

KINGSROSE MINING LIMITED

A.C.N. 112 389 910



HALF-YEAR FINANCIAL REPORT

31 December 2011

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**CORPORATE INFORMATION****Directors**

John C. Morris – Chairman
Christopher N. Start – Managing Director
Timothy G. Spencer – Finance Director
J. William Phillips – Non-Executive Director
Peter G. Cook – Non-Executive Director

Company Secretary

Jeannette P. Smith

Registered Office

Suite 9/Level 2
12-14 Thelma Street
West Perth
Western Australia 6005
Tel: +61 8 9486 1149
Fax: +61 8 9486 1151
E-mail: info@kingsrosemining.com.au
Website: www.kingsrosemining.com.au

Indonesian Office

PT. Natarang Mining
Jl. Ciputat Raya 16
Pondok Pinang, Kebayoran Lama
Jakarta Selatan 12310
Indonesia
Tel: +62 21 7510 125
Fax: +62 21 7692 783
Email: ptnm@kingsrosemining.com.au

Bankers

National Australia Bank
2 The Esplanade
Perth
Western Australia 6000

Auditors

Ernst & Young
11 Mounts Bay Road
Perth
Western Australia 6000

Ernst & Young
Indonesia Stock Exchange Building
Tower 2, 7th Floor
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190
Indonesia

Share Registry

Advanced Share Registry Services
1/150 Stirling Highway
Nedlands
Western Australia 6009
Tel: 61-8 9389 8033
Fax: 61-8 9389 7871

Domicile and Country of Incorporation

Australia

Stock Exchange

Australian Securities Exchange Limited (“ASX”)
Exchange Plaza, 2 The Esplanade
Perth
Western Australia 6000
Quoted on the official list of the ASX
ASX Symbols: KRM; KRMO



DIRECTORS' REPORT

The Directors present their report for the half-year ended 31 December 2011.

Directors

The names of the Company's directors in office during the half-year and until the date of this report are set out below.

John C. Morris – Chairman
 Christopher N. Start – Managing Director (Appointed 1 July 2011)
 Timothy G. Spencer – Finance Director
 J. William Phillips – Non-Executive Director
 Peter G. Cook – Non-Executive Director

Directors were in office for the entire period unless otherwise stated.

Summary of Activities and Results

Kingsrose Mining Limited is a gold and silver producer and explorer and owns 85% of PT Natarang Mining, who is the holder and operator of the high grade Way Linggo Project located in Sumatra, Indonesia.

Production during the period reached 21,278 ounces of gold and 247,158 ounces of silver. The Group's earnings before interest, tax, depreciation and amortisation (EBITDA) was \$26,095,686 (2010: \$1,672,135). The reconciliation between Group's EBITDA and profit before tax is shown below.

	2011 \$	2010 \$
EBITDA	26,095,686	1,672,135
Interest	686,353	(164,070)
Depreciation and amortisation	(4,375,546)	(3,082,328)
Profit/(Loss) before tax	22,406,493	(1,574,263)

Group sales revenue reached \$40,519,262 (2010: \$8,771,403) during the half-year.

The Group's consolidated net profit from operations after income tax for the period was \$13,758,691 (2010: loss \$1,329,966).

As at 31 December 2011, the Group held \$34,860,236 in cash and cash equivalents. Total Group assets increased to \$91,997,978 (2010: \$55,029,689) whilst net assets rose to \$66,852,344 (2010: \$31,629,208).

Principal Activities

The principal activities of the Group during the reporting period were:

- Production of gold and silver at the Way Linggo Project.
- Exploration and evaluation of gold and silver deposits at the Way Linggo Project.
- Evaluation of the SARINC zinc/lead tailings retreatment project in Sardinia, Italy.



DIRECTORS' REPORT

Review of Operations and Activities

Way Linggo Project, Southern Sumatra, Indonesia

The Way Linggo Project is situated in south-east Sumatra, Indonesia, on the tran-Sumatran Fault. It is a cluster of low-sulphidation epithermal fissures and veins exhibiting well developed epithermal vein textures within a larger area of weak to intense argillic alteration. The main veins in the current mining area vary in width from 0.1m to 12m with an average of approximately 4.5m, stand sub-vertically and from mine development data, carry grades between 10-20g/t Au and 200-350g/t Ag on average over full mining widths.

