

KINGSROSE MINING LIMITED

A.C.N. 112 389 910



HALF-YEAR FINANCIAL REPORT

31 December 2010



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**CORPORATE INFORMATION****Directors**

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

Company Secretary

Jeannette P. Smith

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Auditors

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Share Registry

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Domicile and Country of Incorporation

Australia

Stock Exchange

The Company is listed on the Australian Securities Exchange Limited (ASX)
Home Exchange – Perth
ASX Symbols – KRM (shares) & KRMO (options)



DIRECTOR'S REPORT

The Directors present their report for the half-year ended 31 December 2010.

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

John C. Morris – Executive Chairman
Timothy G. Spencer – Finance Director
J. William Phillips – Non-Executive Director
Peter G. Cook – Non-Executive Director (appointed 1 October 2010)
Michael J. Andrews – Non-Executive Director (resigned 21 December 2010)

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

Summary of Activities & Results

The Companies core activities continued to exploration and development of mineral properties during the half. The company advanced its 85% owned Way Linggo Project, Sumatra to production during the period. It continued evaluation and assessment of the Sardinia Pb-Zn tailings project and wound out the mining joint venture agreement over the Comet Vale Gold Mine.

Group sales revenue reached \$8,771,403 (2009: nil) during the half year, excluding discontinued operations (Comet Vale), which recorded sales revenue of \$1,358,504 (2009: 1,807,371). The Group Consolidated Net Loss from operations after income tax for the period was \$1,329,966 (2009: loss \$3,205,396).

As at 31 December 2010 the Group held \$11,246,625 in cash and cash equivalents plus and an additional \$4,000,000 on term deposit. Total Group assets increased to \$55,029,689 (2009: \$46,165,631).

Gold and silver in circuit and bullion on hand at the end of the period totalled:

- | | |
|---------------------------|-----------------------------|
| • Gold in circuit – 638oz | Silver in circuit – 4,733oz |
| • Gold bullion – 2,114oz | Silver bullion – 23,492oz |

Principal Activities

The principal activities of the Company the exploration and development of mineral properties, specifically:

- The construction, commissioning and the commencement of gold and silver by-product production at the Way Linggo Project in Sumatra, Indonesia.
- The on-going evaluation and assessment of "SARINC" lead/zinc tailings retreatment project in Sardinia, Italy, including validation drilling and preliminary metallurgical test-work aimed at the commercialisation of tailings re-treatment works.



Review of Operations and Activities

Way Linggo Project, Southern Sumatra, Indonesia

The Way Linggo Project is set upon 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.

Mine development on the Way Linggo veins began in early 2009 and plant construction commenced in July 2009. During construction, a significant stockpile of ore was accumulated. In August 2010 the process plant commenced commissioning and the first official pour of gold & silver dore occurred on the 13th of that month.

Production

The following table summarises the key physicals performance data for the period.

	Sep-10 Qtr	Dec-10 Qtr	Half Year Total
Total Tonnes Broken	10,418	15,348	25,766
Total Tonnes Hauled to Surface	11,810	15,257	27,067
Ore Tonnes Hauled to Surface	10,552	14,077	24,629
Total Tonnes Processed	6,617	13,948	20,566
Head Grade (g/t Gold)	6.8	17.9	14.3
Head Grade (g/t Silver)	84	214	172.5
Recovery (% Gold)	87.7	89.8	89.1
Recovery (% Silver)	85.6	79.2	81.3
Gold Recovered (oz)	1,259	7,216	8,475
Silver Recovered (oz)	15,348	76,049	91,397
Gold Poured (oz)	918	6,918	7,837
Silver Poured (oz)	11,201	75,464	86,665
Gold Sold (oz)	-	5,015	5,015
Silver sold (oz)	-	54,399	54,399

Table 1 – key physicals data

Mining activities during the period focussed on the set-up of sub-levels in preparation for stoping on the first 2 Levels and the completion and commissioning of an internal shaft and hoist infrastructure to access ore on Level 3. Normal development consisted mainly of ore driving on Level 3 and the sub-level development on the Levels 1 and 2.

