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Interim Financial Report 31 December 2013

DRAIG
RESOURCES LIMITED

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DIRECTORS' REPORT

The Directors of Draig Resources Limited ("the Company" or "Draig") are pleased to present their report together with the consolidated financial statements of the group comprising Draig Resources Limited and its controlled entities ("the Group") for the half year ended 31 December 2013 and the auditor's review report thereon.

DIRECTORS

The names and details of the Directors of the Company in office during the half year are set out below. Directors have been in office for the entire period unless otherwise stated.

- Peter Doherty Executive Director
- Jarrod Smith Executive Director and Company Secretary
- David Meldrum Non-Executive Director

RESULTS AND REVIEW OF ACTIVITIES

Draig Resources Limited ("Draig" or "the Company") is involved in the exploration and development of metallurgical coal resources in Southern Mongolia which could be extracted using open cut mining methods. Four exploration licences are managed under a joint venture arrangement ("Joint Venture"). A subsidiary of Draig holds a 75% interest in the Joint Venture and subsidiaries of Trinity Mongolia Pty Ltd ("Trinity") hold 10% and 15% interests. The Draig subsidiary is the operator of the Joint Venture. This subsidiary holds the licences on a 100% basis on behalf of the Joint Venture. Draig also owns 19% of Trinity.

As previously advised in the Company's 2013 Annual Report, the Company is currently facing a number of issues:

- Disappointing exploration results;
- Increased Mongolian country risk;
- Depressed coal markets; and
- Depressed equity markets for junior explorers.

The Board believes that better resource investment opportunities lie outside Mongolia. The Company is focused on evaluating these opportunities whilst conserving cash. In the meantime, the remaining prospective assets in Mongolia will continue to be evaluated and explored with the expectation that the optimum value will be realised in the future.

During the reporting period exploration licences 10566X, 12789X, 12000X, and 9116X were relinquished. Exploration work was undertaken in relation to the remaining four licenses (13581X, 12879X, 13880X, and 13600X) in order to keep them in good standing.

DIRECTORS' REPORT

As previously advised the Company appointed McElroy Bryan Geological Services Pty Ltd ("MBGS") to reassess the Inferred Resources on Teeg (13879X). MBGS determined Inferred Resources of approximately 10 Mt.

Given the current situation the Board has decided to expense the previously capitalised exploration expenditure for the Ovorhangay tenements. Whilst the Board still sees value in these tenements the timing of any recovery is uncertain.

The Board continued to focus on cost reductions and conserving the Company's cash throughout the reporting period. Administrative expenditure for the half year ended 31 December 2013 was \$0.5m compared to \$2.3m for the half year ended 31 December 2012.

The loss after tax of the Group for the half year was \$3.3m (2012: \$2.2m).

The Group was debt free and held cash and term deposit investments of \$2.8m at the end of the reporting period.

The view of the Directors is that the Company and the Group are operating as a going concern.

SUBSEQUENT EVENTS

On 20 February 2014 the Company increased its interest in Trinity Mongolia Pty Ltd by 3% to a total interest of 19%. The 3% interest was acquired for a cash consideration of \$7,999. An offer for the issue of additional shares in Trinity was made to all Trinity shareholders on an arms-length basis.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 5 for the half year ended 31 December 2013. Signed in accordance with a resolution of the Board of Directors.



Peter Doherty

Director

4 March 2014



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Draig Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2013, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

A handwritten signature in blue ink, appearing to be 'AJ', followed by a horizontal line.

Anthony Jones
Partner

Sydney
4 March 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME **FOR THE HALF YEAR ENDED 31 DECEMBER 2013**

	Note	31 December 2013 \$	31 December 2012 \$
Continuing Operations			
Employee and related expenses		(307,209)	(1,372,115)
Employee share based payments	9	(4,263)	-
Depreciation and amortisation		(4,677)	(10,043)
Share of Associate loss		(1,646)	-
Exploration expenditure		(2,876,944)	-
Other expenses		(198,835)	(935,228)
Results from operating activities		(3,393,574)	(2,317,386)
Financing income		31,850	73,902
Net financing income		31,850	73,902
Loss before income tax		(3,361,724)	(2,243,484)
Income tax expense		-	-
Loss from continuing operations		(3,361,724)	(2,243,484)
Other comprehensive expenses			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences – foreign operations		(22,218)	(182,078)
Other comprehensive loss for the period, net of tax		(22,218)	(182,078)
Total comprehensive loss for the period		(3,383,942)	(2,425,562)
Basic and diluted loss per share (cents per share)		(5.07)	(3.42)