Trial mining commenced during the period on the Project's second ore source, the Talang Santo deposit, located approximately seven kilometres to the north of the Way Linggo mine. A maiden JORC Resource for Talang Santo was released on 7 December 2011, stating a total resource (measured, indicated & inferred) of 166,400 gold ounces and 413,000 silver ounces.

Production – Key Indicators

	Unit	HY 12
Ore Mined	t	38,925
Mined Grade - Gold	g/t	15.5
Mined Grade - Silver	g/t	203
Ore Processed	t	60,639
Head Grade - Gold	g/t	12.0
Head Grade - Silver	g/t	154
Gold Produced ⁽ⁱ⁾	oz	21,278
Silver Produced ⁽ⁱ⁾	oz	247,158
Gold Sold	oz	20,671
Silver Sold	oz	219,018

	US\$/oz	A\$/oz
Cash Operating Cost (before Ag credit)	538	521
Less Silver By-Product Credit ⁽ⁱⁱ⁾	(309)	(299)
Cash Operating Cost ⁽ⁱⁱⁱ⁾	229	222
Total Production Costs ^(iv)	495	480
Average Gold Price Received	1,703	1,652
Average Silver Price Received	30	29

⁽ⁱ⁾ Gold and silver production is actual metal poured.

⁽ⁱⁱ⁾ Calculated using actual silver sales for the period.

⁽ⁱⁱⁱ⁾ Includes all expenditure incurred at site plus dore transportation and refining costs less by-product, adjusted for inventory movements less capitalised mine development and exploration expenditure and royalties.

^(iv) Includes cash operating costs plus govt royalties, depreciation and mine development amortisation.



DIRECTORS' REPORT

Mine ore production during the reporting period totalled 38,925 tonnes grading 15.5 g/t gold and 203 g/t silver. The plant processed 60,639 tonnes of ore, drawn from mine production and stockpiles at an average feed grade of 12.0 g/t gold and 154 g/t silver. Metal production (metal poured) reached 21,278 gold ounces and 247,158 silver ounces.

Gold & Silver Sales

Gold sales of US\$35,199,290 (A\$34,144,234) were generated for the half-year from the sale of 20,671 ounces at an average price of US\$1,703/ounce (A\$1,652/ounce). Silver sales (silver sold is a by-product of gold production) totalled US\$6,572,017 (A\$6,375,028) with 219,018 ounces sold at an average price of US\$30/ounce (A\$29/ounce).

Exploration

Exploration activity continued at an accelerated rate during the period on eight of the 17 defined target areas with most focus being on four areas, namely;

- Talang Cluster – located in the northern area of the Project (and including Talang Santo).
- Way Sapta – Possibly the faulted extension of Way Linggo or a parallel vein.
- Rowo Rejo – a large outcropping breccia zone 5kms from Way Linggo mine.
- Semung Kecil - geologically similar to Way Linggo mine and highly prospective.

11 drill rigs were active during the period with 27,631 metres of diamond drilling achieved.

OTHER PROJECTS - SARINC Project, Sardinia, Italy

The SARINC Project is located in the south-western mineral province in Sardinia, Italy. Mining has occurred over several centuries in this area. The established mines were typically lead-zinc-silver deposits of Mississippi Valley, Hydrothermal and Skarn types. The result of many centuries of mining and processing is a cluster of tailings ponds, dams and valley fills.

During the latter part of the period, the Company elected to minimise its activity and expenditure on the Project whilst it waited for the Sardinian regional government to provide a formal response on its position with regards to entering into a commercial arrangement with the Company to advance the Project. As disclosed post year-end, the Company elected to put its activity in Sardinia on hold.

* * * * *

Competent Person Statement

The information in this report that relates to exploration results, mineral resources and ore reserves is based on information compiled by Mr. Peter G. Cook, BSc Applied Geol, MSc (Min Econ), who is a Member of the Australasian Institute of Mining and Metallurgy, and a Non-executive Director of and consultant to Kingsrose Mining Limited. Mr. Cook has sufficient experience which is relevant to the styles of mineralisation and types of deposits and to the activity he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Mr. Cook consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.