Approximately 110 metres of advance on ore were completed on Level 3 during the period as well as a 65m perpendicular drill-drive in the hanging wall of the orebody.



DIRECTOR'S REPORT

The ore processing plant construction was completed and commissioning on ore commenced in August 2010. Several material handling and processing issues were encountered during commissioning and subsequent operation that have prevented the plant achieving anticipated capacity. The key issues have resulted from design defects for the materials handling of the sticky clay ores being processed and, to a lesser extent, process flow bottlenecks. Whilst most defects have been rectified, a decision has been made to retro-fit a SAG mill into the circuit as a means to deal with the issue of sticky and clay-rich ore into the future. A positive consequence, in addition to resolving materials handling issues, is an increase in installed milling capacity allowing throughput expansion in the future. The SAG mill's installation and commissioning are expected to be completed by June 2011.

Gold produced in the December quarter reached 6,918 ounces with production increasing from 1,316 ounces in October to 3,361 ounces of gold in December. This was a function of a 25% increase in tonnes milled and a 29% increase in the reconciled gold head grade. Mill throughput for the quarter totalled 13,948 tonnes at an average grade of 17.9 g/t Au and 214 g/t Ag and gold recoveries averaged 89.8%. Productivity increased every month and cash costs steadily reduced, averaging US\$342/oz for the quarter and, importantly, falling to US\$150/oz in December.

In each month since commissioning the plant performance has shown steady increases in productivity and as a consequence there has been a pleasing reduction in cash operating costs, which has continued subsequent to the end of the period.

