

# Kingsrose Mining Limited



Quarterly Activities Report for the three months ended 31 December 2009

**ASX Code: KRM, KRMO**

## **Ordinary Shares on Issue**

235.9m (listed)  
(includes 42.5m escrowed)

## **Options**

38.5m (listed)  
16.275m (unlisted)

## **Convertible Notes**

11,000,000

## **Market Capitalisation (undiluted)**

A\$153m as at 29 January 2010  
A\$0.65/share

## **Major Shareholders**

Icon Enterprises Ltd (18.0%)  
KRM (WA) Pty Ltd (8.4%)

## **Corporate Structure**



## HIGHLIGHTS DURING THE QUARTER

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

- On target to commission plant in April 2010.
- Encouraging signs from exploration activities.
- Ore development Face channel sampling results on the North Vein ore bodies return:

62 metres grading 34.2 g Au/t and 452 g Ag/t  
57 metres grading 27.0 g Au/t and 369 g Ag/t  
62 metres grading 21.1 g Au/t and 330 g Ag/t

- 8,650 tonnes at 21.9 g/t gold and 293 g/t silver already stockpiled on the surface.

### **Comet Vale Gold Project (Production JV)**

- Production exceeded budgeted rate.
- Mining of Sand George Level 4 block stope completed.
- ROM stockpile for Campaign 11 was 12,114 tonnes @ 12.4 g/t Au. Milling planned for early February 2010.

### **Corporate**

- Kingsrose reached in principle agreement with the regional government of Sardinia, Italy, to commence work on multiple Zinc-Lead tailings deposits containing a target of between 70 - 90 million tonnes of material accumulated from over 200+ years of mining.
- Cash Closing Balance at December-end was AUD \$7million.
- 50,000 unlisted options exercised.
- 22,300,000 ordinary shares and 5,000,000 unlisted options released from Escrow.

### **Post quarter end:**

- Kingsrose raises A\$8,520,000 (net).



## **WAY LINGGO PROJECT**

During the December Quarter 2009 Kingsrose Mining (ASX "KRM") continued making very good progress on preparations to bring its Way Linggo high grade gold/silver project in southern Sumatra, Indonesia into production.

The expansion of the underground mine infrastructure to accommodate the planned 400 tonne per day ore production target was completed and construction of the process plant is on schedule to start commissioning in April 2010.

Face channel sampling in sublevel development drives continues to confirm significantly higher gold and silver grades than predicted from the feasibility drill data resource model.

Exploration activities continued with diamond drilling from surface and from underground as well as regional exploration following up over 20 targets developed from interpretation of airborne geophysical programme completed during September.

An updated financial budget was prepared, indicating a cash cost of US\$150 per gold ounce (after payment of royalties and inclusive of silver credits) once a steady-state production rate is achieved.

### ***PROCESS PLANT CONSTRUCTION***

Construction of the 140,000 tonnes per annum Merrill-Crowe processing plant was well advanced during the quarter. Construction of the leach tanks, other ancillary tankage and CCD thickener sections neared completion as shown in Plate 1.



*Plate 1: Construction of the Way Linggo processing plant*

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All major large equipment items including ball mills, crushers, conveyors, feeders and hoppers have been moved to site in preparation for installation and concrete foundation construction for all these sections is progressing.

Construction of the gold room, on-site laboratory, and 3 MW powerhouse is underway.

A concerted effort is underway for recruitment of key Indonesian managers, staff and labour for all sectors of the project and experienced people have already been successfully hired for most critical positions.

### MINE DEVELOPMENT

The upgrading of underground and surface infrastructure to accommodate the proposed 400 tpd production rate was completed during the Quarter. These works have included:-

- Installation of a larger hoist winder on the ROM Pad incline
- Commissioning of four electric underground locomotives for ore haulage
- Commencement of construction of the underground inclined shaft to access the 970 level from the main haulage level
- Commencement of raises and sublevels in parts of the A and B ore bodies in preparation for stoping

The extent of development completed by end quarter is shown in the Figure 1 long section.

