies). He has been involved with offshore companies since 1990 with significant exposure to property, debt, emerging markets and private equity investments.

***Shiv Khemka (aged 49) (Non-Executive Director)***
*(Resigned 16 August 2013)*

***Stephen Oke (aged 59) (Non-Executive Director)***

Mr. Oke holds a BSc Honours degree in Geology from the University of Southampton and an MBA from the University of the Witwatersrand Graduate School of Business. He has over 35 years' experience in the mining and metals industry in both operational management and investment banking. He is a non-executive director of International Ferro Metals Limited and Chairman of Shaft Sinkers Holdings plc and was previously on the boards of African Mining and Exploration Limited, Nikanor plc, Katanga Mining Limited and Kazakhgold Group Limited.

***Vaidyanathan Venkateswaran Sivakumar (aged 50) (Non-Executive Director)***
*(Appointed 16 August 2013)*

Mr Sivakumar is Managing Director and Head of SUN's New Delhi office. He previously worked in SUN's Moscow office for five years as Head of Research & Investments for SUN Capital Partners. Prior to SUN, Mr Sivakumar spent several years in equity and credit research in public markets with Crosby Securities, Peregrine Capital and CRISIL (now S&P India). He also has six years industrial experience with ICI India and holds engineering and management degrees from the Indian Institute of Technology and Indian Institute of Management respectively. He is a member of CII's National Committee on Mining.

## Directors' Report

The directors present the consolidated financial report of Kolar Gold Limited (the Company and its subsidiaries (the Group for the year ended 30 June 2013 and the auditor's report thereon.

**Performance review**
The Group made a comprehensive loss of £2,199,438 during the year ended 30 June 2013 (2012: loss of £2,382,386) due mainly to its Indian operations, its activities in Guernsey and Australia and advisory and due diligence costs of £741,671 (2012: £235,363).

**Principal activities and future developments**
The Group's principal activity is the exploration and development of tenement rights in India, in conjunction with its Indian affiliate, Geomysore Services India Private Limited ("GMSI) and securing and reviving the historic gold mines of the Kolar Goldfields of Bharat Gold Mines Limited in that region.

**Subsequent event**
On 16 August 2013 the Group announced that it had entered into a binding Heads of Agreement ("HoA") with GMSI to invest funds into GMSI and develop a number of advanced stage quality gold projects in India, including the Jonnagiri Gold Project which already has a JORC compliant Resource. The Group acquired a 30% equity interest in GMSI in exchange for:

- a cash consideration of £700,000,
- the cancellation of a £300,000 advance by the Group to GMSI during the reporting period, and
- the dissolution of the 2011 agreements with GMSI in which the Group secure rights over the 14 Kolar Gold Projects.

All rights in the Kolar Gold Projects have now been returned to GMSI.

**Principal risks and uncertainties**
The Group is exposed to a variety of financial risks including foreign exchange risk, interest rate risk, liquidity risk and credit risk. These risks are discussed in detail in Note 2.

**Note 12 to the financial statements - *Financial instruments and associated risks***

The Board of Directors is committed to effective risk management and is responsible for ensuring that the Group has an appropriate framework in place to identify and effectively manage business risks and to monitor business performance and the Group's financial position. The Board is also responsible for overseeing compliance with regulatory, prudential, legal and ethical standards.

**Accounting policies**

The accounting policies of the Group as set out on pages 17 to 24 have been applied consistently during the year.

**Dividends**

No dividends have been paid or declared and the Directors do not recommend the declaration of a dividend for the year ended 30 June 2013 (2012: nil).

**The UK Takeover Code**

On 30 September 2013, certain changes to the UK Takeover Code came into effect which meant that the Company became subject to the UK Takeover Code on that date. This is due to the Company's incorporation in Guernsey, being one of the relevant jurisdictions now subject to the UK Takeover Code.

## Directors' Report (continued)

### Directors' remuneration and interests

**2013**

| Director | Remuneration | | | Interests | |
|---|---|---|---|---|---|
| | Cash-settled transactions | Share-based payments | Totals | Shares | Options |
| | £ | £ | £ | No. | No. |
| Harvinder Hungin (Chairman) | 45,000 | 8,119 | **53,119** | 1,700,000[1] | 600,000 |
| Nicholas Spencer (Chief Executive Officer) *Refer Note 16* | 258,752 | 12,588 | **271,340** | 1,763,569 | 1,850,000 |
| Richard Johnson (Resigned 7.12.12) *Refer Note 16* | 235,124 | - | **235,124** | | |
| Stephen Coe [2] | 27,708 | 14,057 | **41,765** | 237,439 | 475,000 |
| Stephen Oke | 40,000 | 6,765 | **46,765** | Nil | 475,000 |
| Shiv Khemka | 30,000 | - | **30,000** | Nil | Nil |
| TOTALS | 636,584 | 41,529 | **678,113** | 3,701,008 | 3,400,000 |

**2012**

| Director | Remuneration | | | Interests | |
|---|---|---|---|---|---|
| | Cash-settled transactions | Share-based payments | Totals | Shares | Options |
| | £ | £ | £ | No. | No. |
| Harvinder Hungin (Chairman) | 45,000 | - | **45,000** | 1,700,000[1] | 450,000 |
| Nicholas Spencer (Chief Executive Officer)*Refer Note 16* | 465,214 | - | **465,214** | 1,763,569 | 1,850,000 |
| Richard Johnson (Chief Operating Officer) *Refer Note 16* | 239,800 | - | **239,800** | 725,000 | 675,000 |
| Stephen Coe [2] | 17,500 | 17,500 | **35,000** | 44,777 | 350,000 |
| Stephen Oke | 40,000 | - | **40,000** | Nil | 350,000 |
| Shiv Khemka | 30,000 | - | **30,000** | Nil | Nil |
| TOTALS | 837,514 | 17,500 | **855,014** | **4,233,346** | **3,675,000** |

[1] SG Hambros Trust Company (Channel Islands) Limited hold 1,700,000 Ordinary Shares and 200,000 options, as trustee of the Carlyle Settlement, in which Harvinder Hungin and his family have an interest.

[2] Portion paid by the issue of shares.

The above remuneration relates to Kolar Gold Limited directors only. The Key Management Personnel remuneration disclosed in Note 16 to the financial statements has been calculated on a consolidated basis and includes payments to directors who were Directors of Kolar Gold plc only and other Key Management Personnel.

## Directors' Report (continued)

**Results for the year and state of affairs at 30 June 2013**

The Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position are set out on pages 12 and 13 of the financial statements.

**Accounting records**

The Directors believe that they have complied with the requirements of Section 244 of the Companies (Guernsey) Law 2008, as amended with regards to the financial statements by employing appropriate expertise and providing adequate resources to the financial function within the Group.

