

VALUE REALISATION DEFERRED BY MINE DEVELOPMENT DELAYS

Investment Highlights

- Kingsrose Mining Limited (KRM) has encountered some groundwater ingress issues that have hampered the progress of its shaft sinking operations at its Talang Santo mine. This has, in turn, delayed access to high grade ore in the lower levels of the mine and constrained cash flow. We believe that these issues are being resolved and that access to the higher grade ore stopes should be achieved by December 2016. Not only will this enable significantly increased gold production, it will also facilitate Resource-extension drilling that could result in sustainable mine life and output increases. We rate KRM as a Speculative Buy, acknowledging the risk inherent in a single-asset company operating an underground gold mine in Indonesia, but also stressing that the operational issues currently encountered, merely delays value realisation by circa 6 months, rather than representing some systemic problems with the mine.
- KRM is relatively tight for cash at present. As at 31 March 2016, the Company had \$2.0m of cash, \$3.8m of bullion and trade receivables, and debt of \$9.8m. This debt consists of an A\$4.25m loan and two loans each of US\$2.125m. In early May 2016, KRM restructured its debt, resulting in a 6-month moratorium on scheduled debt repayments, which delayed further principal repayments until October 2016. Whilst the presence of debt increases the investment risk of the shares, it is comforting that the majority of debt is owed to a Director of KRM.
- We are expecting production to be similar to the March 2016 Quarter at 1500oz per month for the next 6-9 months, as access to high-grade ore in the 5 Level is achieved over the remainder of the calendar year. Given that the mine is operated by KRM as an owner-miner, much of the costs on site are fixed and we estimate that output of 1500oz per month is only sufficient to achieve cash flow break-even. However, when the shaft is completed, ore hoisting capacity from the Talang Santo mine will be more than sufficient to match the 140ktpa of processing capacity at the nearby Way Linggo plant.
- We believe that KRM could produce around 4000oz per month, once it completes its current development plans. These development plans come with very little capital expenditure, as the Company has its own shaft sinking and mine development crews and equipment. Additionally, the high grade mineralisation remains open at depth (the current mine plan is only to a depth of around 300m) and along strike.

Year End June 30	2015A	2016F	2017F	2018F
Reported NPAT (\$m)	10.5	(1.3)	4.8	20.5
Recurrent NPAT (\$m)	(3.2)	(4.2)	4.8	20.5
Recurrent EPS (cents)	(0.9)	(1.2)	1.4	5.7
EPS Growth (%)	na	na	na	323.7
PER (x)	(18.6)	(14.1)	12.2	2.9
EBITDA (\$m)	8.8	4.5	19.5	50.5
EV/EBITDA (x)	5.4	10.6	2.4	0.9
Capex (\$m)	5.2	7.1	10.1	8.3
Free Cashflow	3.7	(6.3)	6.3	24.6
FCFPS (cents)	1.0	(1.8)	1.8	6.9
PFCF (x)	16.0	(9.3)	9.3	2.4
DPS (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

25 May 2016

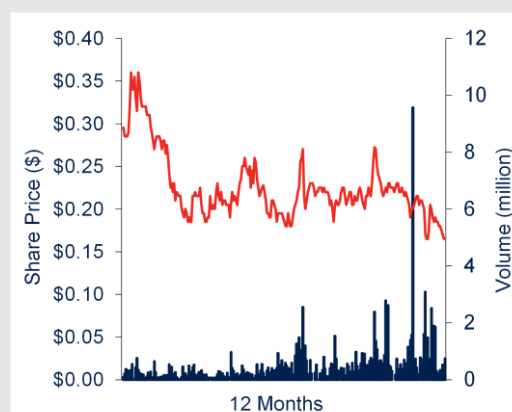
12mth Rating	SPEC BUY	
Price	A\$	0.165
Target Price	A\$	0.262
12mth Total Return	%	58.5

RIC: KRM.AX	BBG: KRM AU	
Shares o/s	m	358.6
Free Float	%	78.6
Market Cap.	A\$m	59.2
Net Debt (Cash)	A\$m	7.8
Net Debt/Equity	%	8.3
3mth Av. D. T'over	A\$m	0.21
52wk High/Low	A\$	0.36/0.17
2yr adj. beta		0.17

Valuation:		
Methodology		DCF
Value per share	A\$	0.26

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12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	-20.9	-17.1	-45.2
Rel. S&P/ASX 300	-19.3	-25.9	-36.2

The Way Linggo Project

Kingsrose Mining Limited is an ASX listed specialist high-grade, narrow-vein underground gold miner. The Company has an 85% interest in the Way Linggo Project in South Sumatra, Indonesia.