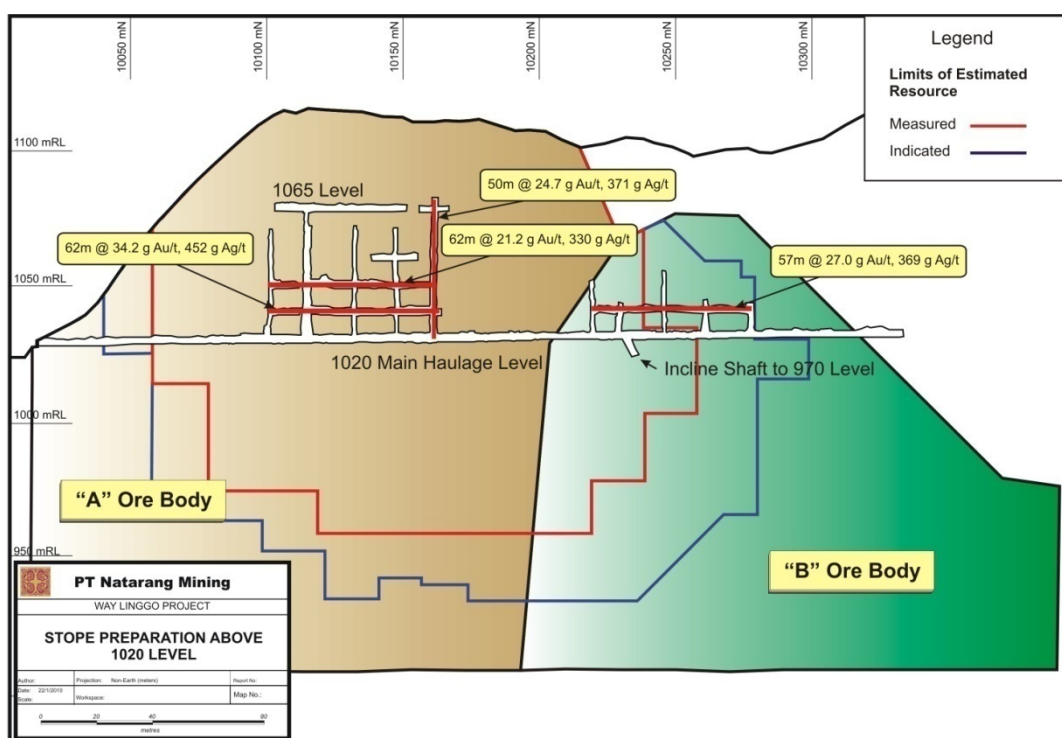


Figure 1 Long section of North Vein A and B ore bodies showing extent of development completed end Quarter and sublevel face sampling results

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Face channel sampling along the strike of the A Ore Body in sublevels above 1020 Level continues to return encouragingly high gold and silver grades. Sampling within the sublevels developed in the A ore body in preparation for production stoping returned:

**62 metres grading 34.2 g Au/t and 452 g Ag/t**

and

**62 metres grading 21.2 g Au/t and 330 g Ag/t**

Channel sampling in an Alimak rise on the northern end of this area has returned:

**50 m grading 24.7 g Au/t and 371 g Ag/t**

Similar sampling in the first B Ore Body sublevel has returned:

**57 m grading 27.0 g Au/t and 369 g Ag/t**

Updated face sampling results are summarized in Figure 1 (grade calculations are based on uncut assay values).

These results from within both North Vein ore bodies continues to confirm the positive reconciliation observed between the higher production grades and the drill data based resource model. Once full sub level development sampling is completed between the 1020 and 1065 levels, during the next quarter, the potential upside of this reconciliation will be quantified.

As much of this development has been in high grade ore approximately

**8,650 tonnes of ore grading 21.9 g/t Gold and 293 g/t Silver**

has been stockpiled at the surface. This represents significantly higher grades of both metals than was predicted for these development areas from the feasibility drill based resource estimate. Further development in ore is scheduled for the coming quarter which will continue to increase the stockpile tonnage up to the mill start up.