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Companies (Guernsey) Law 2008, as amended and AIM rules require the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for the year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law 2008, as amended and AIM rules. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

**Directors' confirmation**

The Directors confirm that they have complied with the requirements in preparation of the financial statements as at the date of approval of this report. So far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, having taken all the steps the Directors ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Going concern**

After making enquiries, and considering the current level of activity, financial arrangements made and for the reasons disclosed in note 1.3 of the financial statements, the Directors consider that the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Directors' Report (continued)

### Corporate governance statement

The Company, being listed on AIM, is not required to comply with the UK Corporate Governance Code ("the Code"). However, the Company has given consideration to the main principles of the Code and the Directors support the objectives of the Code and intend to comply with those aspects that they consider relevant to the Group's size and circumstances. Details of these are set out below.

### The Board of Directors

The Board currently comprises one Executive and four Non-Executive Directors, two of which are independent. The Board formally meets approximately every three months and is responsible for setting and monitoring Group strategy, reviewing budgets and financial performance, ensuring adequate funding, examining major acquisition opportunities, formulating policy on key issues and reporting to the Shareholders.

### Internal Financial Control

The Board is responsible for establishing and maintaining the Group's system of internal financial controls. Internal financial control systems are designed to meet the particular needs of the Group and the risk to which it is exposed, and by its very nature can provide reasonable, but not absolute, assurance against material misstatement or loss. The Directors are conscious of the need to keep effective internal financial control. The Directors have reviewed the effectiveness of the procedures presently in place and consider that they are appropriate to the nature and scale of the operations of the Group.

### The Audit Committee

An Audit Committee has been established which comprises three Non-Executive Directors — Stephen Coe (who chairs the Committee), Stephen Oke and Harvinderpal Hungin all of whom are considered to have recent and relevant financial experience. The Committee is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, and for meeting the Auditor and reviewing the reports from the Auditor relating to accounts and internal controls. The Committee also reviews the Group's annual and interim financial statements before submission to the Board for approval. The role of the Audit Committee is also to consider the appointment of the Auditor, audit fees, scope of audit work and any resultant findings.

### The Remuneration Committee

The Remuneration Committee comprises three Non-Executive Directors — Stephen Oke (who chairs the Committee), Stephen Coe and Harvinderpal Hungin. It is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration, paying due regard to the interests of Shareholders as a whole and the performance of the Group. The remuneration of the Chairman and the Non-Executive Directors is determined by the Board as a whole, based on a review of the current practices in other similar companies.

On behalf of the Board

Director

19 November 2013

**Kolar Gold Limited and its controlled entities**
**Consolidated Statement of Comprehensive Income**
**for the year ended 30 June 2013**

| | Note | Group 2013 £ | Group 2012 £ |
|---|---|---|---|
| Other income | | **267** | - |
| SUN Mining warrants expensed for services | 9 | **(77,542)** | (571,391) |
| Options to Directors | 9 | **(21,649)** | - |
| Salaries and wages | | **(551,049)** | (514,527) |
| Advisory and due diligence – GMSI and other prospective gold assets | | **(741,671)** | (235,363) |
| Other administrative expenses | | **(887,201)** | (1,155,119) |
| **Loss from operating activities** | | **(2,278,845)** | (2,476,400) |
| Finance income | | **99,188** | 147,889 |
| Finance costs | | **(14,271)** | (1,087) |
| **Net financing income/(expense)** | | **84,917** | 146,802 |
| **Loss before tax** | | **(2,193,928)** | (2,329,598) |
| Income tax expense | 5 | **-** | - |
| **Loss for the year** | | **(2,193,928)** | (2,329,598) |
| **Other comprehensive loss** | | | |
| Foreign exchange translation variances | | **(5,510)** | (52,788) |
| **Total comprehensive loss for the year** | | **(2,199,438)** | (2,382,386) |
| Basic and diluted loss per share (p) | 11 | 2.14 | 2.33 |

All results are derived from continuing activities.

The notes on pages 17 to 38 are an integral part of the consolidated financial statements.

**Kolar Gold Limited and its controlled entities**
**Consolidated Statement of Financial Position**
**as at 30 June 2013**

| | Note | Group 2013 £ | 2012 £ |
|---|---|---|---|
| **Non-current assets** | | | |
| Plant and equipment | | 19,674 | 25,238 |
| Exploration and evaluation assets | 6 | 6,122,168 | 5,496,153 |
| Total non-current assets | | 6,141,842 | 5,521,391 |
| **Current assets** | | | |
| Trade and other receivables | | 29,544 | 54,824 |
| Prepayments and other assets | | 27,506 | 50,687 |
| Term deposits | | 4,671,734 | - |
| Cash and cash equivalents | | 698,817 | 8,131,892 |
| Total current assets | | 5,427,601 | 8,237,403 |
| Total assets | | 11,569,443 | 13,758,794 |
| **Current liabilities** | | | |
| Trade and other payables | 7 | 321,450 | 423,513 |
| Employee benefits | 8 | 134,760 | 178,956 |
| Total current liabilities | | 456,210 | 602,469 |
| **Non-current liabilities** | | | |
| Employee benefits | 8 | 4,606 | 2,992 |
| Total non-current liabilities | | 4,606 | 2,992 |
| Total liabilities | | 460,816 | 605,461 |
| Total net assets | | 11,108,627 | 13,153,333 |
| **Equity** | | | |
| Share capital | | 7,440,546 | 7,010,625 |
| Share premium | | 15,690,724 | 15,700,535 |
| Reserves | | 3,824,910 | 4,095,798 |
| Accumulated losses | | (15,847,553) | (13,653,625) |
| Total equity | | 11,108,627 | 13,153,333 |

These financial statements were approved by the Board of Directors on 15 November 2013 and were signed on its behalf by:

Stephen Coe
Director

The notes on pages 17 to 38 are an integral part of the consolidated financial statements.