The statement of comprehensive income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	31 December 2013 \$	30 June 2013 \$
CURRENT ASSETS			
Cash and cash equivalents	4	1,760,626	1,347,463
Investments	5	1,000,000	2,063,471
Trade and other receivables		12,869	35,998
TOTAL CURRENT ASSETS		2,773,495	3,446,932
NON CURRENT ASSETS			
Trade and other receivables		56,000	56,000
Property, plant and equipment		17,821	23,980
Investment in Associate	6	32,458	-
Exploration and evaluation expenditure	7	-	2,868,208
TOTAL NON CURRENT ASSETS		106,279	2,948,188
TOTAL ASSETS		2,879,774	6,395,120
CURRENT LIABILITIES			
Trade and other payables		33,795	203,565
TOTAL CURRENT LIABILITIES		33,795	203,565
TOTAL LIABILITIES		33,795	203,565
NET ASSETS		2,845,979	6,191,555
EQUITY			
Issued capital	8	24,990,752	24,956,649
Reserves	9	1,440,193	1,474,731
Accumulated losses		(23,584,966)	(20,239,825)
TOTAL EQUITY		2,845,979	6,191,555

The statement of financial position is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	31 December 2013 \$	31 December 2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash paid to suppliers and employees		(623,123)	(2,467,908)
Interest received		45,022	145,497
NET CASH USED IN OPERATING ACTIVITIES		(578,101)	(2,322,411)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		-	(10,445)
Transfer from /(to) term deposit		1,000,000	(1,520,000)
Payments from Joint Venture partner		-	1,249,646
Payments for exploration and evaluation		(8,736)	(295,592)
NET CASH USED IN INVESTING ACTIVITIES		991,264	(576,391)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares (net of costs)		-	-
NET CASH FROM FINANCING ACTIVITIES		-	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		413,163	(2,898,802)
Cash and cash equivalents at 1 July		1,347,463	6,019,303
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	1,760,626	3,120,501

The statement of cash flows is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Issued Capital \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
BALANCE AT 1 JULY 2012	24,956,649	1,572,686	(192,361)	(11,244,050)	15,092,924
Comprehensive loss for the period					
Loss for the period	-	-	-	(2,243,484)	(2,243,484)
Total other comprehensive loss	-	-	(182,078)	-	(182,078)
Total comprehensive loss for the period	-	-	(182,078)	(2,243,484)	(2,425,562)
BALANCE AT 31 DECEMBER 2012	24,956,649	1,572,686	(374,439)	(13,487,534)	12,667,362
BALANCE AT 1 JULY 2013	24,956,649	1,583,223	(108,492)	(20,239,825)	6,191,555
Comprehensive loss for the period					
Loss for the period	-	-	-	(3,361,724)	(3,361,724)
Total other comprehensive loss	-	-	(22,218)	-	(22,218)
Total comprehensive loss for the period			(22,218)	(3,361,724)	(3,383,942)
Contributions by owners					
Issue of share capital	34,103	-	-	-	34,103
Share based payments expense	-	4,263	-	-	4,263
Lapsed options	-	(16,583)	-	16,583	-
Total contributions by owners	34,103	(12,320)	-	16,583	38,366
BALANCE AT 31 DECEMBER 2013	24,990,752	1,570,903	(130,710)	(23,584,966)	2,845,979

The statement of changes in equity is to be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

1. REPORTING ENTITY

Draig Resources Limited (the "Company") is a for-profit company domiciled in Australia. These consolidated interim financial statements as at and for the six months ended 31 December 2013 comprise the Company and its subsidiaries, Draig Investments (Singapore) Pte. Ltd, Draig Resources LLC and BDBL LLC (together referred to as the "Group"). The Group is primarily involved in the exploration and development of coal assets.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2013 are available upon request from the Company's registered office at Level 28, 25 Bligh Street, Sydney, NSW, 2000 or at www.draigresources.com

2. BASIS OF PREPARATION

Statement of Compliance

The consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001, and with IAS 34 *Interim Financial Reporting*.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2013. The consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 30 June 2013.

These consolidated interim financial statements were approved by the Board of Directors on 4 March 2014.