DIRECTORS' REPORT

Corporate

During the period the following significant events took place:

Securities

During the six months to December 2011, the following securities were issued/cancelled:

- 7,080,913 ordinary shares as a result of listed and unlisted options being exercised during the period, for a total consideration of \$1,464,083.
- 1,000,000 unlisted options were allotted to a senior executive under the Company's Employee Share Option Plan at an exercise price of \$1.53 each, with 50% vesting on 17 December 2012 and having an expiry date of 17 December 2014 and 50% vesting on 17 December 2013 and having an expiry date of 17 December 2015.
- 250,000 unlisted options with an exercise price of \$1.58 were cancelled following the resignation of an employee.

Directors

Mr. Start was appointed General Manager of Kingsrose in March 2011. He was subsequently appointed Managing Director in July 2011. He graduated from RMIT as a Metallurgical Engineer with honours in 1988 and has over 23 years of experience in the mining industry. He has worked as a metallurgist, in management positions and as a consultant at a number of mine sites including Kidston, Murrin Murrin, Granny Smith and Boddington.

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

Key Management Personnel

During the half year Mr. Terry Butler, who was the Operations Manager for the Way Linggo Gold Project in Indonesia, resigned. Mr. Ron Clarke assumed this position. Previous positions held by Mr. Clarke include Plant Manager at Bluestone Tin, Production Superintendent at the Paddington Gold Plant, Processing Manager for Darlot Gold Plant and Processing Manager for Ramelius Resources Limited.

Corporate Governance

During the half-year, the following Policies were adopted by the Company:

- ***Diversity Policy:*** This Policy supports the commitment of the Company and its subsidiaries to an inclusive workplace that embraces and promotes diversity, and provides a framework for new existing diversity-related initiatives, strategies and programs within the Company business. The workforce of Kingsrose is made up of many individuals with diverse skills, values, backgrounds and experiences. The Company is committed to provide an environment in which all employees are treated with fairness and respect, and have equal access to opportunities available at work.
- ***Dividend Policy:*** This Policy provides that to the extent possible under the Corporations Act and the Company's Constitution, to pay an annual dividend to shareholders, subject to capital expenditure requirements, acquisition activity and liquidity tests. Franking would be subject to the composition of income.

Full details of these Policies are available on the Company's website www.kingsrosemining.com.au

**DIRECTORS' REPORT**

Significant Events after Reporting Date

SARINC Project, Sardinia, Italy

The Company elected to minimise its activity and expenditure on the SARINC Zinc/Lead Tailings Retreatment Project from November 2011 whilst it waited for the Sardinian regional government to provide a formal response on its position with regards to entering into a commercial arrangement with the Company to advance the Project. Unfortunately to date, this has not been forthcoming and therefore the directors have now decided not to invest any more time and money into this project and to place it on hold. The Sardinian regional government has been formally advised of the Company's decision.

Divestment of Contract of Work (COW)

The Company is obligated to divest its ownership of 85% subsidiary, PT Natarang Mining (PTNM) down to 49% over a period of time in accordance with a divestment schedule via a market sale to an Indonesian government body or an Indonesian national. Previous correspondence from the Ministry Of Energy And Mineral Resources Of The Republic Of Indonesia required that divestment should take place over four years starting March 2012 ("Offer Date") by the offering for sale of a 15% share tranche.

PTNM has been in regular dialogue with the Ministry concerning the timing of the commencement of divestment and on 15 February 2012, written notification was received from the Ministry advising PTNM that the Offer Date has now been deferred from March 2012 to March 2013. PTNM has been advised that it has strong grounds to succeed in deferring the divestment obligation to March 2016 and believes that by the Ministry granting the above-mentioned deferral it will allow the parties to continue discussions aimed at reaching an acceptable outcome.

Royalty Buy back – Yancoal Resources Limited [formerly Aulron Energy Limited, formerly Felix Resources Ltd]

Under the terms of a Royalty Agreement inherited by the Company upon acquisition of the Way Linggo Project, the Company through its 100% owned subsidiary MM Gold Pty Ltd had the right to buy back from Yancoal a 2% gold royalty on the first 250,000 ounces of gold produced from the Project area by the payment of US\$300,000.