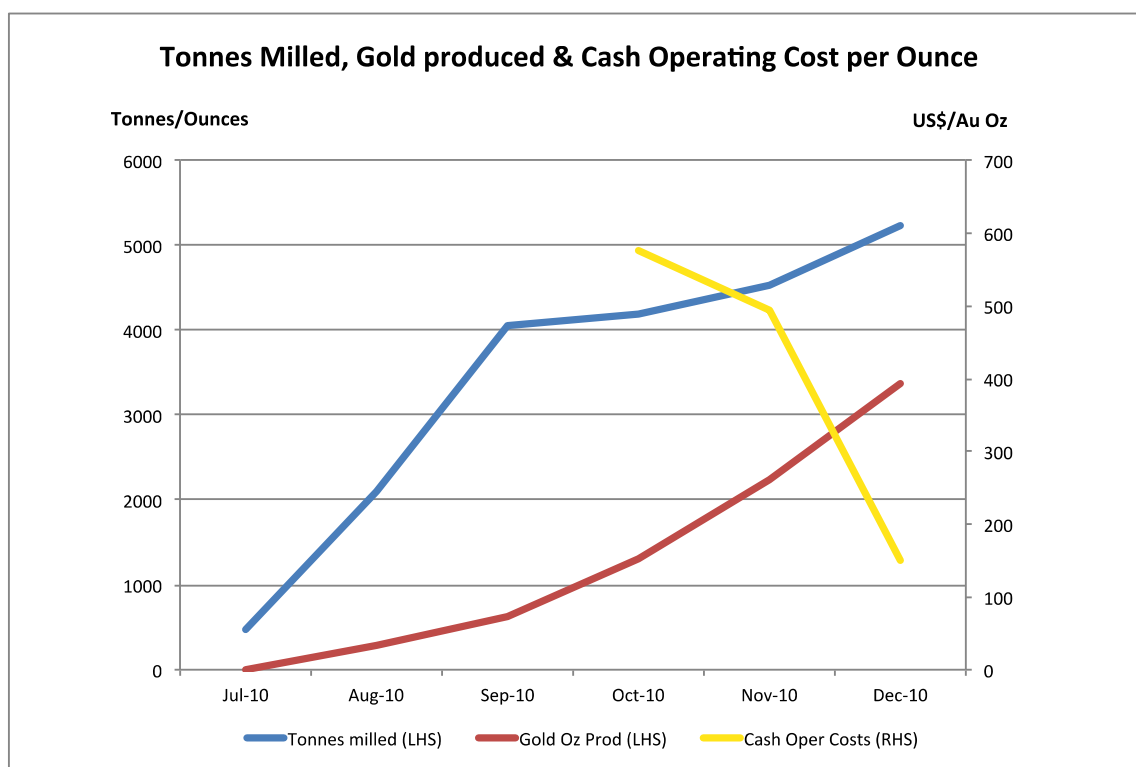


Figure 1 – Tonnes milled, gold ounces produced & cash operating cost per gold ounce produced



DIRECTOR'S REPORT

Gold & Silver Sales

Gold sales of US\$6,827,284 (A\$7,224,639) were generated for the December quarter from the sale of 5,015 gold ounces at an average price of US\$1,361/ounce. Silver sales (silver sold is a by-product of gold production) totalled US\$1,462,043 (A\$1,547,070) with 54,399 ounces sold at an average price of US\$26.88/ounce.

Exploration

The key objectives of the exploration works at Way Linggo are the extension of the known orebody along strike and at depth as well as the finding of additional ore sources elsewhere on the Contract of Works.

A dedicated hanging wall drill drive on the 3-Level has been accessed and established during the quarter. Underground diamond drilling from this drive will commence mid-way through the ensuing quarter with the objective of extending the current defined JORC Resource at depth and to the south. The drilling will also test the possible existence of a sub-parallel deeper vein in the hanging wall and in the deepest hole drilled into the ore system that returned an intercept of low-grade gold but bonanza silver grades (1m @ 2.1 g/t gold and 3,390 g/t silver).

The lack of active exploration in the years preceding the acquisition of the Way Linggo Project by the Company has meant that a significant amount of preliminary work was required to bring an up to date understanding of the geological setting of the property. Geological mapping, geochemical sampling, ground geophysics and trenching continue to be carried out over anomalies defined by previous air-borne geophysics, structural interpretation and regional geochemistry to enable drill targets to be determined.

The key areas targeted during the period included:

- Mine extension northwards – “B Vein extension”; “Talang Kecap”; “Mitra Jaya” (all within 2kms from orebody)
- New targets further along strike northwards – “Talang Toha”; “Talang Santo”; “Semung Lunik”

Significant gold anomalism and an understanding of the many prospects and targets for an addition gold discovery was established during the period.

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 resultant of many centuries of mining and processing is a cluster of tailings ponds, dams and valley fills.

Previous evaluations by Italian Government agencies have estimated (Non-JORC) that over 90 million tonnes of tailings material have been identified. Grades of the tailings dams typically average around 2% zinc and 0.5% lead when in sulphide form and 5-10% zinc and up to 40% iron oxide when in calamine or zinc oxide form.

During the period, assaying of the samples collected from the drilling campaign completed in the previous half was completed and representative composite samples for preliminary metallurgical assessment were collected and despatched. Results determining the recoverability, likely process routes and preliminary commercial opportunity of the Project should come to hand in the ensuing quarter.



DIRECTOR'S REPORT

* * * * *

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 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.

Corporate

During the period the following significant events took place:

Securities

During the six months to December 2010, the following securities were issued:

- 1,500,000 fully paid ordinary shares as result of the Aurora Gold Limited Royalty buy-back/termination. The shares were issued within the discretionary capacity of the Board under ASX Listing rule 7.1.
- 4,200,000 unlisted options were exercised during the period, for a consideration of \$849,556
- 4,202,500 listed options were exercised during the period, for a consideration of \$848,944
- 75,000 unlisted options were allotted to an employee under the Company's Employee Share Plan at an exercise price of \$1.59 each, with an expiry date of 21 December 2012.