## *GEOLOGY AND EXPLORATION*

During the previous quarter (September) a helicopter magnetic and radiometrics geophysical survey of the entire 10,540 ha tenement was undertaken. The data from this survey was processed and interpreted by leading geophysical and structural geological consultants to identify other regional targets within the Contract area. This work has led to the identification of 22 new target areas based on structural lineaments, intersection zones and alteration systems. Figure 2 shows the aero magnetic map of the Contract area with the new targets highlighted.



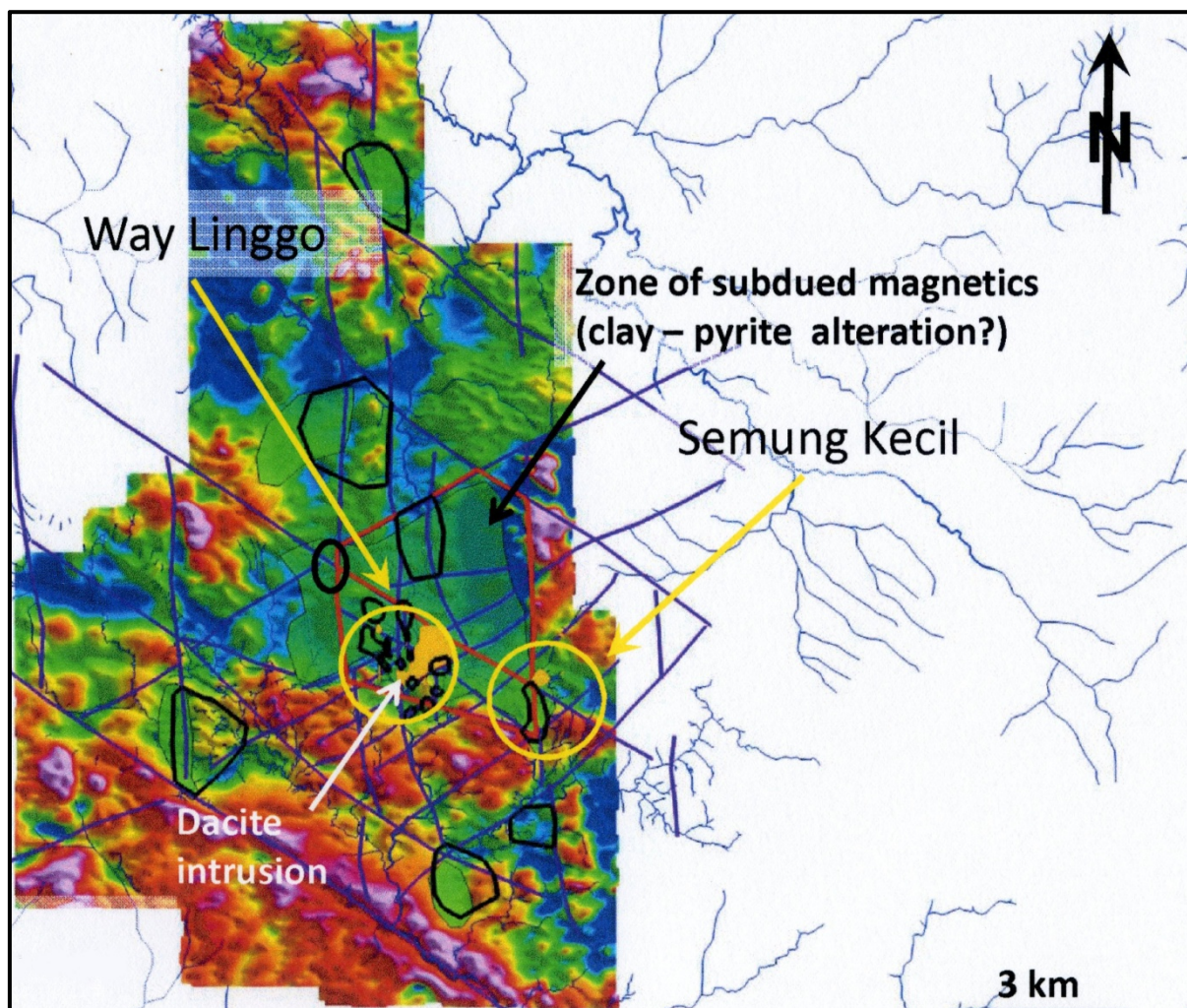


Figure 2 Aeromagnetics map of the tenement showing geophysical/structural targets

Diamond drilling from surface continued with 3,340 m completed in 17 drill holes up to end December (Drill holes DDH-103 to DDH-120). Drilling has continued up to time of reporting and the locations of exploration drill holes completed to date (20 drill holes totalling 4,527m) are shown in Figure 3 which also shows the areas targeted.

Drill holes in the Quarry Vein (11 drill holes for 1,660m) intersected sporadically developed epithermal quartz-rhodocrosite bearing epithermal veins up to 1.2 m with patchy gold grades up to a maximum of 7 g/t gold and with high silver to gold ratios. At this stage no further work is warranted on this near mine site target.

Three drill holes targeted the “Mercury Zone”, a previously reported linear zone of clay alteration previously reported shedding high grade quartz float. Broad (6 m wide) zones of silicification in dacite intrusive were intersected carrying weakly anomalous gold (0.3 – 0.5 g/t Gold) however in a couple of drill holes the core contained fragments of banded epithermal quartz, interpreted as being entrained from some depth to the current level. Deeper drilling from the underground North vein development will be planned to follow this up at a future stage.

The company is acquiring an underground drill rig capable of 500 m holes to test these and other targets, including those below the current extent of the North Vein resource.

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The first of the blind targets identified by Dr Steve Garwin's structural study have also begun to be tested (Figure 3).

