

# Kingsrose Mining Limited



Quarterly Activities Report for the three months ended 30 June 2010

## HIGHLIGHTS DURING THE QUARTER

### Way Linggo Gold Project (85% KRM)

- Final approval of Forestry Permit valid for 20 years received.
- 140,000 tpa processing plant construction reaches practical completion. Ore processing plant and Merrill Crowe silver precipitation system is currently being commissioned on ore.
- The **first pour** of gold/silver dore is imminent. Over 12 months ore fully developed and pre-start stocks of approximately **22,900 tonnes of ore grading 19.5 g/t Gold and 224 g/t Silver** stockpiled on surface ready to process.
- Internal shaft established and preparation to develop the 965mRL (the third level) underway.
- Significant near-mine epithermal prospects discovered with high-grade rock float up to **33.5 g/t Gold** and **200 g/t Silver** shedding.

### Sardinia

- Preliminary air-core drilling program of 4,900m completed with final assay data still coming to hand. Preliminary results are encouraging.
- Metallurgical sighter test to assess ore extraction methodology to commence in the ensuing quarter.

### Comet Vale Gold Project (Production JV)

- \$4.2m received in May from Campaign 11 ore sale. Final Campaign (no.12) currently being processed and expected to yield approximately 940oz gold for KRM in August. \$1.0m in cash and \$2m in Reed Resources Ltd shares received as final settlement of Comet Vale exit.

### Corporate

- 11,000,000 convertible notes at \$0.20 each redeemed 30 June.
- \$1.37m received from exercise of share options.
- Closing cash balance as at 30 June 2010 - \$7,885,306.

**ASX Code: KRM, KRM0 (as at 29/7/10)**

### Ordinary Shares on Issue

243.2 m (listed)

### Options

34.9m (listed)

12.5 m (unlisted)

### Market Capitalisation (undiluted)

A\$ 220m

A\$0.90/share

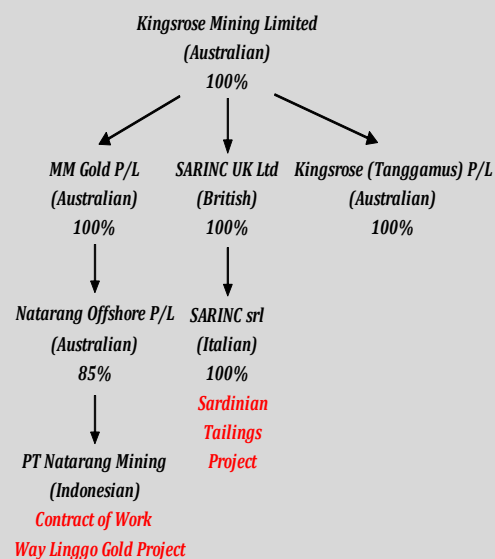
### Major Shareholders

Citicorp Nominees Pty Ltd (16.7%)

Advance Concept Holdings Ltd (13.3%)

KRM (WA) Pty Ltd (8.2%)

### Corporate Structure



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## **WAY LINGGO PROJECT (85% KRM)**

### ***Background:***

The Way Linggo Project Contract of Work, held by Kingsrose' 85% owned Indonesian subsidiary, PT Natarang Mining, covers an area of 10,540 hectares. It is located over a zone of structural complexity at the northern end of the Semangka Graben where pull-apart basins, fault splays and dilational jogs occur related to the Trans Sumatra Fault Zone. The Trans Sumatra Fault is a major dextral strike slip fault within the Sunda-Banda Volcanic Arc. All significant gold deposits known on the island of Sumatra are related to this structure.

Project development began in earnest in July 2009, following Kingsrose successfully raising A\$20m in equity. Mine development has witnessed gold and silver grades in excess of those estimated by Snowden's in 2008 as part of its JORC compliant Mineral Resources report. Plant construction has been steady, albeit slower than originally anticipated with a doubling of throughput capacity and various other enhancements partly the reason for the extended construction period.

Steady state production of **45,000** ounces of gold per annum is budgeted at a production cash cost of **US\$150/oz** after taking into account silver by-product credits and smelting and royalty costs.

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### ***Summary***

Kingsrose, through PT Natarang Mining, continued to advance the Way Linggo Project towards production during the quarter.