The Company has exercised that right and on 2nd February 2012 a Deed of Assignment and Assumption was executed between the parties.

Board of Commissioners

Under Indonesian law, it is mandatory for an Indonesian company to have a two-tier Board which makes a clear separation between:

- Board of Commissioners who are charged with the supervision of the way the Board of Directors is managing the Company and to advise the Board of Directors; and
- Board of Directors who are charged with the management of the Company.

Such is the case with the Company's Indonesian subsidiary, PT Natarang Mining, who has recently appointed Mr. Simon Sembiring as the new Independent Commissioner.



DIRECTORS' REPORT

Mr. Sembiring, an Indonesian national, holds a PhD in Mineral Economics, School of Mines, from the University of New South Wales. He has held similar positions with other Indonesian companies and for the past decade, he held various positions with the Department of Minerals and Energy, including Director General of Geology and Mineral Resources, Director General of Minerals, Coal and Geothermal Energy and finally as Expert Staff Member of Energy, Mineral Resources, Economic and Financial Division.

Mr. Malcolm Baillie, the former Independent Commissioner, resigned on 3 February 2012.

As part of his remuneration Mr. Sembiring was granted 500,000 unlisted options pursuant to the directors' 15% facility under Listing Rule 7.1. The options have an exercise price of \$1.53 with an expiry date of 16 February 2014.

Securities

Subsequent to the half-year, the following securities have been issued:

- 4,240,224 listed and unlisted options were exercised for a total consideration of \$868,045.
- 500,000 unlisted options were allotted under the directors' 15% facility to the Company's Indonesian subsidiary's Independent Commissioner. The options were allotted a price of \$1.53 being 15% above the weighted average closing share price on the date of allotment and are exercisable on or before 16 February 2014.

Auditor's Independence Declaration

Ernst and Young's independence declaration is set out on page 10 and forms part of the directors' report for the half-year ended 31 December 2011.

Signed in accordance with a resolution of the Directors.

Timothy G. Spencer
Finance Director
8 March 2012

Auditor's Independence Declaration to the Directors of Kingsrose Mining Limited

In relation to our review of the financial report of Kingsrose Mining Limited for the half-year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



G H Meyerowitz
Partner
8 March 2012


CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	31 December 2011 \$	31 December 2010 \$
Continuing operations			
Sale of goods	4(a)	40,519,262	8,771,403
Other revenue	4(a)	706,450	88,457
Total revenue		41,225,712	8,859,860
Cost of sales	4(b)	(16,375,010)	(6,114,056)
Gross profit		24,850,702	2,745,804
Other income	4(c)	1,243,969	5,951
Administration expenses	4(d)	(3,558,782)	(2,140,607)
Exploration and evaluation expenditure		(109,299)	(869,327)
Other expenses	4(e)	-	(1,063,557)
Finance costs	4(f)	(20,097)	(252,527)
Profit/(Loss) from continuing operations before income tax		22,406,493	(1,574,263)
Income tax expense		(8,647,802)	-
Profit/(Loss) from continuing operations after income tax		13,758,691	(1,574,263)
Discontinued operations			
Income from discontinued operations after income tax	12	-	244,297
Net profit/(loss) for the period		13,758,691	(1,329,966)
Profit/(Loss) for the period is attributable to:			
Owners of the parent		11,363,871	(1,316,920)
Non-controlling interests		2,394,820	(13,046)
		13,758,691	(1,329,966)
Earnings/(Loss) per share from continuing operations attributable to the ordinary equity holders of the parent:			
		Cents	Cents
Basic earnings/(loss) per share – cents per share		4.25	(0.63)
Diluted earnings/(loss) per share – cents per share		4.02	(0.63)
Earnings/(Loss) per share attributable to the ordinary equity holders of the parent:			
		4.25	(0.63)
Basic earnings/(loss) per share – cents per share		4.25	(0.63)
Diluted earnings/(loss) per share – cents per share		4.02	(0.63)