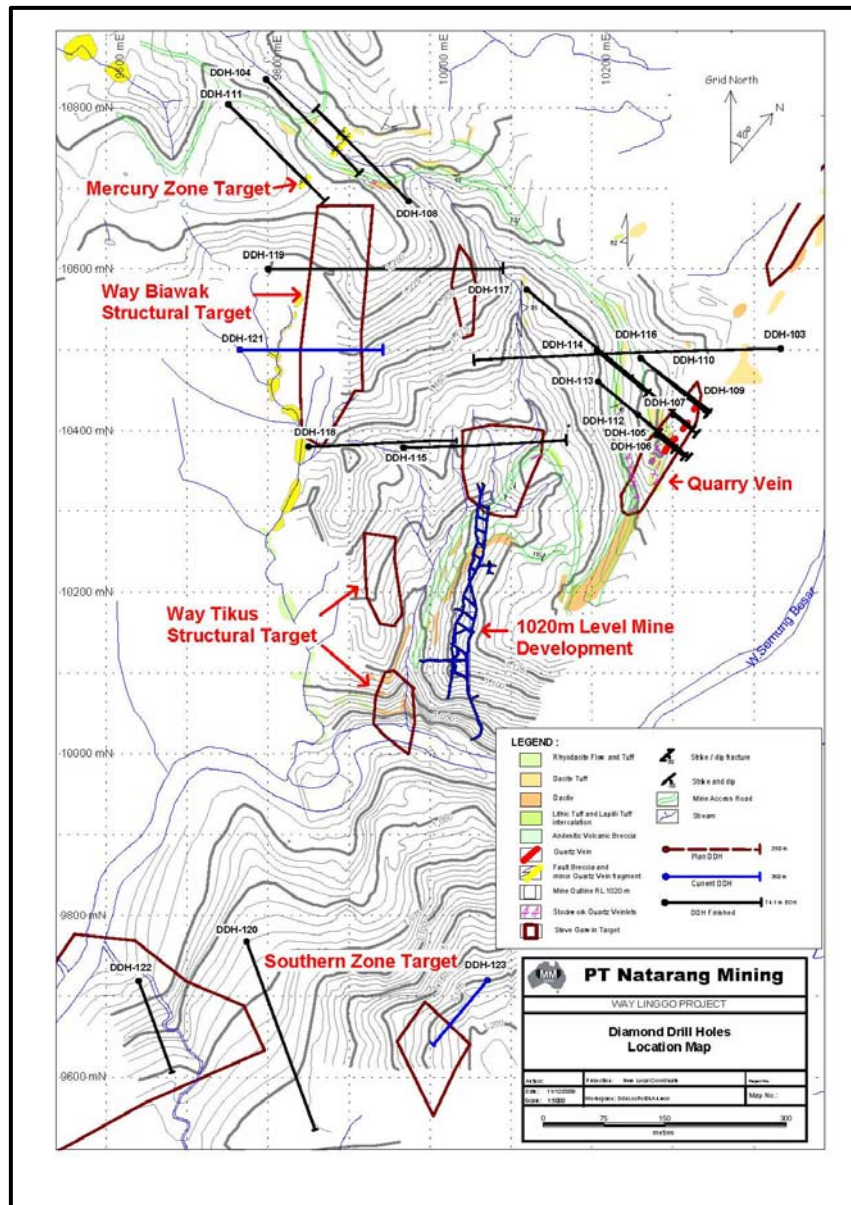


Figure 3 Exploration drill hole locations and near mine targets

The Way Biawak zone has been confirmed to be another fault controlled zone of epithermal silicification parallel to the North Vein. This zone will require further drilling from underground.

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One of the drill holes testing the Way Biawak structure (DDH-119) was continued across the strike extent of the North Vein Fracture, the structural zone containing the A and B ore bodies. This hole intersected a 1.9 m interval of quartz/calcite veining from 395.8m located exactly on the strike projection of the North Vein Fracture approximately 360 m north of the current mine development. Assays have returned a low gold tenor (0.14 g/t Au) however anomalous silver (average 34 g/t Ag, maximum 112 g/t Ag) indicating a high silver to gold ratio for this interval. This intersection, at an elevation some 100m below the Main Haulage level in the ore body, almost doubles the known strike extent of the North Vein and remains open further to the North and at depth confirming the high potential for further epithermal gold/silver mineralisation on this structure. A programme of detailed surface geological mapping, geochemical soil sampling and prospecting is underway to identify any further surface expression of this strike extension.