Royalty buy-back/termination

On 23 September 2010, Kingsrose reached agreement with Harmony Gold Mining Co Limited's fully owned subsidiary, Aurora Gold Limited ("AGL"), to relinquish and terminate AGL's right to receive under a 1995 Royalty Agreement, a 1.85% net smelter return royalty (capped at US\$3.5m) on gold and silver production from the Way Linggo Gold Project. In exchange, Kingsrose allotted AGL 1,500,000 ordinary shares in the capital of Kingsrose, pursuant to its 15% discretionary placement facility under ASX Listing Rule 7.1, and paid US\$250,000 (A\$262,668).

Directors

On 1 October 2010 Mr. Peter Cook, BSc Applied Geol, MSc (Min Econ), MAusIMM, was appointed as a non-executive director of the Company. Mr. Cook is a Geologist and Mineral Economist and is the current Non-Executive Chairman of Metals X Limited, Aragon Resources Limited and Pacific Niugini Limited. He is also a director of Westgold Resources Limited. Mr. Cook brings significant expertise in exploration, operations and corporate management.

On 21 December 2010 Dr. Michael J. Andrews resigned as a Non-Executive Director of the Company. His tenure with the Way Linggo Gold Project included key involvement over a period of 20 years, including the original discovery.

**DIRECTOR'S REPORT****Silver Financing**

In mid December 2010, Kingsrose successfully arranged a pre-paid silver forward sale transaction with Credit Suisse International raising A\$13,000,000 and allowing the Company to repay various outstanding loans totalling A\$10,000,000. A 2-year silver forward structure was entered into whereby PT Natarang Mining agreed to sell a total of 480,120 silver ounces over 24 months starting in March 2011, receiving the proceeds of the forward sales now.

Unsecured loan repayment

Kingsrose repaid A\$2,200,000 in unsecured loans on 24 December 2010.

Significant Events after Reporting Date

Pursuant to the terms of the Loan Arrangements Deed, that formed part of the Share Purchase Agreement dated 26 November 2008 which was approved by shareholders in general meeting on 21 January 2009, the following vendor loans, representing principal and interest, have been repaid in full:

- On 26 January 2011: A\$1,124,985 to Zelman Pty Ltd and A\$1,127,727 to Goldcrest Pty Ltd.
- On 18 February 2011: A\$211,233 to Dr. M. Andrews; A\$371,397 to Herryansyah and A\$303,497 to PT Promincon Indonesia.
- On 3 March 2011: A\$1,026,948 to Icon Enterprises Limited.

2,811,928 listed options were exercised for a total consideration of A\$562,385.

1,175,000 unlisted options were exercised for a total consideration of A\$312,000.

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 2010.

Signed in accordance with a resolution of the Directors:

Timothy G. Spencer
Finance Director
9 March 2011

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

In relation to our review of the consolidated financial report of Kingsrose Mining Limited and its controlled entities for the half-year ended 31 December 2010, 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.

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
9 March 2011


CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Consolidated 31-Dec-10	Consolidated 31-Dec-09
Continuing operations			
Revenue	4(a)	8,859,860	153,849
Cost of sales	4(b)	(6,114,056)	-
Gross Profit		2,745,804	153,849
Exploration and evaluation expenditure		(869,327)	(126,313)
Administration expenses	4(c)	(2,404,014)	(3,158,277)
Operating Loss		(527,537)	(3,130,741)
Other income	4(d)	5,951	6,034
Finance costs	4(e)	(252,527)	(18,977)
Exchange gain/(loss)		(800,150)	(219,724)
Loss from continuing operations before income tax		(1,574,263)	(3,363,408)
Income tax benefit/(expense)		-	-
Loss from continuing operations after income tax		(1,574,263)	(3,363,408)
Discontinued operations			
Income/(loss) from discontinued operations after income tax	11	244,297	158,012
Loss for the period		(1,329,966)	(3,205,396)
Other comprehensive income/(loss)			
Foreign currency translations		(4,325,834)	(1,638,474)
Income tax		-	-
Other comprehensive income/(loss) for the period, net of tax		(4,325,834)	(1,638,474)
Total comprehensive income/(loss) for the period		(5,655,800)	(4,843,870)
Loss for the period is attributable to:			
Non-controlling interests		(13,046)	(480,809)
Owners of the parent		(1,316,920)	(2,724,587)
		(1,329,966)	(3,205,396)
Total comprehensive loss for the period is attributable to:			
Non-controlling interests		(661,921)	(480,809)
Owners of the parent		(4,993,879)	(4,363,061)
		(5,655,800)	(4,843,870)
Loss per share from continuing operations attributable to the ordinary equity holders of the parent:			
Basic loss per share – cents per share		(0.63)	(0.99)
Diluted loss per share – cents per share		(0.63)	(0.99)
Loss per share attributable to the ordinary equity holders of the parent:			
Basic loss per share – cents per share		(0.63)	(0.93)
Diluted loss per share – cents per share		(0.63)	(0.93)