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


CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	31 December 2011	31 December 2010
	\$	\$
Net profit/(loss) for the period	13,758,691	(1,329,966)
Other comprehensive income/(loss)		
Foreign currency translations	325,130	(4,325,834)
Income tax	-	-
Other comprehensive income/(loss) for the period, net of tax	325,130	(4,325,834)
Total comprehensive income/(loss) for the period	14,083,821	(5,655,800)
Total comprehensive income/(loss) for the period is attributable to:		
Owners of the parent	11,608,594	(4,993,879)
Non-controlling interests	2,475,227	(661,921)
	14,083,821	(5,655,800)

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


CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	31 December 2011 \$	30 June 2011 \$
Current Assets			
Cash and cash equivalents		34,860,236	23,951,112
Trade and other receivables	6	3,509,648	2,716,693
Inventories		3,975,572	4,593,606
Other		534,924	231,549
Total Current Assets		42,880,380	31,492,960
Non-Current Assets			
Other receivables	6	2,210,389	-
Plant and equipment		10,930,412	10,634,842
Mine properties and development		19,628,775	18,095,382
Exploration and evaluation assets		16,019,843	8,233,781
Deferred tax assets		328,179	-
Total Non-Current Assets		49,117,598	36,964,005
TOTAL ASSETS		91,997,978	68,456,965
Current Liabilities			
Trade and other payables	7	11,395,620	10,882,191
Interest-bearing liabilities		317,961	296,146
Income tax payable		10,855,330	1,233,485
Provisions		189,197	168,045
Total Current Liabilities		22,758,108	12,579,867
Non-Current Liabilities			
Trade and other payables	7	1,058,159	4,010,325
Interest-bearing liabilities		330,080	379,993
Deferred tax liabilities		-	423,718
Provisions		999,287	782,178
Total Non-Current Liabilities		2,387,526	5,596,214
TOTAL LIABILITIES		25,145,634	18,176,081
NET ASSETS		66,852,344	50,280,884
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	8	58,530,150	57,066,067
Reserves		(1,071,460)	(2,339,739)
Retained earnings/(Accumulated losses)		5,731,484	(5,632,387)
		63,190,174	49,093,941
Non-controlling interests		3,662,170	1,186,943
TOTAL EQUITY		66,852,344	50,280,884

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.


CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	31 December 2011 \$	31 December 2010 \$
Cash flows used in operating activities			
Receipts from customers		37,452,159	22,858,723
Payment to suppliers and employees		(16,621,058)	(10,570,245)
Interest received		481,404	77,215
Interest paid		(15,271)	(69,515)
Net cash flows from operating activities		21,297,234	12,296,178
Cash flows used in investing activities			
Payments for plant and equipment		(2,421,916)	(3,063,336)
Payments for mine properties and development		(2,250,562)	(1,210,591)
Payments for exploration and evaluation expenditure		(7,330,138)	(1,920,391)
Buyback of third party's royalty entitlement		-	(262,668)
Proceeds from sale of financial assets held for trading		-	2,149,337
Proceeds from sale of plant and equipment		153,377	54,152
Net cash flows used in investing activities		(11,849,239)	(4,253,497)
Cash flows from financing activities			
Proceeds from issue of shares/options		1,464,083	1,698,500
Repayment of borrowings		-	(2,200,000)
Repayment of hire purchases		(177,264)	(127,871)
Net cash flows from/(used in) financing activities		1,286,819	(629,371)
Net increase in cash and cash equivalents		10,734,814	7,413,310
Cash and cash equivalents at beginning of the period		23,951,112	7,833,315
Effects of exchange rate changes on cash held		174,310	-
Cash and cash equivalents at end of the period	5	34,860,236	15,246,625

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Issued Capital \$	Option Premium Reserve \$	Foreign Currency Translation Reserve \$	Retained Earnings / (Accumulated Losses) \$	Owners of the Parent \$	Non- Controlling Interests \$	Total \$
At 1 July 2011	57,066,067	3,887,485	(6,227,224)	(5,632,387)	49,093,941	1,186,943	50,280,884
Net profit for the period	-	-	-	11,363,871	11,363,871	2,394,820	13,758,691
Other comprehensive income for the period	-	-	244,723	-	244,723	80,407	325,130
Total comprehensive income for the period	-	-	244,723	11,363,871	11,608,594	2,475,227	14,083,821
Transactions with owners in their capacity as owners:							
Issue of share capital	-	-	-	-	-	-	-
Proceeds from exercise of options	1,464,083	-	-	-	1,464,083	-	1,464,083
Share-based payments	-	1,023,556	-	-	1,023,556	-	1,023,556
At 31 December 2011	58,530,150	4,911,041	(5,982,501)	5,731,484	63,190,174	3,662,170	66,852,344