## **COMET VALE PROJECT**

Mining activities at Comet vale made good progress during the quarter with production exceeding the 100 tpd budgeted rate during December.

Mining of the Sand George Level 4 Block 1 stope was completed with 4,700 tonnes @ 19.0 g/t gold hoisted during the quarter. Broken ore remaining within the stope at end-quarter was approximately 2,500 tonnes, which will be hoisted during the January 2010.

The milling of Campaign 10 was completed with 7,319 tonnes @ 12.0 g/t Au (estimated) milled by end-December. A small parcel of ore remained at year end and will be added to the next campaign. Kingsrose' estimated share of produced gold was 1,277 ounces (after royalties) however the final mill reconciliation from this milling campaign is still pending. A total of 1,235 ounces were sold by end-December at an average price of A\$1,193 per ounce, yielding \$1.474m revenue.

During the quarter there was 156m of sub-level driving (along strike) completed. Mining of the Sand George Hanging Wall Lode Block 2 (south of Block 1) is well advanced and grade control sampling from this block has indicated an average mined grade of 21.6 g/t Au. Grade control sampling from the less advanced Level 4 Sand George Foot Wall Lode indicates an average mined grade from this new block of 9.7 g/t Au.

Remnant mining of the Level 3 Sand Queen ore body is continuing with average mined grades of 9.0g/t and underground drilling of 5 drill holes for a total of 53m designed to test for parallel lodes was completed. Assay Results are pending.