A number of significant milestone were achieved during the quarter and the Company is set to transition to a gold producer in the ensuing quarter. Major milestones were:

- The grant of the forestry permit and final approval required to enable plant commissioning;
- The progression of plant construction such that at the time of writing, practical completion of construction was achieved and commissioning of the plant had commenced;
- Subsequent to the end of the quarter, commissioning on ore has commenced and a first pour of gold dore is expected in the first week of August 2010.
- Substantial advancement in mine development and in particular sub-level development was achieved setting the mine up for full production with nearly 12 months of mill feed fully developed.
- The internal shaft from the 1020mRL (2 level) to the 965mRL (3 Level) was completed and ore driving on the 3 level will commence in the next quarter. This will enable sufficient time to fully establish mine production fronts approximately 12 months ahead of requirement.
- Highly positive grade reconciliations continue to be achieved and the substantial and spatially representative bulk samples from mine development suggests a grade of 19.5g/t Gold and 224g/t

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Silver, in comparison with an overall average resource estimate grade of 8.44 g/t Gold and 129g/t Silver.

- Extensive ground reconnaissance exploration within the near-mine area has defined numerous soil and rock-float anomalies suggesting more extensive epithermal activity within the emerging system.

## ***Processing Plant***

Metallurgical engineering studies resulted in a decision by Kingsrose being taken in 2009 to construct a conventional gold processing plant of nominal capacity of 140,000 tonnes per annum or approximately 400 tonnes per day (double the original design capacity).

Despite the onset of the monsoonal season, plant and associated infrastructure progressed to a point whereby the plant construction was close to achieving practical completion at the end of the quarter. Subsequent to the end of the quarter this was achieved and commissioning on ore has commenced and the major milestone of the first gold pour is expected to be achieved in the first week of August 2010.

The process plant will work through an expected staged build up to full capacity over the ensuing quarter as debottlenecking and practical re-jigging of circuit processes commences.

To enable the maximum recovery of the valuable silver co-product a Merrill Crowe zinc precipitation circuit has been installed. The onsite assay laboratory for analysis of mining grade control, mill and drilling samples was commissioned and is in full operation as is the tailings dam and power station.



*Figure 1. Way Linggo processing plant during commissioning with high grade ore on the crusher ROM pad*

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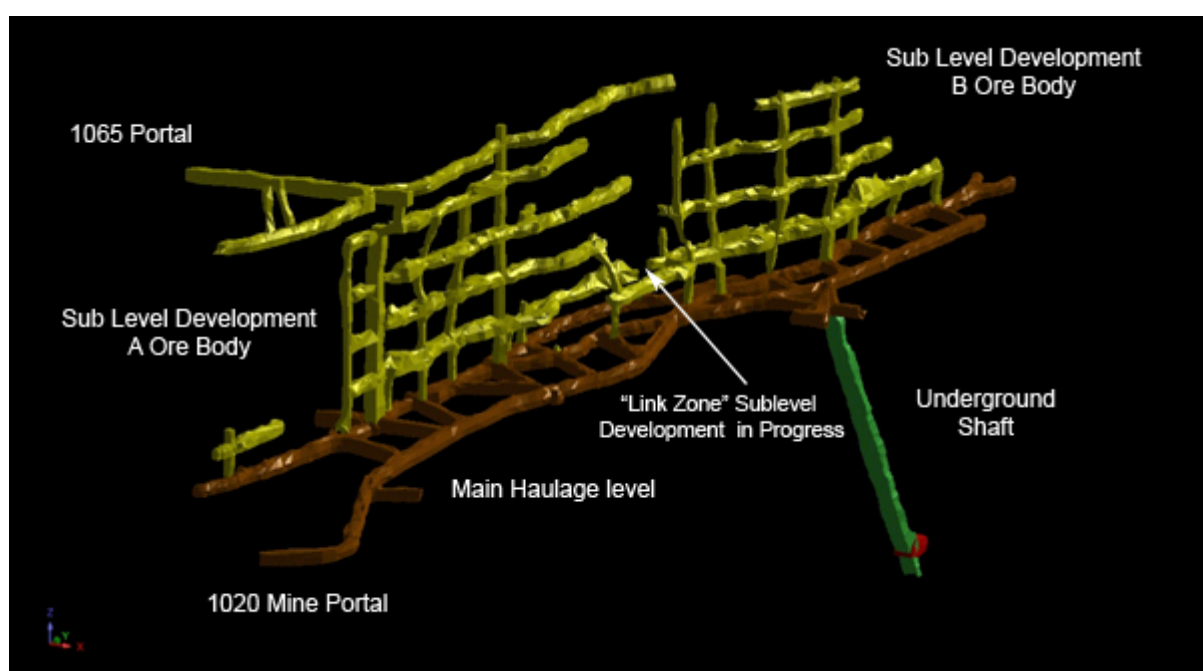
## **Way Linggo Mine**