**Kolar Gold Limited and its controlled entities**
**Consolidated Statement of Changes in Equity**
**for year ended 30 June 2013**

| | Share capital | Share premium | Share based payment reserve | Foreign exchange translation reserve | Accumulated losses | Total equity |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| Balance at 30 June 2011 | 7,001,696 | 15,663,226 | 3,510,291 | 66,904 | (11,324,027) | 14,918,090 |
| Loss for the year | - | - | - | - | (2,329,598) | (2,329,598) |
| Other comprehensive loss – foreign exchange translation variances | - | - | - | (52,788) | - | (52,788) |
| **Total comprehensive loss for the year** | - | - | - | (52,788) | (2,329,598) | (2,382,386) |
| Issue of ordinary shares | 8,929 | 37,309 | - | - | - | 46,238 |
| Equity-settled transactions | - | - | 571,391 | - | - | 571,391 |
| **Total contributions by and distributions to owners** | 8,929 | 37,309 | 571,391 | - | - | 617,629 |
| Balance at 30 June 2012 | 7,010,625 | 15,700,535 | 4,081,682 | 14,116 | (13,653,625) | 13,153,333 |
| Loss for the year | - | - | - | - | (2,193,928) | (2,193,928) |
| Other comprehensive loss – foreign exchange translation variances | - | - | - | (5,510) | - | (5,510) |
| **Total comprehensive loss for the year** | - | - | - | (5,510) | (2,193,928) | (2,199,438) |
| Exercise of SUN warrants | 408,318 | (43,749) | (364,569) | - | - | - |
| Other issues of ordinary shares | 21,603 | 33,938 | - | - | - | 55,541 |
| Equity-settled transactions | - | - | 99,191 | - | - | 99,191 |
| **Total contributions by and distributions to owners** | 429,921 | (9,811) | (265,378) | - | - | 154,732 |
| Balance at 30 June 2013 | 7,440,546 | 15,690,724 | 3,816,304 | 8,606 | (15,847,553) | 11,108,627 |

The notes on pages 17 to 38 are an integral part of the consolidated financial statements.

**Kolar Gold Limited and its controlled entities**
**Consolidated Statement of Cash Flows**
**For the year ended 30 June 2013**

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | £ | £ |
| **Cash flows from operating activities** | | | |
| Loss for the year | | (2,193,928) | (2,329,598) |
| *Adjustments for:* | | | |
| Depreciation | | 6,410 | 6,720 |
| Net financing (income)/expense | | (84,917) | (144,045) |
| Foreign exchange variances | | 14,716 | (16,930) |
| Equity-settled transactions | 9 | 99,191 | 571,391 |
| *Operating loss before changes in working capital and provisions* | | (2,158,528) | (1,912,462) |
| Change in trade and other receivables | | 21,021 | 25,049 |
| Change in other current assets | | 23,181 | (12,936) |
| Change in trade and other payables | | (51,755) | (712,646) |
| Change in employee benefits | | (42,582) | 25,075 |
| **Cash used in operating activities** | | (2,208,663) | (2,587,920) |
| Interest and finance costs paid | | (14,271) | (1,087) |
| **Net cash used in operating activities** | | (2,222,934) | (2,589,007) |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | 103,447 | 124,900 |
| Funds placed on term deposit | | (4,671,734) | - |
| Payments for exploration and evaluation assets | | (676,323) | (948,912) |
| Payments for plant and equipment | | (846) | (11,292) |
| **Net cash used in investing activities** | | (5,245,456) | (835,304) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from other share issues | | 55,541 | 46,238 |
| **Net cash from financing activities** | | 55,541 | 46,238 |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | (7,412,849) | (3,378,073) |
| **Foreign exchange gain/(loss) on opening cash balances** | | (20,226) | (34,665) |
| | | | |
| **Cash and cash equivalents at 1 July** | | 8,131,892 | 11,544,630 |
| | | | |
| **Cash and cash equivalents at 30 June** *(Excludes term deposits of £4,671,734)* | | 698,817 | 8,131,892 |

The notes on pages 17 to 38 are an integral part of the consolidated financial statements

## INDEX TO NOTES TO THE FINANCIAL INFORMATION

## 1. Accounting policies

### 1.1 Reporting entity

The group financial statements consolidate those of Kolar Gold Limited and its controlled entities (together referred to as the "Group").

As at 30 June 2013, the wholly owned subsidiaries of the Company are:

- Kolar Gold Resources Limited (Mauritius);
- Kolar Gold Resources (India) Private Limited; and
- Kolar Gold Pty Limited

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The financial statements comply with the Companies (Guernsey) Law, 2008 as amended and give a true and fair view of the state of affairs of the Group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

### 1.2 Measurement convention

The financial statements are prepared on the historical cost basis, except for the following material item in the statement of financial position and statement of comprehensive income:

- Share-based payments are measured at fair value.

The financial statements are presented in Great British Pounds (GBP).

### 1.3 Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern" which assumes the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations.

The Group currently has no source of operating cash inflows, other than interest income, and has incurred net operating cash outflows for the year ended 30 June 2013 of £2,222,934 (2012: £2,589,007). At 30 June 2013, the Group had cash balances and term deposits of £5,370,551 (2012: £8,131,892) and a surplus in net working capital (current assets, including cash, less current liabilities) of £4,971,391 (2012: £7,634,934).

On 16 August 2013 the Group announced that it had entered into a binding Heads of Agreement ("HoA") with GMSI to invest funds into GMSI and develop a number of advanced stage quality gold projects in India, including the Jonnagiri Gold Project, which has a JORC compliant Resource and has just been approved as a Mining Lease by the Andhra Pradesh Government.

The Group acquired a 30% equity interest in GMSI in exchange for:

- a cash consideration of £700,000,
- the cancellation of a £300,000 advance by the Group to GMSI during the reporting period, and
- the dissolution of the 2011 agreements with GMSI in which the Group secure rights over the 14 Kolar Gold Projects.

## 1. Accounting policies (Cont'd)

### 1.3 Going concern (Cont'd)

The Directors have prepared cash flow forecasts for KG for the base case that KG maintains its interest in GMSI at 30%. These forecasts indicate that KG will have sufficient cash to continue meeting its operating expenditure (e.g. staff costs and administrative costs), jncluding funding its BGML tender bid, until at least early 2016. The Group, having dissolved the 2011 agreements with GMSI, is no longer committed to conducting exploration activity in the Kolar Gold Belt and it will instead further its interest through its close and on-going relationship with GMSI and other quality Indian gold projects as identified. The Group will now have improved access to gold projects nearer production and the significantly larger portfolio of projects spreads the risk and impact of delays in licence approvals. However, the Group is not committed to provide any further funding to GMSI as at the date of this report.

In the longer term, the Group's ability to develop and enhance its interests in India, via BGML, if its tender bid is successful, via the right of first refusal and its stake in GMSI, including bringing the Jonnagiri mining assets to commercial production will depend upon the ability of the Group and its partners to obtain further financing through equity financing, debt financing or other means.

The only sources of future funds presently available to the Group are the raising of equity capital by the Company or the sale of its interest in GMSI either in whole or in part. The ability of the Group to arrange such funding in the future will depend in part upon the prevailing market conditions as well as the business performance of the Group. There can be no guarantee that the Group will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Group. If adequate financing is not available, the Group may be required to reduce its investments and related activities.

### 1.4 Basis of consolidation

***Subsidiaries***
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All entities were 100% owned and controlled by the parent entity, Kolar Gold Limited during the period they were members of the Group.