At the end of the quarter ROM stockpile for the next campaign (Campaign 11) stood at 9,510 tonnes @ 11.6g/t Au. Milling of this campaign is planned for early February 2010.



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Plate 2 Comet Vale Campaign 11 High Grade ROM ore (9,510 tonnes @ 11.6g/t Au) with Sand Queen head-frame in background.

## **SARDINIA**

### **“SARINC PROJECT”**

#### **INTRODUCTION**

Kingsrose Mining Ltd reached agreement in December 2009 with the semi-autonomous government of the island of Sardinia (a part of Italy) to conduct a pre-feasibility study on re-processing the massive tailings deposits located in the south-west of the Island, the result of many centuries of mining zinc, lead and silver in one of the largest historic mining districts in Europe. Sardinia is located in the middle of the Mediterranean Sea (approximately 350km south-west of Rome) and is around 24,000km<sup>2</sup> in size. The location of the project is shown in Figure 4.

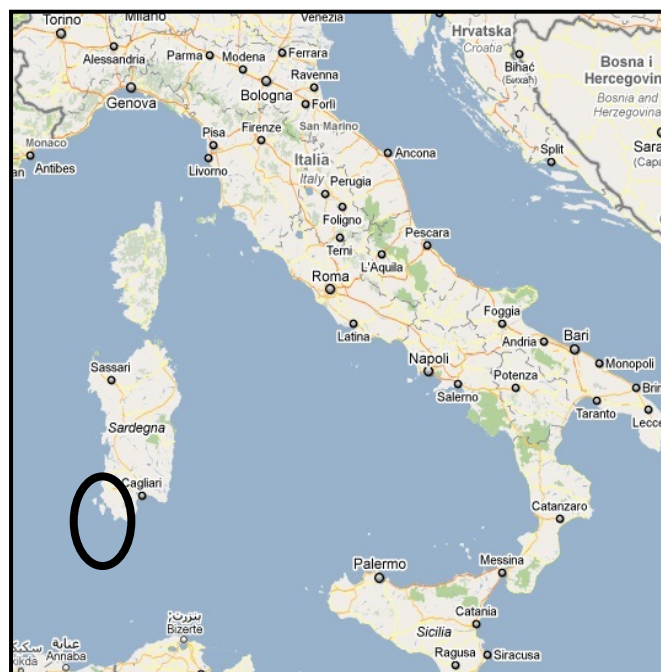


Figure 4 Location of the SARINC Project area



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The Project has been named SARINC, a name with a dual meaning. It represents SAR (Sardinia) and INC (Zinc) as well as standing for Sardegna-Ambiente-Recupero Inc. (Sardinia-Environment-Recovery Inc)

## BACKGROUND

The Iglesiente-Sulcis province located in the south-west of Sardinia, Italy, is one of the oldest mining districts in the world, with production dating from before 1000 BC. In context of the modern era, early mining targeted for lead and silver deposits (and copper to a lesser extent) followed by zinc and barium. During its peak mining period early in the 20<sup>th</sup> century, around 60 mines existed but over the ensuing decades, ore depletion and a lack of new discoveries saw mine numbers dwindle. Low metal prices during the 1990s resulted in the last of the mines being closed.