Judgements and Estimates

In preparing these interim financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2013. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 30 June 2014.

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013

- AASB 10 *Consolidated Financial Statements* (2011)
- AASB 11 *Joint Arrangements*
- AASB 13 *Fair Value Measurement*
- AASB 119 *Employee Benefits* (2011)

The nature and effect of the changes have had no significant impact on the assets, liabilities and comprehensive income of the Group.

4. CASH AND CASH EQUIVALENTS

	31 December 2013 \$	30 June 2013 \$
Cash at bank	760,626	1,347,463
Short term deposits	1,000,000	-
	1,760,626	1,347,463

5. INVESTMENTS

	31 December 2013 \$	30 June 2013 \$
Term deposits	1,000,000	2,063,471
	1,000,000	2,063,471

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	31 December 2013 \$	30 June 2013 \$
6. INVESTMENT IN ASSOCIATE		
Investment at cost	34,104	-
Share of loss for the period	(1,646)	
	32,458	-

On 24 July 2013, the Company acquired a 16% interest in Trinity Mongolia Pty Ltd. The Company has less than 20 percent of the voting rights, however the Company is considered to have significant influence because it has representation on the Board of Directors of the investee.

7. EXPLORATION AND EVALUATION EXPENDITURE		
Opening balance	2,868,208	9,062,310
Payment received from Trinity to acquire 15%	-	(1,249,646)
Expenditure incurred during the period	8,736	550,550
Impairment of exploration expenditure	(2,876,944)	(5,622,460)
Foreign currency translation movements	-	127,454
	-	2,868,208

Impairment for the period ended 31 December 2013 relates to capitalised exploration expenditure for the Ovorhangay tenements. Recent exploration activities indicate the accumulated costs and purchase price for those tenements are unlikely to be fully recovered in the near future. The carrying value of these tenements has been reduced to nil as at 31 December 2013.

During the year ended 30 June 2013, a wholly owned subsidiary of Trinity, Khan Mountain 2 Pty Ltd (KM2), paid BDBL US\$1,325,000 (AU\$1,249,646) for the exercise of an option to acquire a 15% interest in the joint venture. From the date of payment, KM2 is required to contribute 15% of all exploration expenditure related to the joint venture. Contributions received are offset against expenditure incurred during the period.

The carrying value of capitalised exploration expenditure with respect to the South Gobi tenements was reduced to nil at 30 June 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

8. ISSUED CAPITAL

	Number of shares	Amount \$
a) Issued shares:		
Balance at 1 July 2012 and 31 December 2012	65,503,845	24,956,649
Balance at 1 July 2013	65,503,845	24,956,649
Shares issued	852,587	34,103
Balance at 31 December 2013	66,356,432	24,990,752
	31 December 2013	31 December 2012
Weighted average number of shares:		
Weighted average number of ordinary shares used in calculating basic earnings per share	66,245,225	65,503,845

Diluted loss per share is same as basic loss per share as the Company does not have any potential dilutive securities on issue.

b) Issued Share Options:

	Number of options
Balance at 1 July 2012 and 31 December 2012	5,695,000
Balance at 1 July 2013	5,595,000
Granted during the period	3,300,000
Lapsed during the period	(2,295,000)
Balance at 31 December 2013	6,600,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

Details of options outstanding as at 31 December 2013

Grant Date	Date of Expiry	Exercise Price	Balance	Vested
12/12/2011	12/12/2014	\$0.50	733,333	733,333
12/12/2011	12/12/2014	\$0.50	750,000	750,000
12/12/2011	12/12/2014	\$0.60	733,333	733,333
12/12/2011	12/12/2014	\$0.75	733,334	733,334
25/01/2012	25/01/2015	\$0.60	50,000	50,000
25/01/2012	25/01/2015	\$0.75	50,000	50,000
01/02/2012	01/02/2015	\$0.50	250,000	250,000
25/11/2013	26/11/2017	\$0.050	1,650,000	-
25/11/2013	26/11/2017	\$0.075	1,650,000	-
		TOTAL	6,600,000	3,300,000

These options are not listed on the ASX.

c) Performance Rights on issue:

The outstanding performance rights as at 31 December 2013 were as follows:

Grant Date	Date of Expiry	Exercise Price	Balance 31 Dec 2013	Vested 31 Dec 2013
12/12/2011	12/12/2014	-	500,000	-
	TOTAL	-	500,000	-

