

KINGSDROSE MINING LIMITED (ADMINISTRATORS APPOINTED) Quarterly Report for the Period Ended 31 December 2016

KEY POINTS

- Appointment of Michael Ryan and Ian Francis of FTI Consulting as joint and several voluntary administrators (**Administrators**) on 14 December 2016 as part of continued efforts to restructure the Company, its financial arrangements and operations at the Way Linggo Project.
- Production of 1,786 ounces of gold at 5.4 g/t Au and 4,915 ounces of silver at 16 g/t Ag at an all-in sustaining cost of US\$3,179/oz for the Quarter.
- Production continued to be impacted by capital development delays, lack of established production horizons, and mine plan redesigns.
- Reliability of primary pumping station on the 4 Level much improved, however ongoing water ingress at the working face continued to hamper productivity.
- Work ongoing to recover remnant pillars in the Splay vein about the 4 Level.
- Sinking of the External Haulage Shaft suspended following mine redesign to access the high grade portion of the ore body sooner.
- Western extension of the Mawi vein delivered high grade ore with mine development along the 4 Level Mawi exploration drive to the west returning high grade face samples.

EXPLORATION UPDATE

- Exploration targets continue to be developed at Rowo Rejo, the Talang Cluster and South Way Handa.
- Detailed geological mapping conducted in the northern area of the Rowo Rejo block where rock float sampled returned assays of up to 14.88g/t Au and 126.16 g/t Ag.
- First pass reconnaissance drilling developed for Rowo Rejo and South Way Handa cash flow permitting.

CORPORATE

- Appointment of Mining Engineer Mike Moore as Chief Executive Officer.



VOLUNTARY ADMINISTRATION

During the Quarter, the Board extensively explored options to restructure the Company and its financial arrangements in an effort to provide sufficient working capital to implement the operational changes required to achieve consistent production at the Talang Santo mine and return the Way Linggo Project to profitability.

On 14 December 2016, the Board resolved to appoint the Administrators to assist the Company to continue with recapitalisation efforts, including exploring options to raise capital and reduce the Company's debt.

The first creditors' meeting was held on 23 December 2016 with the Administrators providing an update to creditors in relation to their review of the Company's financial arrangements and operations, which included a site visit and meetings with key stakeholders, including employees and creditors.

Post-Quarter end, the Administrators advised that they had engaged Mining One to undertake an independent technical assessment of the viability of the Talang Santo mine, the capital works required and any revision of the mine plan needed to return the mine to profitability.

The Administrators also engaged Argonaut Capital as financial advisors with respect to the Company's short and long term funding requirements.

TALANG SANTO OPERATIONS OVERVIEW

	UNITS	SEPTEMBER 2016 QUARTER	DECEMBER 2016 QUARTER	YEAR TO DATE
MINE PRODUCTION				
ORE MINED	t	9,298	9,988	19,286
MINE GRADE (GOLD)	g/t	9.0	5.9	7.4
MINE GRADE (SILVER)	g/t	18	16	17
ORE PROCESSED				
TONNES MILLED	t	10,255	11,079	21,334
HEAD GRADE (GOLD)	g/t	8.4	5.4	6.8
HEAD GRADE (SILVER)	g/t	17	16	16
RECOVERY (GOLD)	%	96.2	93.5	94.8
RECOVERY (SILVER)	%	87.3	88.3	87.8
GOLD PRODUCED	oz	2,660	1,786	4,445
SILVER PRODUCED	oz	5,072	4,915	9,987
COSTS OF PRODUCTION				
CASH OPERATING COSTS	US\$/Oz	1,440	2,017	1,672
ALL-IN-SUSTAINING COSTS OF PRODUCTION	US\$/oz	2,149	3,179	2,563

SAFETY

There were two Lost Time Injuries for the Quarter. The 12-month moving average Lost Time Injury Frequency Rate now stands at 3.65.

During the Quarter, the on-site safety department completed the revised Safety Management System which was submitted for review and audit by the Mines Department. In-house training programs were conducted across 9 topics with 150 participants.

MINING

A total of 9,988 tonnes of Ore was hoisted at a grade of 5.9g/t Au and 15.8 g/t Ag for the Quarter with a further 1,792 tonnes of waste also hoisted to surface. During the Quarter, the Mawi vein continued to provide the primary supply of ore, contributing 36% of total ore mined, with the Hanging Wall vein supplying 48% and the remaining 16% mined from the Splay vein. There was an overall increase in low grade ore mined – contributing to 45% of total ore mined, due to a refocus on capital development in the main Mawi and Hanging Wall zones.