Mining during the quarter was focused on sublevel development and the blocking out of stope panels in the A and B orebodies. Significantly, whilst previously considered to be separate epithermal veins, the identification and development of linking structures suggest a dilational jog-type structure exists with A orebody interconnecting with B orebody resulting in a much wider section of ore.

The bulk of the 1020 to 1065 levels has been fully developed to allow mine volume targets from stoping to be achieved with relative ease in the first year of processing whilst focus shifts to development of future ore on the 965mRL (3<sup>rd</sup> level).

The internal shaft from the hanging wall of the 2 Level (1020mRL) to the 3 level (965m RL) was completed and preparations for sill driving of the ore body at that level is in progress.

The extent of mining development by end quarter is shown in Figure 1.



**Figure 1**      *3D projection showing extent of underground development completed at the Way Linggo mine as of end June Quarter 2010*



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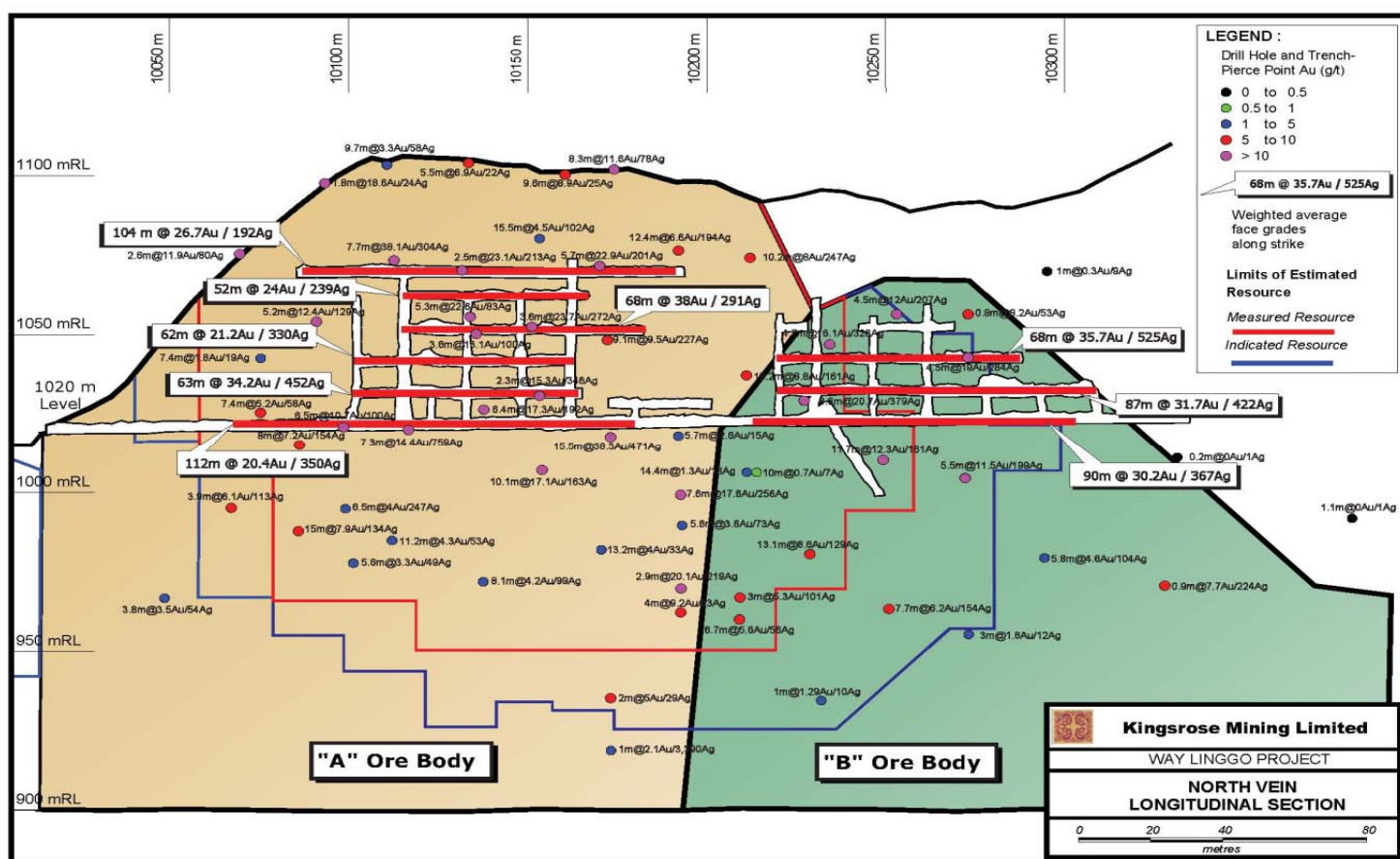