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


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Consolidated As at 31-Dec-10	Consolidated As at 30-Jun-10
Current Assets			
Cash & cash equivalents	5	11,246,625	7,833,315
Trade & other receivables		2,128,285	1,638,070
Inventories	6	4,250,862	1,679,793
Held to maturity financial assets	7	4,000,000	-
Held for trading financial assets		-	2,406,858
Derivative financial instruments		-	24,175
Other assets		313,987	73,398
Total Current Assets		21,939,759	13,655,609
Non-Current Assets			
Plant & equipment		9,366,855	8,481,947
Mine properties and development		21,787,089	22,469,879
Exploration and evaluation assets		1,935,986	1,558,196
Total Non-Current Assets		33,089,930	32,510,022
TOTAL ASSETS		55,029,689	46,165,631
Current Liabilities			
Trade & other payables	8	8,124,398	2,964,540
Interest bearing loans & borrowings	9	6,620,407	8,561,127
Provisions		126,882	112,291
Total Current Liabilities		14,871,687	11,637,958
Non-Current Liabilities			
Trade & other payables	8	7,398,000	-
Interest bearing loans & borrowings		516,089	40,856
Provisions		614,705	583,217
Total Non-Current Liabilities		8,528,794	624,073
TOTAL LIABILITIES		23,400,481	12,262,031
NET ASSETS		31,629,208	33,903,600
EQUITY			
Equity attributable to the equity holders of the parent			
Contributed equity	10	54,253,168	50,889,668
Reserves		(2,308,244)	1,350,807
Accumulated losses		(19,194,091)	(17,877,171)
Parents interest		32,750,833	34,363,304
Non-controlling interests		(1,121,625)	(459,704)
TOTAL EQUITY		31,629,208	33,903,600

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


CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Consolidated 31-Dec-10	Consolidated 31-Dec-09
		\$	\$
Cash flows used in operating activities			
Receipts from customers		22,858,723	1,886,661
Payment to suppliers and employees		(10,570,245)	(6,481,351)
Interest received		77,215	153,849
Interest paid		(69,515)	(78,076)
Net cash flows from/(used in) operating activities		12,296,178	(4,518,917)
Cash flows used in investing activities			
Payments for plant and equipment		(3,063,336)	(2,306,836)
Payments for mine properties and development		(1,210,591)	(2,830,142)
Payments for exploration and evaluation assets		(1,920,391)	-
Proceeds from Reed Resources Limited in connection with the termination of Joint Venture Agreement		-	1,000,000
Proceeds from sale of financial assets held for trading		2,149,337	-
Proceeds from sale of plant and equipment		54,152	6,034
Cash placed on term deposit		(4,000,000)	-
Net cash flows used in investing activities		(7,990,829)	(4,130,944)
Cash flows from financing activities			
Proceeds from issue of shares/options		1,698,500	119,500
Repayment of borrowings		(2,200,000)	-
Buyback of third party's royalty entitlement		(262,668)	-
Repayment of hire purchases		(127,871)	(55,954)
Net cash flows from/(used in) financing activities		(892,039)	63,546
Net increase/(decrease) in cash and cash equivalents		3,413,310	(8,586,315)
Cash and cash equivalents at beginning of financial period		7,833,315	15,607,040
Cash and cash equivalents at end of period	5	11,246,625	7,020,725