***Transactions eliminated on consolidation***
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### 1.5 Foreign currency

***Foreign currency transactions***
Transactions in foreign currencies are translated to the respective functional currencies of the Group's entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

## 1. Accounting policies (Cont'd)

### 1.5 Foreign currency (Cont'd)

***Foreign operations***
The assets and liabilities of foreign operations are translated to the Group's presentation currency, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve. When a foreign operation is disposed of, such that control is lost, the entire accumulated amount in the translation reserve, is recycled to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve.

### 1.6 Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

### 1.7 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

*Trade and other receivables*
Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

*Trade and other payables*
Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

## 1. Accounting policies (Cont'd)

### 1.7 Non-derivative financial instruments (Cont'd)

*Term deposits*
Term deposits comprise bank deposits with maturity dates of between 3 and 12 months from balance date.

*Cash and cash equivalents*
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### 1.8 Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.
Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- plant and equipment 2.5 to 5 years; and
- fixtures and fittings 2.5 to 10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### 1.9 Exploration and evaluation expenditure

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the profit or loss.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity related. The cash-generating unit shall not be larger than the area of interest or the operating segment as disclosed in Note 3.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and development.

## 1. Accounting policies (Cont'd)

### 1.10 Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash generated units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 1.11 Employee benefits and other share based payment arrangements

***Short-term benefits***
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

***Long-term benefits***
The Group's net obligation in respect of long-term employee benefits is the amount of the future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of the related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefit is expected to be paid.

***Defined contribution plans***
A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit or loss in the periods during which services are rendered by employees.

# 1. Accounting policies (Cont'd)

## 1.11 Employee benefits and other share based payment arrangements (Cont'd)

***Share-based payment transactions***
Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

Share-based transactions, other than those with employees, are measured at the value of goods or services received where this can be reliably measured. Where the services received are not identifiable, their fair value is determined by reference to the grant date fair value of the equity instruments provided. Should it not be possible to measure reliably the fair value of identifiable goods and services received, their fair value shall be determined by reference to the fair value of the equity instruments provided measured over the period of time that the goods and services are received. The expense is recognised in profit or loss (or capitalised as part of an asset) when the goods are received or as services are provided, with a corresponding increase in equity.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to recipients is recognised as an expense, with a corresponding increase in liabilities, over the period in which the recipients become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised in profit or loss.

## 1.12 Expenses

***Operating lease payments***
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

***Due diligence – GMSI and other prospective gold assets***
These expenses relate to technical, legal and financial advisory costs with respect to the agreements with GMSI and the assessment of other prospective gold assets.

***Financing income and expenses***
Financing expenses comprise interest payable and finance charges on shares classified as liabilities recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy note 1.5). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

## 1. Accounting policies (Cont'd)

### 1.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

### 1.14 Earnings per share

The Group presents basic and diluted earnings or loss per share data for its ordinary shares. Basic earnings/loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted earnings/loss per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options and warrants granted.

### 1.15 Operating segments

Segment results that are reported to the Chief Executive Officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire plant and equipment, and intangible assets other than goodwill.

### 1.16 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are described in the following notes:

- measurement of share-based payments (note 9) is based on the Black-Scholes formula, which requires estimates of expected volatility in the Company's share price. These estimates have been determined by considering historic share price volatility ;
- capitalisation and carrying value of exploration and evaluation expenditure (note 1.9 and note 6); and
- going concern (note 1.3).

## 1. Accounting policies (Cont'd)

### 1.17 Adopted IFRS not yet applied

Amendments to:

- IAS19 Employee benefits,
- IFRS 1 First-time Adoption of International Financial Reporting Standards, and
- IFRS 7. Financial Instruments: Disclosures

Have not yet been applied by the Group in these financial statements.

## 2. Risk management

**Overview**
The Group has exposure to the following risks:

- Credit risk;
- Liquidity risk;
- Tax risk;
- Currency risk;
- Market risk; and
- Operational risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and its management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

**Risk management framework**
The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and developing and monitoring the Group's risk management policies. Key risk areas have been identified and the Group's risk management policies and systems will be reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

**Credit risk**
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's bank deposits and receivables. The risk of non-collection is considered to be low.

**Liquidity risk**
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

**Tax risk**
The Company holds its investments in India through Kolar Gold Resources Limited, a wholly owned Mauritian subsidiary.

A Tax Information Exchange Agreement is in place between Guernsey and India.

The Group does not currently generate significant income in India and its investment is capital in nature. Future tax liabilities will be subject to how Indian tax law changes and how the relevant double tax treaties are interpreted from time to time.

## 2. Risk management (Cont'd)

**Currency risk**
The Group is exposed to currency risk on cash and cash equivalents, receivables and payables that are denominated in a currency other than the functional currency of the each of the Group entities. In order to reduce currency risk, each entity holds most of its funds in the same currency as its functional currency in sufficient amounts to cover expected future outgoings for several months. The Group does not use derivatives to hedge its foreign currency exposures.

**Market risk**
The Group entered into agreements post year end to acquire a 30% interest in GMSI. This exposes the Group to fluctuation in the value of that equity investment – see note 17 – Subsequent events. The Group is entitled to nominate one director to the board of GMSI and will continue to work closely with GMSI to develop its resources.

In addition, the Group's future revenues from product sales will be affected by changes in the market price of gold and could also be subject to exchange controls or similar restrictions.

**Operational risk**
The Group's business is at an early stage and is subject to several operational risks. These risks include exploration and mining risks, delays in approvals to undertake exploration activities, actual resources differing from estimates, operational delays and the availability of equipment, personnel and infrastructure. The significantly larger portfolio of projects resulting from the new agreements with GMSI will spread the risk and impact of delays in licence approvals. In addition, the Group has business and liability insurance policies in place to mitigate some of these risks.

The Group is also dependent on key personnel and subject to the actions of third parties, including staff of GMSI and other contractors and suppliers.

The Group's operations are also subject to government laws and regulations, particularly environmental regulation.

**Capital management**
In June 2011, the Company successfully completed the admission of its shares to trading on AIM in London, raising gross proceeds of £12m, netting approximately £11.3m. The Company has no loans or borrowings and has sufficient resources, in the view of the Directors, to meet its working capital requirements until early calendar year 2016.

The Group manages its capital through the preparation of detailed forecasts, and tracks actual receipts and outlays against the forecasts on a regular basis, to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders.

The capital structure of the Group consists of cash and cash equivalents and equity comprising, capital, reserves and accumulated losses.

## 3. Operating segments

The Group has one reportable segment, being Indian Exploration – Gold exploration activities and administration in the Kolar Gold Fields region in Karnataka State, India.

The Group also has corporate administrative functions outside India which generate corporate expenses that have not been allocated to a segment.

The Group's Chief Executive Officer reviews internal management reports for this segment on a monthly basis.