Figure 2 Longitudinal projection showing extent of underground development completed at the Way Linggo mine as of end June Quarter 2010

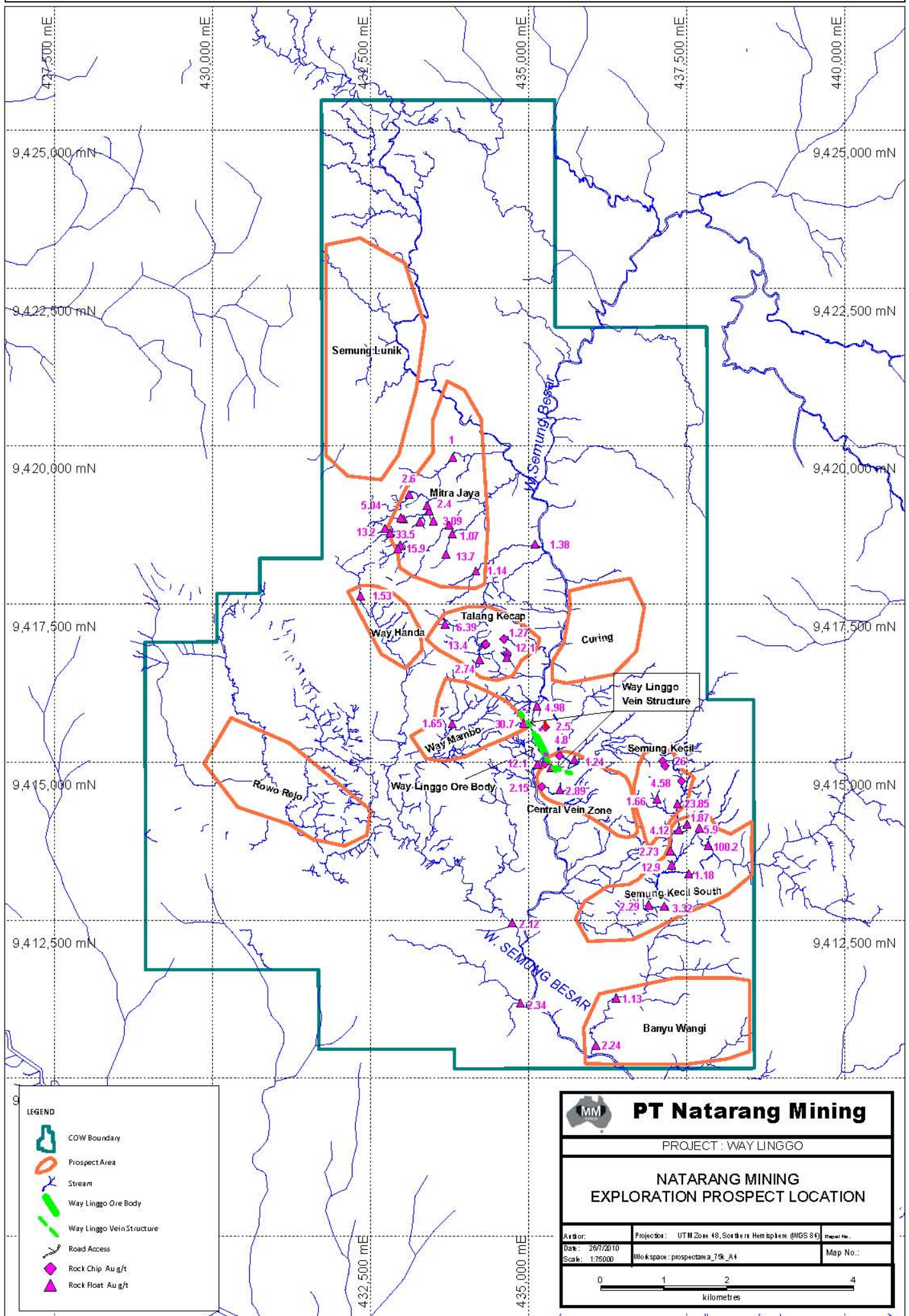
At the end quarter approximately **22,900 tonnes of high grade ore grading 19.5 g/t Gold and 224 g/t Silver** had been stockpiled at the surface.