The Project is held under a 100km², 4th generation Contract of Work (“CoW”) with the Indonesian Government and is located on the mineral rich Trans-Sumatran Fault, part of the “Pacific Rim of Fire”. The Project has established infrastructure, including a 140ktpa processing plant and Merrill Crowe gold circuit, and a track record of high grade, low cost gold production from the original Way Linggo mine.

Figure 1: Way Linggo Project Location



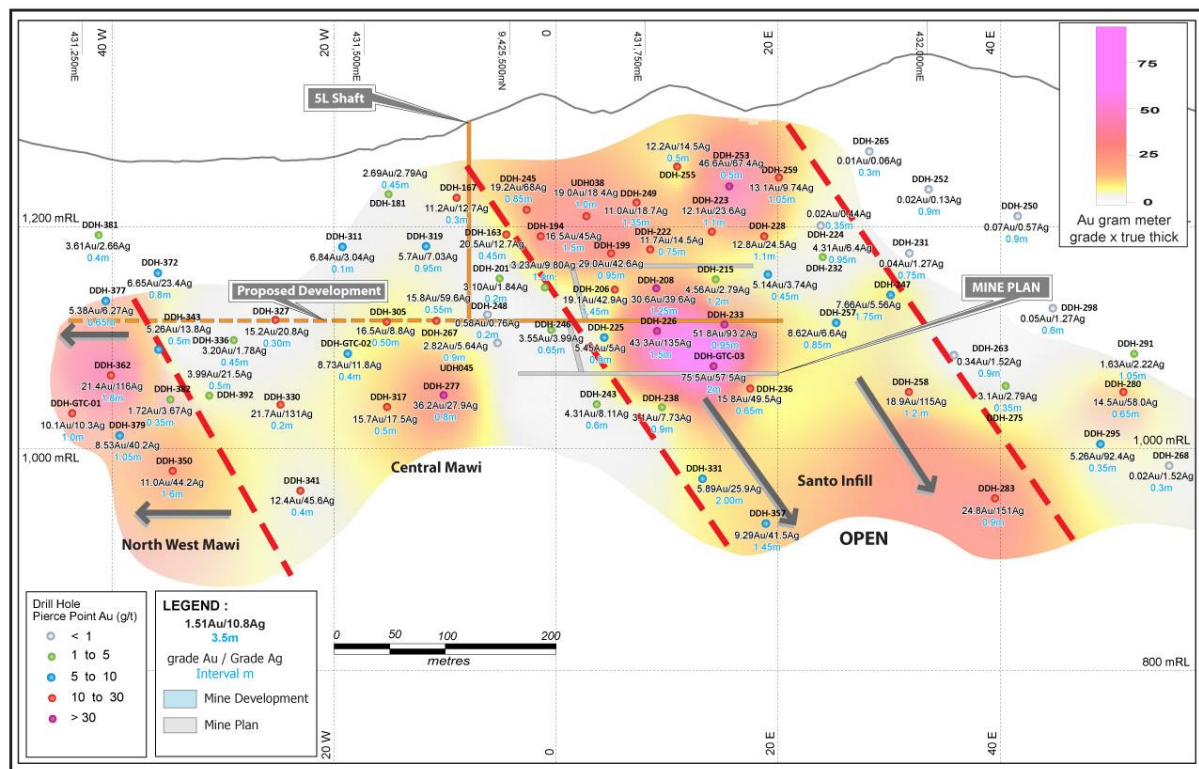
Source: Kingsrose Mining Ltd

Production, characterised by high grades and low costs from the Way Linggo mine, allowed the Company to enjoy some of the most robust operating margins in the industry in the 2011 and 2012 financial years. During the 2013 financial year however, the mine entered a more mature phase of operation with grade and production levels declining. Following a comprehensive review in June 2013, the decision was made to suspend all normal mining activities at the Way Linggo mine.