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


CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Capital	Option Premium Reserve	Convertible Note Reserve	Foreign Exchange Translation Reserve	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
Income/(loss) for the period	-	-	-	-	(1,316,920)	(1,316,920)	(13,046)	(1,329,966)
Other comprehensive income/(loss) for the period	-	-	-	(3,676,959)	-	(3,676,959)	(648,875)	(4,325,834)
Total comprehensive income/(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
Share issue cost	-	-	-	-	-	-	-	-
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.


CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Issued Capital	Option Premium Reserve	Convertible Note Reserve	Foreign Exchange Translation Reserve	Accumulated Losses	Owners of the parent	Non- controlling Interests	Total
	\$	\$	\$	\$	\$	\$	\$	\$
At 1 July 2009	40,567,560	1,689,625	2,041,440	(2,175,164)	(16,925,418)	25,198,043	-	25,198,043
Loss for the period	-	-	-	-	(2,724,587)	(2,724,587)	(480,809)	(3,205,396)
Other comprehensive income/(loss) for the period	-	-	-	(1,638,474)	-	(1,638,474)	-	(1,638,474)
Total comprehensive income/(loss) for the period	-	-	-	(1,638,474)	(2,724,587)	(4,363,061)	(480,809)	(4,843,870)
Transactions with owners in their capacity as owners:								
Issue of share capital	119,500	-	-	-	-	119,500	-	119,500
Proceeds from issue of options	-	-	-	-	-	-	-	-
Share based payments	-	1,752,450	-	-	-	1,752,450	-	1,752,450
								-
At 31 December 2009	40,687,060	3,442,075	2,041,440	(3,813,638)	(19,650,005)	22,706,932	(480,809)	22,226,123

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



NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of Kingsrose Mining Limited for the half year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 9 March 2011.

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

The nature of the operations and principal activities of the Consolidated Entity are:

- The construction, commissioning and the commencement of production at the Way Linggo underground gold/silver mining project in Sumatra, Indonesia.
- On-going evaluation of "SARINC" lead/zinc tailings retreatment project in Sardinia, Italy, including metallurgical process assessment to determine recoverability, likely process route and preliminary commercial evaluation.

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

The Group's corporate structure is:

Company	Place of Incorporation	% Interest held by consolidated entity	
		As at	As at
		31/12/2010	31/12/2009
		%	%
MM Gold Pty Ltd	Australia	100	100
Natarang Offshore Pty Ltd	Australia	100	100
PT Natarang Mining*	Indonesia	85	85
Kingsrose Tangammas Pty Ltd	Australia	100	100
Sarinc UK Ltd	England/ Wales	100	-
Sarinc srl	Italy	100	-

*Contract of Work, Way Linggo Gold Project

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2010 has 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 entity as the full financial report.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2010 and considered together with any public announcements made by Kingsrose Mining Ltd during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations of the ASX listing rules.

Significant Accounting Policies

Apart from the changes in accounting policies noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Changes in Accounting Policies

From 1 July 2010, the Group has adopted the Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2010. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

The Group has not elected to early adopt any new standards or amendments.

3. OPERATING SEGMENTS

Identification of reportable segments

- The Group has identified its operating segments based on internal reports that are reviewed and used by management 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 zinc. PT Natarang Mining (operator of the Way Linggo Project) is the primary entity that will be producing 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 (the chief operating decision makers) on a monthly basis.