Information regarding the results of the reportable segment is included below. The Group has no revenue at this stage of its development and performance is measured based on expenses incurred and exploration activity levels in the Indian segment.

## 3. Operating segments (Cont'd)

| | Indian Exploration | | Corporate | | Total | |
|---|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| | **£** | **£** | **£** | **£** | **£** | **£** |
| Income | - | - | 267 | - | 267 | - |
| Depreciation and amortisation | 1,936 | 1,274 | 4,474 | 5,446 | 6,410 | 6,720 |
| Share-based payments | - | - | 99,191 | 571,391 | 99,191 | 571,391 |
| Other reportable segment expenses | 46,748 | 256,230 | 2,041,846 | 1,642,059 | 2,088,594 | 1,898,289 |
| Segment result before tax | (48,684) | (250,239) | (2,145,244) | (2,079,359) | (2,193,928) | (2,329,598) |
| Reportable segment assets | 6,240,220 | 5,957,483 | 5,329,223 | 7,801,311 | 11,569,443 | 13,758,794 |
| Exploration and evaluation expenditure capitalised | 6,122,168 | 5,496,153 | - | - | 6,122,168 | 5,496,153 |
| Other capital expenditure | 846 | 5,772 | - | 5,520 | 846 | 11,292 |
| Reportable segment liabilities | (667) | (109,722) | (460,149) | (495,739) | (460,816) | (605,461) |

## 4. Expenses and auditors' remuneration

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| *Included in loss for the year are the following:* | | |
| Depreciation charge | 6,410 | 6,720 |
| Operating lease expense | 24,723 | 44,558 |
| **Auditors'remuneration** | | |
| Audit of financial statements | 79,883 | 109,250 |
| Other | 6,209 | - |
| Auditors' remuneration – audit of financial statements | 86,092 | 109,250 |

## 5. Income tax expense

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| **Current tax expense** | | |
| Current year | - | - |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | - | - |
| Tax expense in income statement | - | - |

| **Reconciliation of effective tax rate** | 2013 | 2013 | 2012 | 2012 |
|---|---|---|---|---|
| | % | £ | % | £ |
| Loss for the year | | (2,193,928) | | (2,329,598) |
| Total income tax for the year | | - | | - |
| Loss excluding income tax | | (2,193,928) | | (2,329,598) |
| Income tax using the Company's domestic rate | (0.0) | - | (0.0) | - |
| Effect of tax rates in foreign jurisdictions | | (271,071) | | (305,409) |
| Non-deductible expenses | | 54,852 | | 128,961 |
| Current year losses for which no deferred tax asset was recognised | | 216,219 | | 176,448 |
| Total current tax benefit | - | - | - | - |

A deferred tax asset of £3,323,315 (2012: £3,107,096) has not been recognised in respect of losses, as there is currently uncertainty surrounding the recoverability of such assets.

## 6. Exploration and evaluation expenditure

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| Balance at beginning of year | 5,496,153 | 4,496,933 |
| Drilling expenses capitalised | - | 295,409 |
| Geological services | 106,481 | 158,604 |
| Consultant reports | - | 69,216 |
| Salaries & wages | 194,454 | 283,876 |
| Advances to GMSI | 300,000 | - |
| Other expenses capitalised | 25,080 | 192,115 |
| Balance at end of year | 6,122,168 | 5,496,153 |

On 16 August 2013 the Group announced that it had entered into a binding Heads of Agreement ("HoA") with GMSI to invest funds into GMSI and develop a number of advanced stage gold projects in India, including the Jonnagiri Gold Project which already has a JORC compliant Resource. The Group acquired a 30% equity interest in GMSI in exchange for:

- a cash consideration of £700,000,
- the cancellation of a £300,000 advance by the Group to GMSI during the reporting period, and
- the dissolution of the 2011 agreements with GMSI in which the Group secure rights over the 14 Kolar Gold Projects.

## 6. Exploration and evaluation expenditure (Cont'd)

The £6,122,168 of exploration and evaluation expenditure capitalised at 30 June 2013 is in relation to the 14 Kolar Gold Projects, the rights over which will be returned to GMSI as part of the acquisition. This amount increased to £6,822,168 upon the payment of the above cash consideration of £700,000. Based on the value of the 30% shareholding acquired in GMSI, the fair value less costs to sell the exploration and evaluation assets at year end exceeded their carrying value and management judge that no impairment is required.

## 7. Trade and other payables

| | 2013<br>£ | 2012<br>£ |
|---|---|---|
| Trade and other payables due to related parties | - | 41,438 |
| Other trade payables | 161,966 | 137,431 |
| Non-trade payables and accrued expenses | 159,484 | 244,644 |
| | 321,450 | 423,513 |

## 8. Employee benefits

| | 2013<br>£ | 2012<br>£ |
|---|---|---|
| *Current* | | |
| Liability for annual leave | 66,175 | 87,481 |
| Liability for long service leave | 68,585 | 91,475 |
| | 134,760 | 178,956 |
| *Non-current* | | |
| Liability for long service leave | 4,606 | 2,992 |
| | 139,366 | 181,948 |

## 9. Share-based payments

### a) Options

In prior periods, Kolar Gold (UK) Limited (previously Kolar Gold Plc) and Kolar Gold Limited issued options to directors, employees and long-term consultants to compensate them for services rendered and incentivise them to add value to the Group's longer term share value. When Kolar Gold Limited was created as the new holding company of the Kolar Gold Group, options previously issued by Kolar Gold (UK) Limited were exchanged for options over Kolar Gold Limited shares. Options issued comprise "Reward" Options in exchange for the provision of services and "Bonus" Options, which became receivable upon Kolar Gold Limited being admitted to trading on AIM on 17 June 2011. Each option entitles the holder to subscribe for one ordinary share in Kolar Gold Limited. Options do not confer any voting rights on the holder.