## Exploration

The program of regional prospecting, geochemical sampling and geological mapping of the near-mine areas of the Way Linggo Mine was accelerated during the quarter. This has resulted in the identification of a number of anomalies worthy of follow-up with two significant new prospect areas located to the north of the minesite.

These two new prospect areas are located approximately 2 km (Talang Kecap Prospect) and 4 km (Mitra Jaya Prospect) along strike of the Way Linggo Mine. Figure 3 shows the location of these prospects as well as other areas of exploration focus being targeted as defined by regional sediment geochemistry, airborne geophysics and structural analyses.

**Figure 3** Location of prospects and other exploration target areas around the Way Linggo Contract of Work





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The Talang Kecap prospect is characterised by abundant epithermal quartz vein float in streams returning assay values up to 18.6 g/t Gold, intense clay alteration of host rhyolitic tuffs and in situ narrow banded quartz veins (1- 10 cm) carrying gold grades up to 12.1 g/t Gold.

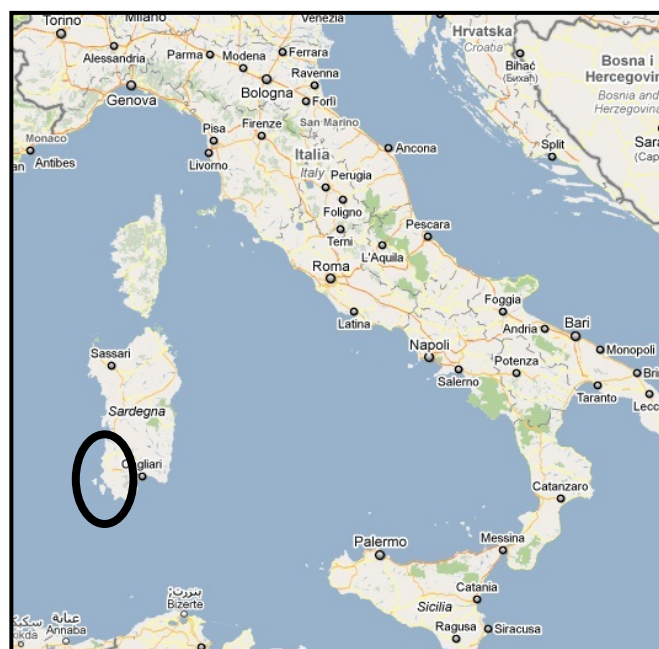
The Mitra Jaya prospect situated 2 km north of Talang Kecap is also characterised by abundant epithermal quartz vein float distributed in a number of neighboring streams over an area of interest of around 1 km in length. Numerous vein float samples have returned assay values in the range 1 to 4.3 g/t Gold with some higher grade samples up to a maximum of 33.5 g/t Gold and 200 g/t Silver.