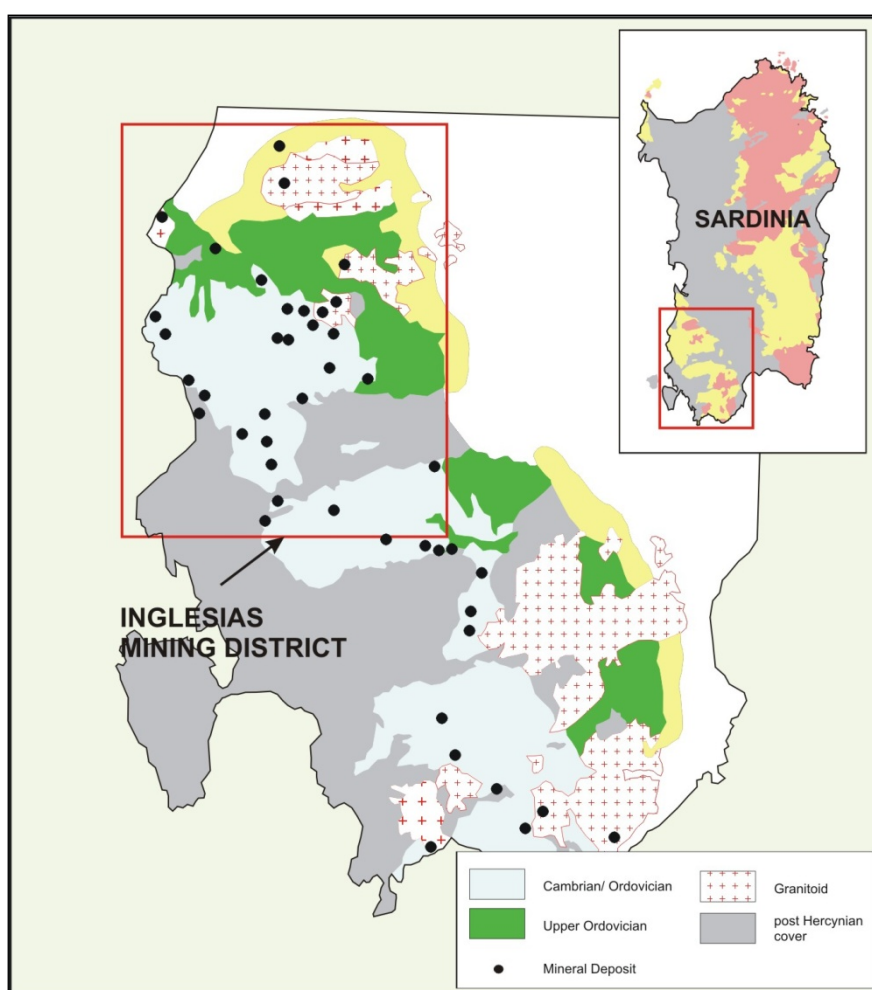


Figure 4 Simplified geology of South Eastern Sardinia showing significant mineral deposits and the Iglesias Mining District and project area

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The two main mining regions of the Montoponi/Iglesias valley and the Montovechio/Ingurtoisu area have differing mineralization styles. Both regions appear to have been formed during the Paleozoic and both contain significant lead, zinc and silver deposits. They differ in mineralization styles, geological host rock setting, ore geometry and ore type mineralogy.

The Montoponi/Iglesias is classed as a "Mississippi valley" style mineralization with columnar shape swarm veins of Pb-Zn sulphide ore whilst the Montovechio/Ingurtoisu area is characterized by skarn mineralization hosting large galena sphalerite veins having long continuous strike and depth extents.

The legacy of many centuries of mining is many separate tailings dams and disposal sites of sizes ranging from tens of thousands of tonnes to major ones containing millions of tonnes. The majority of the remaining dams are poorly constructed and all are known to leach heavy metals and/or acid drainage into the surrounding rural and semi-rural areas. A number of natural entrapment areas exist located within and near coastal swamps and perched valleys, which have caught and contained finer tailings material eroded from the dams or that were discharged directly into the steep valleys and waterways.

Kingsrose has been provided with various data from work undertaken on the majority of the tailings deposits by local agencies, including drill samples results and other information. It is not yet possible to accurately ascertain the quantities of metals contained within the deposits but the data received does indicate that there is potential for a large, long life operation focussed on the recovery of zinc, lead and silver. Kingsrose has carried out preliminary analysis of the data provided and has calculated a target of between 70 – 90 million tonnes of material with an overall average target grade of between 1.7 – 2.5% zinc and 0.4 – 0.6% lead with some areas grading up to 10% zinc and other areas showing grades below 1% zinc. The silver content of the deposits are not known as silver has not been assayed due to it not having been considered an environmental pollutant.