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Issued Capital \$	Option Premium Reserve \$	Foreign Currency Translation Reserve \$	Retained Earnings / (Accumulated Losses) \$	Owners of the Parent \$	Non- Controlling Interests \$	Total \$
At 1 July 2010	50,889,668	3,427,450	(2,076,643)	(17,877,171)	34,363,304	(459,704)	33,903,600
Net loss for the period	-	-	-	(1,316,920)	(1,316,920)	(13,046)	(1,329,966)
Other comprehensive loss for the period	-	-	(3,676,959)	-	(3,676,959)	(648,875)	(4,325,834)
Total comprehensive loss for the period	-	-	(3,676,959)	(1,316,920)	(4,993,879)	(661,921)	(5,655,800)
Transactions with owners in their capacity as owners:							
Issue of share capital	1,665,000	-	-	-	1,665,000	-	1,665,000
Proceeds from exercise of options	1,698,500	-	-	-	1,698,500	-	1,698,500
Share-based payments	-	17,908	-	-	17,908	-	17,908
At 31 December 2010	54,253,168	3,445,358	(5,753,602)	(19,194,091)	32,750,833	(1,121,625)	31,629,208

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



NOTES TO THE FINANCIAL STATEMENTS

The general purpose condensed financial report of Kingsrose Mining Limited (“Kingsrose” or the “Company”) and its controlled entities (the “Group”) for the half-year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 8 March 2012.

1. CORPORATE INFORMATION

Kingsrose Mining Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors’ Report.

The address of the registered office of the Company is Suite 9, Level 2, 12-14 Thelma Street, West Perth, WA 6005.

The Group’s corporate structure is:

Company	Place of Incorporation	% Interest held	
		As at	As at
		31/12/2011	31/12/2010
		%	%
MM Gold Pty Ltd	Australia	100	100
Natarang Offshore Pty Ltd	Australia	100	100
PT Natarang Mining*	Indonesia	85	85
Kingsrose Tanggamus Pty Ltd	Australia	100	100
SARINC UK Ltd	England/ Wales	100	100
SARINC srl	Italy	100	100

*Contract of Work, Way Linggo Gold Project

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2011 have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

It is recommended that the half-year financial report should be read in conjunction with the annual financial report of Kingsrose Mining Limited as at 30 June 2011 and considered together with any public announcements made by the Company during the half-year ended 31 December 2011 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and the ASX listing rules.

Except as disclosed below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Changes in accounting policies

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

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

The Group has not elected to early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

3. OPERATING SEGMENTS

Identification of reportable segments

- The Group has identified its operating segments based on internal reports that are reviewed and used by the Board and executive management team (the chief operating decision makers) in assessing performance and determining the allocation of resources.
- The Group has identified that its operating segments are best presented by commodity as the Group's risk and rate of return are affected predominantly by the end product, namely gold and silver, and zinc. PT Natarang Mining (PTNM), operator of the Way Linggo Project, is the primary entity that produces gold and silver whilst SARINC srl is the primary entity that is evaluating the SARINC Zinc Tailings Retreatment Project.
- Discrete financial information about each of these operating segments is reported to the Board and executive management team on a monthly basis.