Despite the increase in the quantity of low grade ore, all veins continued to deliver high grade face samples with the Hanging Wall showing the greatest consistency while the Splay vein continued to deliver the highest grades, however access to this area was limited during the Quarter as a result of poor ground conditions.

The Mawi vein highlighted pleasing results, however the western extension of the Mawi vein delivered high grade ore with mine development along the 4 Level Mawi exploration drive to the west returning high grade face samples.

Capital Mine Development

During the Quarter, 12m of vertical advance was completed taking the total External Haulage Shaft depth to 183m of the required 220m. Poor ground conditions, the continued water inflow and the difficulty in grouting all water bearing structures around the shaft necessitated the decision to suspend the vertical advance of the External Haulage Shaft pending a review of the mine plan and design.

Water Management Plan

The reconfiguration of the 4 Level pumps completed last Quarter which allowed three multi-stage pumps to operate continuously, coupled with improvements in preventative maintenance systems and redundancy planning has seen a significant improvement in pumping reliability. Mine dewatering rose over the Quarter, however the increase was managed by the 4 Level pumping stations. Ongoing water ingress in the primary working areas continued to hamper productivity.

Operational Review

Mining One has been engaged to undertake an independent technical assessment of the viability of the Talang Santo mine, the capital works required and any revision of the mine plan needed to return the mine to profitability.

An update will be provided upon completion of the review.

PROCESSING

The processing statistics for the operating period are tabulated below

ORE PROCESSED	UNITS	SEPTEMBER 2016 QUARTER	DECEMBER 2016 QUARTER	YEAR TO DATE
TONNES MILLED	t	10,255	11,079	21,334
HEAD GRADE (GOLD)	g/t	8.4	5.4	6.8
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The plant throughput for the period was 11,079 dry tonnes at a head grade of 5.4 g/t Au and 16 g/t Ag. Recoveries of both gold and silver were 93.5% and 88.3% respectively.

GOLD SALES AND COSTS OF PRODUCTION

During the Quarter the Company sold 2,736 ounces of gold at an average gold price of A\$1,614/oz and realised A\$4.416M in revenue. The cash costs of production for the Quarter were US\$2,017/oz and all-in sustaining costs of production for the period were US\$3,179/oz.

EXPLORATION

Project/Regional Exploration

Regional geological exploration activities conducted during the Quarter were focused on priority targets Way Handa and Rowo Rejo with extensive geological mapping, rock chip sampling of float and outcrop and auger drilling.

Rowo Rejo

At Rowo Rejo, further auger bedrock sampling and trenching was conducted with 970m of auguring with the aim of identifying the mineralised zone highlighted by hill float of hydrothermal breccia over a 200m length in a north-south orientation. Detailed geological mapping was also conducted in the northern area of the Rowo Rejo block where float rock samples returned assays of up to 14.88g/t Au and 126.16g/t Ag.

Rowo Rejo is considered a high priority target, and as such an initial surface diamond drilling program has been designed to test the geophysical resistivity anomaly below the sinter hydrothermal breccia disclosed in trench no. 3 and distribution of the chalcedonic rock in the bottom of the hand auger holes.