As at 30 June 2013, the following unexpired options were is existence over the shares of Kolar Gold Limited:

| Name | Date of Grant | Ordinary Shares under option | Expiry Date | Exercise Price £ |
|---|---|---|---|---|
| Nicholas Taylor Spencer [1] | 1.12.10 | 500,000 | 1.12.13 | 0.30 |
| Non-Directors [1] | 1.12.10 | 350,000 | 1.12.13 | 0.30 |
| Norman Coldham-Fussell [2] | 1.12.05 | 675,000 | 17.06.14 | 0.40 |
| Nicholas Taylor Spencer [2] | 1.12.05 | 1,350,000 | 17.06.14 | 0.40 |
| Richard Johnson [2] | 1.12.05 | 675,000 | 17.06.14 | 0.40 |
| Harvinder Hungin [3] | 10.6.11 | 450,000 | 10.06.16 | 0.40 |
| Stephen Coe [3] | 10.6.11 | 350,000 | 10.06.16 | 0.40 |
| Stephen Oke [3] | 10.6.11 | 350,000 | 10.06.16 | 0.40 |
| Harvinder Hungin [4] | 31.12.12 | 150,000 | 28.12.17 | 0.0838 |
| Stephen Coe [4] | 31.12.12 | 125,000 | 28.12.17 | 0.0838 |
| Stephen Oke [4] | 31.12.12 | 125,000 | 28.12.17 | 0.0838 |
| | | 5,100,000 | | |

## 9. Share-based payments (Cont'd)

[1] These share-based payment arrangements were originally in relation to options issued by Kolar Gold plc and vested immediately on grant date, having no vesting conditions. On 8 April 2011, these options were released by the option holders in exchange for options in Kolar Gold Limited. These options replaced the original options on identical terms granted to the same persons; they vested on grant date and are exercisable at any time before the date of lapse. Each option confers a right to one ordinary share at exercise prices of £0.30. The options are transferable, and on an alteration of the ordinary share capital of the Company by capitalisation or rights issue, consolidation, sub-division or reduction or other alteration, the number of ordinary shares subject to the Existing Options or the option price may be adjusted by the Board.

[2] The Directors and Shareholders of Kolar Gold plc had previously resolved to grant options subject to completion of a successful Initial Public Offering to Norman Coldham-Fussell, Nicholas Spencer and Richard Johnson (Bonus Options) and a consultant. On admission of the Company's shares to trading on AIM on 17 June 2011, the bonus options were exchanged for options in respect of 2,700,000 Ordinary Shares in Kolar Gold Limited. This resulted in a modification, with 2,000,000 bonus options being swapped for 2,700,000 reward options.

[3] The above options were granted by Kolar Gold Limited on 10 June 2011 to directors. The options vested on grant date with no vesting conditions.

[4]The above options were granted by Kolar Gold Limited on 31 December 2012 to directors. The options vested on grant date with no vesting conditions.

500,000 options expired on 8 March 2013 and 150,000 options expired on 5 May 2013.

No other options were issued during the year ended 30 June 2013.

***Inputs for measurement of grant date fair values***
The grant date fair values of all options issued was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

| | **Additional options Kolar Gold Ltd 2013 £** |
|---|---|
| Fair value at grant date | 0. 051 |
| Share price at grant date | 0.0838 |
| Exercise price | 0.0838 |
| Expected volatility | 79.9% |
| Option life | 5.0 years |
| Expected dividend | nil |

The number and weighted average exercise price of the options are as follows:

| | **Weighted average exercise price £ 2013** | **Number of options 2013** | **Weighted average exercise price £ 2012** | **Number of options 2012** |
|---|---|---|---|---|
| ***Options issued by Kolar Gold Limited*** | | | | |
| Outstanding at the beginning of the year | 0.372 | 5,350,000 | 0.307 | 9,700,000 |
| Granted during the year | 0.0838 | 400,000 | - | - |
| Expired during the year | 0.30 | (650,000) | 0.228 | (4,350,000) |
| | 0.3533 | 5,100,000 | 0.372 | 5,350,000 |

## 9. Share-based payments (Cont'd)

### b) Warrants

**The following unexcercised warrants existed as at 30 June 2013:**

| Name | Date of Grant | Ordinary Shares under option | Expiry Date | Exercise Price £ |
|---|---|---|---|---|
| Broker warrants Series 1 [1] | 5.5.11 | 1,300,000 | 17.6.14 | 0.40 |
| Broker warrants Series 2 [2] | 17.6.11 | 1,500,000 | 17.6.14 | 0.60 |
| | | 2,800,000 | | |

Each warrant entitles the holder to subscribe for one ordinary share in the Company. Warrants do not confer any voting rights on the holder. On 30 June 2012, there were 12,132,989 warrants in existence and on 4 January 2013 all 2,916,559 SUN Mining Series 1 warrants were exercised and on 2 April 2013 all 2,916,559 SUN Mining Series 2 warrants were exercised. On 24 February 2013 3,499,871 SUN Mining additional warrants expired.

1 On 5 May 2011 the Company issued 1,000,000 warrants to Cenkos Securities plc and 300,000 warrants to Ocean Equities Limited in consideration for historical services provided by them as brokers to Kolar Gold plc. These warrants have an exercise price of 40 pence per share and expire on 17 June 2014.

2. On 17 June 2011 the Company's shares listed for trading on AIM, entitling Cenkos Securities plc and Ocean Equities Limited to 750,000 warrants each. These warrants have an exercise price of 60 pence and expire on 17 June 2014.

***Inputs for measurement of grant date fair values***

The grant date fair values of warrants issued or agreed to be issued were measured based on the Black-Scholes formula, or in the case of the SUN Mining Additional Warrants, the Monte Carlo simulation method was used.

Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the initial fair values at grant date of the share-based payment plans are the following:

| | Broker warrants Series 1 £ | Broker warrants Series 2 £ |
|---|---|---|
| Fair value at grant date | 0.199 | 0.155 |
| Share price at grant date | 0.40 | 0.40 |
| Exercise price | 0.40 | 0.60 |
| Expected volatility | 74.1% | 74.1% |
| Warrant life | 3.1 years | 3 years |
| Expected dividend | nil | nil |

* Volume weighted average price

Vesting conditions require that the charge for the SUN Mining Initial warrants Series 1 and 2 be spread over the service period. The fair value of the identifiable services received in exchange for these warrants cannot be reliably measured under IFRS 2 therefore their fair value has been determined by reference to the fair value of the equity instruments provided measured over the period of time that the services are received. This has resulted in a lower average fair value in the current year.

## 9. Share-based payments (Cont'd)

### c) Share-based payment expense recognised in the income statement

| | 2013 £ | 2012 £ |
|---|---|---|
| SUN Mining Initial warrants Series 1 | - | 339,481 |
| SUN Mining Initial warrants Series 2 | 77,542 | 231,910 |
| Options issued to non-executive directors | 21,649 | - |
| **Total share-based payment expense** | **99,191** | **571,391** |

## 10. Capital and reserves

**Issued capital - Kolar Gold Limited**

| ***a) Movement in issued and fully paid share capital:*** | **Ordinary Shares (7p each)** |
|---|---|
| In issue at 1 July 2011 | 100,024,236 |
| Issued to staff and consultants for services | 127,560 |
| In issue at 30 June 2012 | 100,151,796 |
| | |
| In issue at 1 July 2012 | 100,151,796 |
| Issued to staff and consultants for services | 308,623 |
| Issued to SUN Mining on exercise of warrants | 5,833,118 |
| In issue at 30 June 2013 | 106,293,537 |

| ***b) Reconciliation to cash flows statement*** | **2013** | | **2012** | |
|---|---|---|---|---|
| | **No.** | **£** | **No.** | **£** |
| Shares issued by Kolar Gold Limited in lieu of cash for provision of services at 16.07p per share | 40,961 | 6,583 | - | - |
| Shares issued by Kolar Gold Limited in lieu of cash for provision of services at 9.84p per share | 192,662 | 18,958 | - | - |
| Shares issued by Kolar Gold Limited in lieu of cash for provision of services at 40p per share | 75,000 | 30,000 | 82,783 | 33,114 |
| Shares issued by Kolar Gold Limited in lieu of cash for provision of services at 29.31p per share | - | - | 44,777 | 13,124 |
| | **308,623** | **55,541** | **127,560** | **46,238** |

All shares issued by the Company are 'ordinary' shares and rank equally in all respects, including for dividends, shareholder attendance and voter rights at meetings, on a return of capital and in a winding-up.