Accounting policies and inter-segment transactions

- The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2 to the accounts except for intercompany loans which are initially recognised at the consideration received.
- 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

- Income tax expense has not been calculated for the reported segments as both segments have made operating losses. No effect is given for taxable or deductible temporary differences.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE & EXPENSES

	Consolidated	
	31-Dec-10	31-Dec-09
	\$	\$
(a) Revenue		
Gold	7,224,333	-
Silver	1,547,070	-
Interest revenue	88,457	153,849
Total Revenue	8,859,860	153,849
(b) Cost of Sales		
Mine production costs	(6,368,859)	-
Depreciation	(1,826,612)	-
Amortisation	(1,241,283)	-
Royalty	(175,426)	-
Relief of Rehabilitation	-	-
Inventory movement	3,498,124	-
Total Cost of Sales	(6,114,056)	-
(c) Administration Expenses		
Corporate costs	(2,108,254)	(1,398,778)
Depreciation	(14,433)	(7,049)
Loss on held for trading financial asset	(263,407)	-
Share-based payments	(17,920)	(1,752,450)
Total Administration Expenses	(2,404,014)	(3,158,277)
(d) Other Income		
Profit from sale of assets	5,951	6,034
Total Other Income	5,951	6,034
(e) Finance Costs		
Interest expense	(252,527)	(18,977)

5. CASH AND CASH EQUIVALENTS

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

	Consolidated	
	31-Dec-10	30-Jun-10
	\$	\$
Cash at bank and in hand *	11,246,625	7,833,315
	11,246,625	7,833,315

* \$4,000,000 of cash is restricted and held as part of the Credit Suisse prepared silver transaction entered into in December 2010 (refer to Corporate Section of the Director's Report).



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. INVENTORIES

	Consolidated	
	31-Dec-10	30-Jun-10
	\$	\$
Ore stocks at cost	1,347,409	1,105,751
Stores and spares at cost	999,693	574,042
Gold bullion	1,546,156	-
Gold in circuit	357,604	-
Total inventories at lower of cost and net realisable value	4,250,862	1,679,793

7. HELD TO MATURITY FINANCIAL ASSET

	Consolidated	
	31-Dec-10	30-Jun-10
	\$	\$
Term deposit *	4,000,000	-
	4,000,000	-

* Cash is held on four month term deposit with a maturity date of 21 April 2011.

8. TRADE AND OTHER PAYABLES

	Consolidated	
	31-Dec-10	30-Jun-10
	\$	\$
<u>Current</u>		
Trade creditors	1,088,234	978,325
Sundry creditors	749,101	849,725
Accruals	1,002,777	881,490
Unearned revenue (a)	5,284,286	255,000
	8,124,398	2,964,540
<u>Non-Current</u>		
Unearned revenue (a)	7,398,000	-
	7,398,000	-

(a) On 20 December 2010, PT Natarang Mining (PTNM), entered into a 2-year silver forward structure whereby PTNM has agreed to sell a total of 480,120 silver ounces over 24 months starting in March 2011 and receive the total advance proceeds of the total sales in December 2010. The pre-paid silver sale transaction with Credit Suisse International raised US\$12,896,000 or equivalent to A\$13,000,000 at the date of transaction.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. INTEREST-BEARING LOANS AND BORROWINGS (CURRENT)

	Consolidated	
	31-Dec-10	30-Jun-10
	\$	\$
Hire purchase	300,407	44,219
Loan from related party (a)	6,320,000	6,316,908
Loan from related party (b)	-	2,200,000
	<u>6,620,407</u>	<u>8,561,127</u>

(a) Represents unsecured interest-bearing loans to Related Parties to the Company. These are detailed below:

- (i) As part of the Way Linggo Gold Project acquisition, a loan of \$4,626,940 from Singapore Mining Ventures Pte Ltd ("SMV"), a company controlled by Dr. Andrews, to PTNM was documented in a Loan Arrangements Deed. This Deed provided that on repayment of the above-mentioned sum, \$1,000,000 is to be repaid by SMV to Goldcrest Pty Ltd, a company controlled by Mr. Morris and \$2,626,940 to be paid to Icon.
- (ii) A\$186,985 loan from Dr. Andrews, (former Director) of PTNM, and a \$328,358 loan from Herryansjah, President Director of PTNM were detailed in the same Deed and on the same terms noted above.
- (iii) A\$909,060 loan from Icon Enterprises Limited was detailed in the same Deed and on the same terms noted above. Messrs Phillips and Morris are Directors of Icon and Dr. Andrews is the General Manager.
- (iv) A\$268,657 loan from PT Promincon Indonesia, a company controlled by Messrs. Andrews and Phillips was detailed in the same Deed and on the same terms noted above.