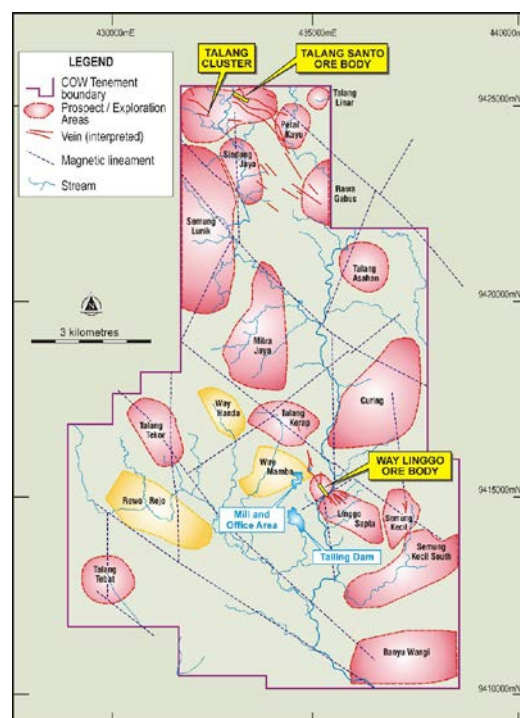
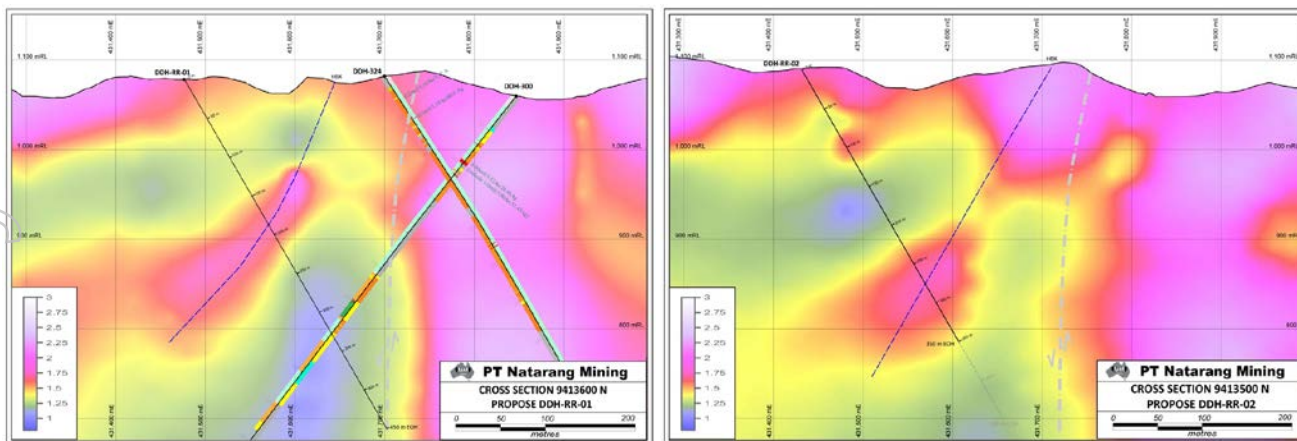


Figure 1: Exploration Prospects



Figures 2 & 3: Proposed diamond drill holes at Rowo Rejo targeting CSAMT anomaly

South Way Handa

Extensive geological mapping at South Way Handa identified a significant silica vein outcrop adjacent to clay alteration rhyodacite volcanic, hand trenching was undertaken to identify the structure which strikes north-south and dips to the east. A conceptual reconnaissance diamond drill program comprising of three shallow holes was designed to identify host rocks and confirm the interpreted geological model.

COMMUNITY AND THE ENVIRONMENT

Community

Local employment at site continues to be actively encouraged with approximately 57% of its employees coming from neighbouring villages and communities and an additional 13% from the wider Lampung province.

Environment

The Group continues to conduct its operations in a manner that minimises its environmental footprint on the Project area. Environmental activities during the Quarter included reclamation, erosion control, revegetation and ongoing monitoring programs. There was no expansion of disturbed areas or clearing for mining activities during the Quarter.

A total of 0.15 hectares was revegetated using a variety of plant stock around the Talang Santo haul road and old drill pads.

CORPORATE

Appointment of Chief Executive Officer

During the Quarter, experienced mining executive Mike Moore was appointed as Chief Executive Officer. Mr Moore is a mining engineer with more than 15 years operational and management experience across a diverse range of commodities in Australia, West Africa and Europe.

CASH AND BULLION ON HAND AS AT 31 DECEMBER 2016

Cash & Term Deposits	A\$2.004M
Bullion & Trade Receivables ¹	<u>A\$1.024M</u>
Total	A\$3.028M

¹Bullion includes unrefined (filter cake, dore) and refined gold (at A\$1,602/oz) and silver (at A\$22/oz).

SUMMARY OF MINING TENEMENTS AND AREAS OF INTEREST

PROJECT/TENEMENT HELD	LOCATION	TENEMENT NUMBER	EQUITY INTEREST AT QUARTER END	CHANGE IN ENTITY'S INTEREST DURING QUARTER
4 th generation Contract of Work	Lampung Province, South Sumatra, Indonesia	N/A	85%	N/A

-ENDS-

Enquiries:

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Competent Persons Statement

The information in this announcement that relates to exploration results, data quality, geological interpretations, potential for eventual extraction and estimates of exploration potential, is based on and fairly represents information compiled under the supervision of Paul Androvic who is a member of the Australasian Institute of Mining and Metallurgy and a full time employee of PT Natarang Mining. Mr Androvic has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves." Mr Androvic consents to the inclusion in this report of the matter based on his information in the form and context in which it appears.