Accounting policies

- The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2 to the accounts.
- Segment profit/(loss) include foreign exchange movements on intercompany loans and external finance costs that relate directly to segment operations.
- Unallocated corporate costs are non-segmented expenses such as head office expenses and finance costs that do not relate directly to segment operations.
- Income tax expense is calculated based on the segment operating net profit/(loss). In the previous period, income tax expense has not been calculated for the reported segments as both segments have made operating losses.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND EXPENSES

	31 December 2011	31 December 2010
	\$	\$
(a) Revenue		
Sale of goods		
Gold	34,144,234	7,224,333
Silver	6,375,028	1,547,070
	40,519,262	8,771,403
Other revenue		
Interest	706,450	88,457
Total revenue	41,225,712	8,859,860
(b) Cost of sales		
Mine production costs	9,909,706	6,368,859
Royalties	835,650	175,426
Depreciation	2,715,487	1,826,612
Amortisation	1,319,590	1,241,283
Inventory movements	1,594,577	(3,498,124)
Total cost of sales	16,375,010	6,114,056
(c) Other income		
Gain on disposal of plant and equipment	60,292	5,951
Net gain on foreign exchange	1,183,658	-
Sundry income	19	-
Total other income	1,243,969	5,951
(d) Administration expenses		
Corporate costs	2,044,022	2,108,254
Depreciation	12,167	14,433
Amortisation	328,302	-
Royalties	150,735	-
Share-based payments	1,023,556	17,920
Total administration expenses	3,558,782	2,140,607
(e) Other expenses		
Loss on sale of financial assets held for trading	-	263,407
Net loss on foreign exchange	-	800,150
Total other expenses	-	1,063,557
(f) Finance costs		
Borrowing costs	-	32,321
Loans from related parties	-	206,971
Finance charges payable under finance leases	15,271	13,235
	15,271	252,527
Unwinding of discount on rehabilitation provision	4,826	-
Total finance costs	20,097	252,527



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND EXPENSES (CONTINUED)

	31 December 2011	31 December 2011
	\$	\$
(g) Depreciation and amortisation		
Plant and equipment	2,727,654	1,841,045
Mine properties	1,647,892	1,241,283
Total depreciation and amortisation	4,375,546	3,082,328
(h) Employee benefits expense		
- Wages and salaries	4,220,871	2,676,029
- Defined contribution superannuation expense	35,963	40,563
- Share-based payments	1,023,556	17,920
- Other employee benefits	242,973	188,593
Total employee benefits expense	5,523,363	2,923,105

5. CASH AND CASH EQUIVALENTS

For the purpose of the half-year statement of cash flows, cash and cash equivalents comprised of the following:

	31 December 2011	31 December 2010
	\$	\$
Current		
Cash at bank and in hand	4,960,236	11,246,625
Short-term deposits	29,900,000	4,000,000
	34,860,236	15,246,625

The Group has to maintain a minimum cash balance of \$4,000,000 as part of the Credit Suisse International pre-paid silver transactions entered into in December 2010.

6. TRADE AND OTHER RECEIVABLES

	31 December 2011	30 June 2011
	\$	\$
Current		
Trade receivables	2,309	12,317
Other receivables	3,507,339	2,704,376
	3,509,648	2,716,693
Non-Current		
Other receivables	2,210,389	-



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. TRADE AND OTHER PAYABLES

	31 December 2011	30 June 2011
	\$	\$
Current		
Trade creditors	2,824,465	2,991,390
Accruals	1,975,324	1,717,403
Sundry creditors	246,875	157,912
Unearned revenue	6,348,956	6,015,486
	11,395,620	10,882,191
Non-Current		
Unearned revenue	1,058,159	4,010,325

8. CONTRIBUTED EQUITY

	31 December 2011		30 June 2011	
	\$	Number	\$	Number
Ordinary Shares				
Issued and fully paid	58,530,150	271,487,968	57,066,067	264,407,055
Movements in ordinary shares on issue				
Balance as at beginning of the period	57,066,067	264,407,055	50,889,668	241,433,060
Shares issued in settlement of royalty	-	-	1,665,000	1,500,000
Exercise of options - listed	1,234,183	6,170,913	3,091,799	15,458,995
Exercise of options - unlisted	229,900	910,000	1,419,600	6,015,000
Balance as at end of the period	58,530,150	271,487,968	57,066,067	264,407,055

9. DIVIDENDS PAID AND PROPOSED

No dividends have been paid, declared or recommended by the Company for the half-year ended 31 December 2011 and 31 December 2010.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. SHARE-BASED PAYMENTS

In December 2011, 1,000,000 unlisted options were granted to a senior executive under the Company's Employee Share Option Plan at an exercise price of \$1.53 each, with 50% vesting on 17 December 2012 and having an expiry date of 17 December 2014; and 50% vesting on 17 December 2013 and having an expiry date of 17 December 2015. The fair value of the options is estimated at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

During the half-year ended 31 December 2011, the Group recognised \$1,023,556 of share-based payment expenses for employee services received (31 December 2010: \$17,920).