These rights are not listed on the ASX.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	31 December 2013 \$	30 June 2013 \$
9. RESERVES		
a) Share Based Payments Reserve		
Balance at the beginning of the reporting period	1,583,223	1,572,686
Options issued to directors and employees	4,263	16,392
Options lapsed	(16,583)	(5,855)
Balance at the end of the period	1,570,903	1,583,223

The Share Based Payments Reserve records items recognised as expenses on valuation of director, employee, consultant and other third party share options and performance rights. Upon share options or performance rights being exercised, the cost of share based payments is reversed from the Share Based Payments Reserve and recorded against Issued Capital. In the event the share options or performance rights expire, the share based payment is reversed from the Share Based Payments Reserve and recorded against Accumulated Losses.

b) Foreign Currency Translation Reserve

Balance at the beginning of the reporting period	(108,492)	(192,361)
Currency translation differences arising during the period	(22,218)	83,869
	(130,710)	(108,492)

The Foreign Currency Translation Reserve is used to record exchange differences arising on translation of the Group entities that do not have a functional currency of Australian dollars and have been translated into Australian dollars for presentation purposes.

10. COMMITMENTS

The Group is committed to meeting its share of the minimum annual exploration expenditure each calendar year to maintain its Mongolian licences. The annual licence fees, for the four exploration licences held at 31 December 2013, for 2014 calendar year amount to US\$39,319 and the minimum annual exploration expenditure for the 2014 calendar year is US\$39,319.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

11. RELATED PARTIES

During the period ended 31 December 2013, Three Cheeky Monkeys Holdings Pty Ltd, as trustee of the Doherty Addinall Family Trust, rendered fees for the management services of Peter Doherty and Jarrod Smith. Fees during the period, which were in the ordinary course of business, amounted to \$113,437 (2012 - \$nil). There were no amounts outstanding as at 31 December 2013.

During the period ended 31 December 2013, the Company received licence to occupy office space fees from Three Cheeky Monkeys Ltd as trustee of the Doherty Addinall Family Trust. Fees during the period, which were in the ordinary course of business, amounted to \$11,000 (2012 - \$nil). There were no amounts outstanding as at 31 December 2013.

During the period ended 31 December 2013, a related party of Three Cheeky Monkeys Holdings Pty Ltd, Republic Corporate Services Pty Ltd provided administrative services, including the services of a Financial Controller to the Group. Fees during the period, which were in the ordinary course of business, amounted to \$67,374 (2012 - \$nil). There were no amounts outstanding as at 31 December 2013.

On 24 July 2013 the Company acquired 16% interest in Trinity via an exchange for 852,587 shares in the Company. The offer was made to non-associated shareholders of Trinity on an arms-length basis. No payments were made to Trinity during the period. Contributions to exploration and evaluation expenditure made by Trinity amounted to \$22,599 during the period.

12. DIVIDENDS

No dividends were declared or paid in the previous year and the Directors recommended that no dividends be paid for the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

13. SEGMENT REPORTING

Operating segments are reported in a manner that is consistent with the internal reporting to the chief operating decision maker (CODM), which has been identified by the Group as the Board of directors.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

At 31 December 2013 the Group operated in one segment being exploration and development of coal assets which is consistent with 30 June 2013.

14. SUBSEQUENT EVENTS

On 20 February 2014 the Company increased its interest in Trinity Mongolia Pty Ltd by 3% to a total interest of 19%. The 3% interest was acquired for a cash consideration of \$7,999. An offer for the issue of additional shares in Trinity was made to all Trinity shareholders on an arms-length basis.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

DIRECTORS DECLARATION

In the opinion of the Directors of Draig Resources Limited ("the Company"):

1. The consolidated financial statements and notes set out on pages 6 to 17 are in accordance with the Corporations Act 2001, including:
 - a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half year ended on that date; and
 - b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001, and with IAS 34 *Interim Financial Reporting*; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Peter Doherty
Director

Sydney
4 March 2014



Independent auditor's review report to the members of Draig Resources Limited

We have reviewed the accompanying interim financial report of Draig Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2013, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2013 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

As auditor of Draig Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

(continued overleaf)



Independent auditor's review report to the members of Draig Resources Limited

(continued)

Conclusion

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

A handwritten signature in blue ink, appearing to be 'AJ' followed by a long horizontal stroke.

Anthony Jones
Partner

Sydney
4 March 2014