Appendix 5B Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013, 01/09/2016

Entity Kingsrose Mining Limited (Administrators Appointed) ABN 49 112 389 910		Quarter ended: 31 December 2016	
Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	4,549	8,966
1.2	Payments for:		
	(a) exploration and evaluation	(267)	(928)
	(b) development	(1,856)	(3,620)
	(c) production	(4,517)	(9,906)
	(d) staff costs	(475)	(916)
	(e) administration and corporate costs	(326)	(751)
1.3	Dividends received	-	-
1.4	Interest received	5	10
1.5	Interest and other costs of finance paid	(177)	(458)
1.6	Income taxes paid	(115)	(231)
1.7	Research and development refunds	-	-
1.8	Other (VAT refund received)	147	257
1.9	Net cash from / (used in) operating activities	(3,032)	(7,577)
2.	Cash flows from investing activities		
2.1	Payment to acquire:		
	(a) property, plant and equipment	(42)	(82)
	(b) tenements	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Loans to other entities	-	-
2.4	Dividends received	-	-
2.5	Other	-	-
2.6	Net cash from / (used in) investing activities	(42)	(82)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	180	8,707
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(15)	(475)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (Repayment of hire purchases)	(54)	(115)
3.10	Net cash from / (used in) financing activities	111	8,117

	Current quarter \$A'000	Year to date (6 months) \$A'000
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	4,915	1,508
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,032)	(7,577)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(42)	(82)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	111	8,117
4.5 Effect of movement in exchange rates on cash held	52	38
4.6 Cash and cash equivalents at end of period	2,004	2,004

5. Reconciliation of cash and cash equivalents

Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	2,004	3,304
5.2 Call deposits	-	1,611
5.3 Bank overdraft	-	-
5.4 Other (Petty cash)	-	-
Cash and cash equivalents at end of quarter (item 4.6 above)	2,004	4,915

6. Payments to directors of the entity and their associates

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of loans to these parties included in item 2.3

6.3 Explanation necessary to understand the transactions included in item 6.1 and 6.2

Item 6.1 includes aggregate amounts paid to directors including salaries, directors' fees, superannuation and consulting fees.

Current quarter \$A'000
46
-

7. Payments to related entities of the entity and their associates

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of loans to these parties included in item 2.3

6.3 Explanation necessary to understand the transactions included in item 7.1 and 7.2

N/A

Current quarter \$A'000
-
-

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8. Financing facilities available

	Total facility amount at quarter end \$A'000	Amount Drawn at quarter end \$A'000
8.1 Loan facilities	9,432	9,432
8.2 Credit standby arrangements	-	-
8.3 Other	-	-

8.4 Description of each facility above, including the lender, interest rate and whether it is secured or unsecured.

Item 8.1 consists of the following:

- Loan from Beaurama Pty Ltd of A\$4.250m. The loan bears interest at 10.5% per annum.
- Loan from Great Golden Investment Limited of US\$2.125m (A\$2.937m). The loan bears interest at 10% plus 1-month LIBOR plus withholding tax per annum.
- Loan from Michael John Andrews of US\$1.625m (A\$2.245m). The loan bears interest at 10% plus 1-month LIBOR plus withholding tax per annum.

The above loans are secured against all of the issued shares in the Company's Australian subsidiaries that hold the (85%) ownership of the Way Linggo Project.

The restructure of the debt facilities which was the subject of the ASX announcement dated 22 November 2016 has not taken effect as the conditions precedent have not been satisfied or waived.

9. Estimated cash outflows for next quarter

	\$A'000
9.1 Exploration and evaluation	-
9.2 Development	*
9.3 Production	*
9.4 Staff costs	*
9.5 Administration and corporate costs	*
9.6 Other	*
9.7 Total estimated cash outflows	*

* On 14 December 2016, Michael Ryan and Ian Francis were appointed as joint and several administrators ("Administrators") of Kingsrose Mining Limited. As announced on 28 December 2016, the Administrators are reviewing the Company's financial arrangements and operations at the Way Linggo Project in Indonesia and exploring opportunities to recapitalise or restructure the Company. This work is progressing but is at a relatively early stage and is still underway. Given the current situation, it is not appropriate to provide forward looking estimates of the relevant items in section 9 above.

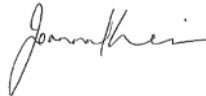
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10. Changes in interests in mining tenements

	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements lapsed, relinquished or reduced			
10.2	Interests in mining tenements acquired or increased			

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement does give a true and fair view of the matters disclosed.



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Joanna Kiernan
Company Secretary who has been authorised to sign this report by the Administrators
1 February 2017

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