## 10. Capital and reserves (Cont'd)

**Issued capital - Kolar Gold Limited (Cont'd)**

***c) Reserves***

***Share premium reserve***
The share premium reserve comprises the excess of consideration received over the par value of the shares issued.

***Share based payments reserve***
The options reserve comprises the equity value of share based payments issued by the Group.

***Translation reserve***
The translation reserve contains all foreign currency differences arising from the translation of the financial statements of foreign operations. Changes arising from monetary items that are considered to be part of the net investment are also included in the translation reserve.

## 11. Loss per share

The calculation of basic loss per share at 30 June 2013 was based on the loss of £2,193,928 (2012: £2,329,598 ), and a weighted average number of ordinary shares outstanding of 102,462,294 (2012: 100,124,647 ), calculated as follows:

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| **Loss attributable to ordinary shareholders** | **2,193,928** | **2,329,598** |
| **Weighted average number of ordinary shares** | | |
| | '000 | '000 |
| Issued ordinary shares at 1 July | 100,152 | 100,024 |
| Effect of shares issued during the year | 2,310 | 101 |
| Weighted average number of shares at 30 June | 102,462 | 100,125 |

**Diluted loss per share**
Options and warrants granted to the Directors, staff and external consultants are considered to be potential ordinary shares and have not been included in the determination of diluted loss per share because they are not considered to be dilutive. The options have not been included in the determination of the basic loss per share.

| | *2013 pence per share* | *2012 pence per share* |
|---|---|---|
| **Basic and diluted loss per share** | 2.14 | 2.33 |

## 12. Financial instruments

***(a) Fair values of financial instruments***

The fair values of all financial assets and financial liabilities are equal to their carrying amounts shown in the statement of financial position.

*Trade and other receivables*
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

*Trade and other payables*
The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

*Cash and cash equivalents*
The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

***(b) Credit risk***

*Financial risk management*
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and cash and cash equivalents. The carrying amount of cash, cash equivalents and term deposits represents the maximum credit exposure on those assets. The cash and cash equivalents are held with bank and financial institution counterparties which are rated at least A for Australian and UK banks, and BBB for Indian banks, based on rating agency Standard and Poor's ratings.

*Exposure to credit risk*
The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the reporting date was £5,400,095 (2012: £8,186,716 ), being the total of the carrying amount of financial assets, shown in the statement of financial position.

The maximum exposure to credit risk for trade and other receivables at the balance sheet date was:

| | 2013 | 2012 |
|---|---|---|
| | £ | £ |
| The maximum exposure to credit risk for receivables at the reporting date by geographic region was: | | |
| Australia | 8,928 | 11,971 |
| United Kingdom | 15,727 | 19,985 |
| India | 4,889 | 22,868 |
| | 29,544 | 54,824 |
| The maximum exposure to credit risk for receivables at the reporting date by type of counterparty was: | | |
| Australian government | 2,478 | 6,714 |
| Other parties | 27,066 | 48,110 |
| | 29,544 | 54,824 |

No impairment losses have been recognised in 2012 and 2013.

## 12. Financial instruments (Cont'd)

### *(c) Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| Financial liabilities | Carrying amount £ | Contractual cash flows £ | 6 months or less £ | 6-12 months £ | 1 -2 years £ |
|---|---|---|---|---|---|
| **30 June 2013** | | | | | |
| Trade and other payables | **321,450** | **321,450** | **304,563** | **1,959** | **14,928** |
| **30 June 2012** | | | | | |
| Trade and other payables | **423,513** | **423,513** | **389,447** | **34,066** | **-** |

### *(d) Currency risk*

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments which are held in a currency that differs from that entity's functional currency, except derivatives when it is based on notional amounts.

| | 2013 £ | 2012 £ |
|---|---|---|
| Cash and cash equivalents – A$ and INR | 129,415 | 8,431 |
| Trade and other payables – US$ | (46,540) | (5,478) |
| | 82,875 | 2,953 |

The following significant exchange rates applied during the year:

| | Average rate 2013 | Reporting date spot rate 2013 | Average rate 2012 | Reporting date spot rate 2012 |
|---|---|---|---|---|
| GBP:A$ | 1.5301 | 1.66287 | 1.5352 | 1.53671 |
| GBP:INR | 85.85 | 90.6375 | 79.8566 | 87.5275 |
| GBP:US$ | 1.5687 | 1.52084 | 1.5905 | 1.56148 |

## 12. Financial instruments (Cont'd)

***Sensitivity analysis***
A strengthening of the GBP, as indicated below, against the Australian dollar and Indian Rupee at 30 June 2013 would have decreased equity by the amount shown below. This analysis is on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

| | Equity £ | Profit or loss £ |
|---|---|---|
| **30 June 2013** | | |
| A$ (10 percent strengthening) | 12,942 | - |
| US$ (10 percent strengthening) | (4,654) | - |
| **30 June 2012** | | |
| A$ (10 percent strengthening) | 843 | - |
| US$ (10 percent strengthening) | (548) | - |

A weakening of the GBP against the Australian dollar and Indian Rupee at 30 June would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

***(e) Interest rate risk***
*Profile*
At the reporting date the interest rate profile of interest-bearing financial instruments was:

| | Carrying amount 2013 £ | 2012 £ |
|---|---|---|
| **Variable rate instruments** | | |
| Cash and cash equivalents | **698,817** | **8,131,892** |
| Term deposits | **4,671,734** | |
| | **5,370,551** | **8,131,892** |

*Cash flow sensitivity analysis for variable rate instruments*
The Group's interest bearing assets at balance date were invested with financial institutions with a minimum rating (S&P long term rating) of A for Australian and UK banks, and BBB for Indian banks and comprised solely bank accounts.