The Company is currently producing from its second mine of the Project area, Talang Santo. Based on current development, Talang Santo is pointing to being a significantly larger mineralised system than that seen at the Way Linggo Mine. The discovery of Talang Santo in June 2011 was an exciting milestone achieved by the Company, and work quickly commenced to advance its development. Talang Santo is located within a major cluster of epithermal veining and is located 17km by an established all-weather haul road from the Way Linggo processing plant.

Phase 1 of the current mine plan will see six levels established at around 50m spacings. Four levels have already been developed but the extension of an external haulage shaft to below the 5 Level has been hampered by groundwater ingress, which has slowed development and hindered access to high grade ore stopes on the 5 and 6 Levels.

Figure 2: Talang Santo Mine Plan



Source: Kingsrose Mining Ltd

On 12 August 2015, the Company announced a significant resource update for the Talang Santo Mine in compliance with the 2012 JORC Code. As at June 2015, the Total Mineral Resource for the Talang Santo deposit was 1.4 million tonnes at 8 g/t Au and 22 g/t Ag for 360,000 ounces of gold and 1,012,000 of silver.

This represented a 27% increase in contained gold, with an additional 77,000 ounces of gold over the previous Talang Santo Mineral Resource, after allowing for depletion by mining.

Figure 3: Mineral Resource Table

Category	Tonnes (kt)	Gold (Au) g/t	Au Ounces (koz)	Silver (Ag) g/t	Ag Ounces (koz)
Talang Santo					
Measured	197	10.8	68	25	155
Indicated	468	11.1	167	22	326
Inferred	739	5.2	124	22	531
Subtotal	1,403	8.0	360	22	1,012
Way Linggo					
Measured	318	14.4	147	174	1,784
Indicated	170	6.3	34	61	333
Inferred	14	12.1	5	88	39
Subtotal	502	11.5	186	134	2,156
GRAND TOTAL	1,905	8.9	546	52	3,168

Source: Kingsrose Mining Ltd

The mineralised system, in and around the Talang Santo mine, is shaping up to be a significantly larger mineralised system than previously seen elsewhere in the Project area, with the ore body remaining open at depth and mineralisation continuing along strike. Gold grades from initial mine development have exceeded resource modelling, largely due to the style of the ore body which contains low-sulphidation epithermal fissures and veins within a zone of intense argillic alteration. Very fine clays are present, containing high to very high grades of gold and silver. In addition, the grade from recent mill trials indicates significant grade uplift from drilling and resource modelling. Both of these factors support the anticipated upside in the range of gold grades likely to be encountered when stoping from the competent rock expected in the 5 and 6 Levels commences.

Mineralisation at Talang Santo has been proven in multiple orientations, with recent development work confirming the existence of a second body of mineralisation called the Splay vein. The Splay vein was previously interpreted from limited surface drill intercepts in the initial Talang Santo geological model, however, was not included in any mining inventory.

Development of the Splay vein sublevels continue to indicate potential for additional high-grade stoping zones, with high grade face samples including:

- 1.0m @ 137 g/t Au and 99 g/t Ag
- 1.2m @ 113 g/t Au and 240 g/t Ag
- 1.3m @ 84 g/t Au and 132 g/t Ag

Discovery of a new high-grade zone on the 4 Level Hanging Wall vein is also encouraging, with significant face samples including:

- 2.3m @ 32 g/t Au and 15 g/t Ag
- 1.2m @ 94 g/t Au and 49 g/t Ag
- 2.2m @ 45 g/t Au and 31 g/t Ag

Development has highlighted the existence of two distinct zones within the mineralised corridor of the Splay vein. The main mineralised zone of the Splay vein (Zone A) consists of a vein averaging 2 metres wide, strike of 113 metres and a length weighted average grade (uncut) of 27.60 g/t Au and 95.9 g/t Ag. Beyond Zone A, a fault intersected the orebody with a minor offset into a narrower high grade zone (Zone B). Zone B is a narrower vein, averaging 0.5 metres wide over the current strike of 66m at 14.78 g/t Au and 23.8 g/t Ag. It is anticipated that Zone B is still capable of being bulk mined to allow stoping.