(b) Following the redemption of 11,000,000 Convertible Notes at \$0.20 each on 30 June 2010, the Company entered into an unsecured loan arrangement for \$2,200,000 with the two note holders (one of the holders being a director of the company), bearing interest at a rate of 6% per annum. The loan and interest were paid in full on 24 December 2010.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. CONTRIBUTED EQUITY

	Consolidated 31 December 2010		Consolidated 31 December 2009	
	\$	Number	\$	Number
Issued Capital during the period:				
<i>(a) Ordinary Shares</i>				
Issued and fully paid	54,253,168	251,335,560	40,687,060	219,300,020
<i>(b) Movements in ordinary shares on issue</i>				
Balance at beginning of period	50,889,668	241,433,060	40,567,560	218,250,020
Exercise of options - listed	848,944	4,202,500	-	-
Exercise of options - unlisted	849,556	4,200,000	119,500	1,050,000
Share issue in settlement of royalty *	1,665,000	1,500,000	-	-
Balance as at end of period	54,253,168	251,335,560	40,687,060	219,300,020

* On 23 September 2010, 1,500,000 fully paid ordinary shares were allotted to Harmony Gold Mining Co Limited's fully owned subsidiary, Aurora Gold Limited to relinquish and terminate AGL's right to receive under a 1995 Royalty Agreement. The shares were issued within the discretionary capacity of the Board under ASX Listing rule 7.1

11. DISCOUNTED OPERATIONS

The sale of the Comet Vale joint venture was completed on 31 May 2010. Subsequent to the disposal of this operation, during the six months ended 31 December 2010, proceeds from the sale of the ore stockpile on hand at 30 June 2010 of \$1,358,504 was recognised.

(a) Financial performance of the Comet Vale joint venture operations for the period

	Consolidated	
	31-Dec-10 \$	31-Dec-09 \$
Revenue	1,358,504	1,807,371
Expenses	(1,114,207)	(1,649,359)
Gross profit/(loss)	244,297	158,012
Income/(loss) before tax from discontinued operations	244,297	158,012
Income tax benefit/(expense)	-	-
Net Income/(loss) before tax from discontinued operations	244,297	158,012

(b) Cash flow information of Comet Vale joint venture operations until disposal

	31-Dec-10 \$	31-Dec-09 \$
Operating activities	1,350,048	(1,205,599)
Net cash inflow/(outflow)	1,350,048	(1,205,599)



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. EVENTS AFTER REPORTING DATE

Pursuant to the terms of the Loan Arrangements Deed, which formed part of the Share Purchase Agreement dated 26 November 2008 which was approved by shareholders in general meeting on 21 January 2009, the following vendor loans, representing principal and interest, have been repaid in full:

- On 26 January 2011: A\$1,124,985 to Zelman Pty Ltd and A\$1,127,727 to Goldcrest Pty Ltd.
- On 18 February 2011: A\$211,233 to Dr. M. Andrews; A\$371,397 to Herryansyah and A\$303,497 to PT Promincon Indonesia.
- On 3 March 2011: A\$1,026,948 to Icon Enterprises Limited.

2,811,928 listed options were exercised for a total consideration of A\$562,385.

1,175,000 unlisted options were exercised for a total consideration of A\$312,000.



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 2010 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
9 March 2011

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 2010, 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 statement 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 2010 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.

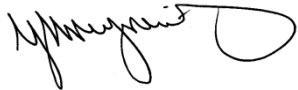
Conclusion

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 2010 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, appearing to read 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'G H Meyerowitz'.

G H Meyerowitz
Partner
Perth
9 March 2011