11. CHANGE IN COMPOSITION OF THE GROUP

Since the last annual reporting date, there have been no changes in the composition of the Group.

12. DISCONTINUED OPERATIONS

During the previous half-year ended 31 December 2010, the Company recognised proceeds of \$1,358,504 from the sale of the ore stockpile on hand at 30 June 2010 from its Comet Vale joint venture operation. The operation was disposed in May 2010.

	31 December 2011	31 December 2010
	\$	\$
(a) Financial performance of the Comet Vale joint venture operations for the year until disposal		
Revenue	-	1,358,504
Expenses	-	(1,114,207)
Gross profit	-	244,297
Gain on disposal	-	-
Income from discontinued operations before income tax	-	244,297
Income tax expense	-	-
Income from discontinued operations after income tax	-	244,297
(b) Cash flow information of Comet Vale joint venture operations until disposal		
Operating activities	-	1,350,048
Net cash inflow	-	1,350,048



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. EVENTS AFTER REPORTING DATE

SARINC Project, Sardinia, Italy

The Company elected to minimise its activity and expenditure on the SARINC Zinc/Lead Tailings Retreatment Project from November 2011 whilst it waited for the Sardinian regional government to provide a formal response on its position with regards to entering into a commercial arrangement with the Company to advance the Project. Unfortunately to date, this has not been forthcoming and therefore the directors have now decided not to invest any more time and money into this project and to place it on hold. The Sardinian regional government has been formally advised of the Company's decision.

Divestment of Contract of Work (COW)

The Company is obligated to divest its ownership of 85% subsidiary, PT Natarang Mining (PTNM) down to 49% over a period of time in accordance with a divestment schedule via a market sale to an Indonesian government body or an Indonesian national. Previous correspondence from the Ministry Of Energy And Mineral Resources Of The Republic Of Indonesia required that divestment should take place over four years starting March 2012 ("Offer Date") by the offering for sale of a 15% share tranche.

PTNM has been in regular dialogue with the Ministry concerning the timing of the commencement of divestment and on 15 February 2012, written notification was received from the Ministry advising PTNM that the Offer Date has now been deferred from March 2012 to March 2013.

PTNM has been advised that it has strong grounds to succeed in deferring the divestment obligation to March 2016 and believes that by the Ministry granting the above-mentioned deferral it will allow the parties to continue discussions aimed at reaching an acceptable outcome.

Royalty Buy back – Yancoal Resources Limited [formerly Aulron Energy Limited, formerly Felix Resources Ltd]

Under the terms of a Royalty Agreement inherited by the Company upon acquisition of the Way Linggo Project, the Company through 100% owned subsidiary MM Gold Pty Ltd had the right to buy back from Yancoal a 2% gold royalty on the first 250,000 ounces of gold produced from the Project area by the payment of US\$300,000.

The Company has exercised that right and on 2 February 2012 a Deed of Assignment and Assumption was executed between the parties.

Securities

Subsequent to the half-year, the following securities have been issued:

- 4,240,224 listed and unlisted options were exercised for a total consideration of \$868,045.
- 500,000 unlisted options were allotted under the directors' 15% facility to the Company's Indonesian subsidiary's Independent Commissioner. The options were allotted a price of \$1.53 being 15% above the weighted average closing share price on the date of allotment and are exercisable on or before 16 February 2014.



DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Kingsrose Mining Limited, I state that:

In the opinion of the Directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the financial position as at 31 December 2011 and the performance for the half-year ended on that date of the consolidated entity
 - (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*
- (b) 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.

Timothy G. Spencer
Finance Director
8 March 2012

To the members of Kingsrose Mining Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kingsrose Mining Limited, which comprises the statement of financial position as at 31 December 2011, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year 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 half-year 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kingsrose Mining Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'G H Meyerowitz'.

G H Meyerowitz
Partner
Perth
8 March 2012