Although in situ veins identified to date are narrow, the area is prospective because the veins do carry significant gold grades and are texturally indicative of the upper parts of an epithermal system. Prospect level exploration involving geochemical soil sampling and trenching is in progress to develop drill targets at these locations. It is expected that these targets will be drill tested during the next quarter.

## **SARINC – SARDINIA ZINC TAILINGS PROJECT**

Drilling activities commenced at the start of the quarter and approximately 4,900 metres of air core drilling were completed within historic tailings dams. The average hole depth was 15m and the deepest hole around 70m.

Nine historic tailings areas containing 25 identifiable tailings dams were drilled. The samples were collected and dispatched for preparation and analysis in late May. Due to the large size, moisture content and composition of the samples, it is expected it will be between 2 and 3 months before results are finalized however preliminary assays received thus far are encouraging. It is anticipated that resource modelling work will commence in September 2010.



*Figure 4 Location of the SARINC Project area*

Collection and preparation of detailed technical data and analysis of the mining history of the region continues. Metallurgical test-work is scheduled towards the end of this calendar year.

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*Figure 4 Partially covered Tailings Dams at San Giovanni Mine.*

The local bureaucratic process slowed the Company's on-the-ground activities in the latter part of the quarter and efforts are currently being made by Company representatives in conjunction with key stakeholders to work through any technical and bureaucratic impediments.

The Project has received widespread support from a range of interests in the Sulcis-Iglesiente Province and in the Sardinian capital, Cagliari. The Project has the potential to generate significant employment and to stimulate economic activity in an economically depressed region that suffers from a high level of unemployment. The Project will use "world's best practices" and integration of modern day mineral processing and environmental management to extract the remaining recoverable metals and minerals thus providing the affected areas with a high standard of protection against past and future environmental degradation therefore improving land and ground-water quality.

## **COMET VALE PROJECT**

During the quarter, Campaign 11 comprising 16,493 tonnes and grading 13.8 g/t Gold, estimated from grade control sampling, was trucked to a third party mill. Kingsrose received \$4.2m from gold sales.

The final Campaign (No.12) was stockpiled at the end of the quarter comprising an estimated 7,500 tonnes at 8g/t Gold. It is expected to yield approximately 940 ounces of gold for Kingsrose (worth A\$1.2m at the current gold price).

As announced on 16 October 2009, agreement was reached with Production JV partner, Reed Resources Ltd (ASX: RDR) to allow Kingsrose to exit Comet Vale on favourable terms, effective 31 May 2010. The agreement included Kingsrose receiving the following:

- A\$1m on 31 October 2009
- A\$1m in cash in exchange for its mining equipment on 30 June 2010
- A\$2m equivalent in Reed Resources Ltd shares (4,011,431) on 3 June 2010. It is the intention of management to sell down the shares in an orderly way over the remainder of 2010.
- Kingsrose continued to earn gold production, as per the (then) current arrangement, from October 2009 until 31 May 2010.



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## **CORPORATE**

- \$469,608 received from 2,348,040 listed options exercised at \$0.20 each.
- \$400,000 received from 2,000,000 unlisted options exercised at \$0.20 each.
- \$480,000 received from 1,000,000 unlisted options exercised at \$0.48 each.
- \$19,500 received from 50,000 unlisted options exercised at \$0.39 each.
- On 30 June 2010 the Company redeemed 11,000,000 Convertible Notes ("Notes") at \$0.20 each. The Notes were issued in December 2007 to discharge liabilities totalling \$2.2m. The Notes bore interest at 6% per annum. The Company was able to negotiate repayment of the Notes via unsecured 3-month loans from the note holders bearing an interest rate of 6% per annum.
- Kingsrose closed the quarter with an AUD equivalent cash balance of \$7,885,306.

**JOHN C. MORRIS**  
**EXECUTIVE CHAIRMAN**

29 July 2010

### **Competent Person Statement**

*The information in this report that relates to exploration results, mineral resources and ore reserves is based on information compiled by Dr. Michael Andrews B.Sc. (Hons) Ph.D., who is a Fellow of the Australasian Institute of Mining and Metallurgy, and a Director of Kingsrose Mining Limited. Dr. Andrews has sufficient experience which is relevant to the styles of mineralisation and types of deposits and to the activity he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Dr. Andrews consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.*