It should be noted these figures and comments are considered conceptual in nature as there has been insufficient exploration to define a mineral resource and it is uncertain at this stage if further exploration will result in the determination of a mineral resource.

## *INITIAL PROJECT OBJECTIVES*

Conceptually the SARINC Zinc Tailings Project will involve the collection of contaminated soils and historic tailings dumps scattered throughout the region for re-processing at a single large processing plant. The tailings would be transported by road, slurry pipe or other means to the centrally and strategically located process plant. The site for this plant would be selected with a view that a tailings residue of volume capable for the long term storage and encapsulation of up to 100 million tonnes of residues in one position. Kingsrose will not be under any obligation to treat uneconomic sections of the deposits.

The various tailings that cover the area represent multiple ore bodies, all of which are expected to have a unique metal and mineralogical profile dictated by the ore genetic profiling when the mineral deposits were formed. Consequently, the expected retreatment process for each dump will require its own specific test-work and analysis to determine the optimum route for metal extraction.

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Kingsrose will undertake the first three phases of the project evaluation process as follows:

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## Phase Description

### i) **Measurement and Quantification**

Drilling, sampling assaying, surveying and bulk density estimation of the various tailings dumps to accurately determine tonnages and metal contents.

### ii) **Metallurgical Test work**

The profiling of data collected from individual tailings dumps into representative samples to perform mineral extraction studies and designing of metallurgical process flow-sheets.

### iii) **Project Feasibility Studies**

The physical and financial profiling of the re-mining, mineral processing, reclamation and environmental management of the project.

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The first two phases are aimed to be completed by September Quarter 2010 at a cost of approximately US\$2.5m with the third phase anticipated to take a further 6 – 12 months (it is not yet possible to estimate the cost of this stage). Kingsrose intend the drilling programme will provide sufficient data to enable a JORC compliant Resource to be reported.

Kingsrose will be working closely with Sardinian government agency, IGEA SpA (Interventi Geo Ambientali – Geo Environment Intervention), the organisation responsible for the management and rehabilitation of closed mine sites on Sardinia. Kingsrose has senior personnel who are experienced in operating in Sardinia and who have a strong network of governmental and corporate contacts.

## **CORPORATE**

- In December 2009 the Company announced that it would begin pre-feasibility work on a potentially very large scale Tailings Retreatment Project in one of the largest historic mining districts in Europe. Kingsrose reached in principle agreement with the regional government of Sardinia, Italy, to commence work on multiple Zinc-Lead tailings deposits containing a target of between 70 - 90 million tonnes of material accumulated from over 200+ years of mining.
- During the quarter:
  - 50,000 unlisted options were exercised at an exercise price of \$0.39 each;
  - 2,000,000 unlisted options issued were issued to a consultant pursuant to a consulting agreement dated July 2008. The options were issued following execution of a Letter of Intent between the Company and IGEA (as announced on 16 December 2009). The options were issued on 29 December 2009 under the Directors' 15% facility at an exercise price of \$0.20 each, exercisable on or before 29 December 2012.
  - 22,300,000 ordinary shares were released from escrow on 7 December 2009;
  - 5,000,000 unlisted options at an exercise price of \$0.25 each were released from escrow on 7 December 2009.
- Kingsrose closed the quarter with an AUD equivalent cash balance of AUD \$7 million.



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**Subsequent to quarter end:**

The Company placed 15,000,000 ordinary shares at a price of \$0.60 each to clients of Patersons Securities Limited raising a net amount of A\$8,520,000. The shares issued were within the discretionary capacity of the Board under ASX Listing Rule 7.1.

The proceeds are intended to be applied towards:

- Additional exploration and review of the recently acquired zinc/lead tailings deposits in Sardinia.
- Further exploration work at its Way Linggo gold/silver project in Indonesia.
- Funding general working capital.

\* \* \* \* \*

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

***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*