A change in interest rates would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2013.

| | 2013 Profit or loss | | 2012 Profit or loss | |
|---|---|---|---|---|
| | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| Variable rate instruments | 53,706 | (53,706) | 81,319 | (81,319) |

## 13. Operating leases

| | 2013 | 2012 |
|---|---|---|
| **Non-cancellable operating lease rentals are payable as follows:** | £ | £ |
| Less than one year | 23,692 | 18,937 |
| Between one and five years | 44,902 | 83,409 |
| | 68,594 | 102,346 |

## 14. Contingencies and commitments

In 2011 the Group has entered into a contract with Geomysore Services (India) Pvt Ltd ('GMSI') to purchase outstanding options over, and undertake exploration activity in relation to certain mineral exploration tenements in the Kolar Gold Fields region in India. This contract entitled the Group to purchase these options at a total cost of £4.4 million, once all governmental and regulatory approvals have been obtained.

On 16 August 2013 the Group entered into agreements in which the Group waived these option rights in exchange for an equity interest in GMSI *(See Note 17 – Subsequent events)*.

## 15. Group entities

| | | Country of incorporation | Ownership interest 2013 | 2012 |
|---|---|---|---|---|
| Kolar Gold Resources Limited | (i) | Mauritius | 100% | 100% |
| Kolar Gold Resources (India) Private Limited | (ii) | India | 100% | 100% |
| Kolar Gold Pty Ltd | | Australia | 100% | 100% |
| Kolar Gold plc | (iii) | England | - | 100% |

(i) Incorporated on 3 March 2011
(ii) Incorporated on 24 March 2011
(iii) Struck off the Companies House register on 23 May 2012.

## 16. Related parties

*Key management personnel*

| | 2013 | 2012 |
|---|---|---|
| **Key management personnel remuneration** | £ | £ |
| Cash-settled transactions | 838,746 | 1,044,845 |
| Share-based payments | 48,958 | 7,292 |
| | 887,704 | 1,052,137 |

In addition to their salaries and fees, key management personnel participate in the Group's share option programme (see Note 9).

## Kolar Gold Limited and its controlled entities
## Notes to the financial statements

### 16. Related parties (Cont'd)

*Directors' remuneration and interests*

| 2013 | Remuneration | | | Interests | |
|---|---|---|---|---|---|
| | Cash-settled transactions £ | Share-based payments £ | Totals £ | Shares No. | Options No. |
| Harvinder Hungin (Chairman) | 45,000 | 8,119 | **53,119** | 1,700,000[1] | 600,000[1] |
| Nicholas Spencer (Chief Executive Officer) | | - | | | |
| - Salary | 236,621 | 12,588 | **249,209** | - | - |
| - Superannuation | 22,131 | - | **22,131** | - | - |
| Total | 258,752 | 12,588 | **271,340** | 1,763,569 | 1,850,000 |
| Richard Johnson (Chief Operating Officer) | | | | | |
| - Salary | 95,885 | - | **95,885** | n/a | n/a |
| - Superannuation | 29,239 | - | **29,239** | n/a | n/a |
| - Termination pay | 110,000 | - | **110,000** | n/a | n/a |
| Total | 235,124 | - | **235,124** | | |
| Stephen Coe [2] | 27,708 | 14,057 | **41,765** | 237,439 | 475,000 |
| Stephen Oke | 40,000 | 6,765 | **46,765** | Nil | 475,000 |
| Shiv Khemka | 30,000 | - | **30,000** | Nil | Nil |
| TOTALS | 636,584 | 41,529 | **678,113** | **3,701,008** | **3,400,000** |

| 2012 | Remuneration | | | Interests | |
|---|---|---|---|---|---|
| | Cash-settled transactions £ | Share-based payments £ | Totals £ | Shares No. | Options No. |
| Harvinder Hungin (Chairman) | 45,000 | - | **45,000** | 1,700,000[1] | 450,000[1] |
| Nicholas Spencer (Chief Executive Officer) | | | | | |
| - Salary | 249,501 | - | **249,501** | - | - |
| - Superannuation | 22,129 | - | **22,129** | - | - |
| - Back pay | 73,584 | - | **73,584** | - | - |
| - Listing bonus | 120,000 | - | **120,000** | - | - |
| Total | 465,214 | - | **465,214** | 1,763,569 | 1,850,000 |
| Richard Johnson (Chief Operating Officer) | 239,800 | - | **239,800** | 725,000 | 1,175,000 |
| Stephen Coe [2] | 17,500 | 17,500 | **35,000** | 44,777 | 350,000 |
| Stephen Oke | 40,000 | - | **40,000** | Nil | 350,000 |
| Shiv Khemka | 30,000 | - | **30,000** | Nil | Nil |
| TOTALS | 837,514 | 17,500 | **855,014** | **4,233,346** | **4,375,000** |

## 16. Related parties (Cont'd)

*Directors' remuneration and interests (Cont'd)*

1. SG Hambros Trust Company (Channel Islands) Limited hold 1,700,000 Ordinary Shares, as trustee of the Carlyle Settlement, in which Harvinder Hungin and his family have an interest.

2. 50% of Stephen Coe's Director's fees was paid by the issue of shares until December 2012.

Amounts owing to directors at 30 June 2013 were Nil (2012: £13,125).

SUN Mining is a related party, as Shiv Khemka, Vice Chairman of SUN Group was a director until 14th August 2013, when he was replaced by Vaidyanathan Sivakumar, a director of SUN Group.

SUN Group holds 11,666,237 (2012: 5,833,119) shares in the Company.

The amounts paid to SUN Group are disclosed in the Consolidated Statement of Comprehensive Income and also in Note 9. The balance outstanding at the year end was nil.

## 17. Subsequent events

On 16 August 2013 the Group announced that it had entered into a binding Heads of Agreement ("HoA") with GMSI (see Note 1.3 and Note 6) to invest funds into GMSI and develop a number of advanced stage gold projects in India, including the Jonnagiri Gold Project which already has a JORC compliant Resource. This results in a disposal of the Group's Exploration assets and in exchange the Group acquired a 30% equity interest in GMSI in exchange for:

- a cash consideration of £700,000,
- the cancellation of a £300,000 advance made by the Group to GMSI during the reporting period, and
- the dissolution of the 2011 agreements with GMSI in which the Group secure rights over the 14 Kolar Gold Projects.

**Independent auditor's report to the members of Kolar Gold Limited**

We have audited the Group financial statements (the "financial statements") of Kolar Gold Limited (the "Company") for the year ended 30 June 2013 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Director's Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 June 2013 and of its loss for the year then ended;
- are in accordance with International Financial Reporting Standards as adopted by the EU; and
- comply with the Companies (Guernsey) Law, 2008.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Lynton Richmond

**Lynton Richmond**
**For and on behalf of KPMG Audit Plc,**
*Chartered Accountants and Recognised Auditors*
15 Canada Square
London
E14 5GL
19 November 2013