Figure 4: Talang Santo Operations Recent Production Overview

	UNITS	SEPTEMBER 2015 QUARTER	DECEMBER 2015 QUARTER	MARCH 2016 QUARTER	YEAR TO DATE
MINE PRODUCTION					
ORE MINED	t	13,162	21,341	17,571	52,075
MINE GRADE (GOLD)	g/t	10.2	9.4	8.5	9.3
MINE GRADE (SILVER)	g/t	26	24	17	22
ORE PROCESSED					
TONNES MILLED	t	13,250	21,612	17,400	52,262
HEAD GRADE (GOLD)	g/t	9.8	9.3	8.6	9.2
HEAD GRADE (SILVER)	g/t	25	24	18	22
RECOVERY (GOLD)	%	95.6	95.8	95.2	95.5
RECOVERY (SILVER)	%	91.6	86.0	89.0	88.4
GOLD PRODUCED	oz	4,010	6,212	4,591	14,813
SILVER PRODUCED	oz	9,901	14,188	8,730	32,819
COSTS OF PRODUCTION					
CASH OPERATING COSTS (C1)	US\$/oz	920	662	865	795
ALL-IN-SUSTAINING COSTS OF PRODUCTION (AISC)	US\$/oz	1,580	963	1,236	1,216

Source: Kingsrose Mining Ltd

Continued challenges relating to the inflow of water into the mine and the related suspension of the sinking of the 5 Level external shaft, have resulted in lower than forecast production year to date. In light of this, the Company advised that its production guidance for the 2016 financial year had been revised from a range of 27,000 – 35,000oz to 19,500 – 21,500oz of gold.

As a result of the lower production levels and ongoing costs associated with pumping, the All-in Sustaining Cost (AISC) guidance for the 2016 financial year has been revised from US\$800 - \$900 an ounce to US\$1,150 - \$1,240 an ounce.

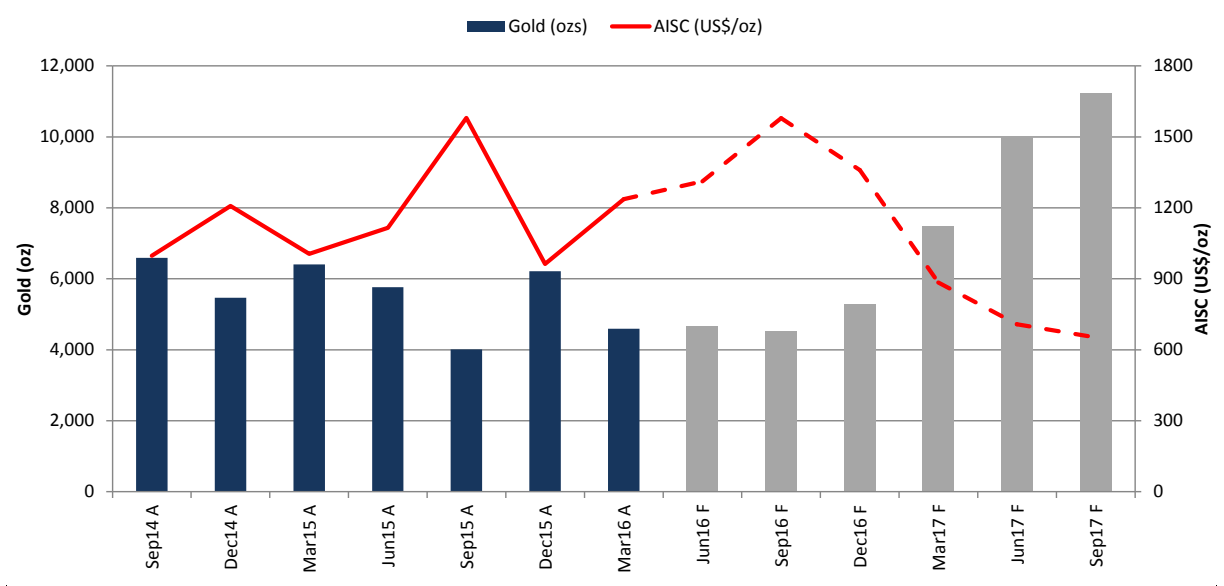
The delays associated with construction of the 5 Level Shaft have reduced production, which in turn increased costs. During the March 2016 Quarter, mining activities were focussed on the 4 Level and 5 Level sublevel development with a total of 17,571 ore tonnes mined at 8.5 g/t Au and 17 g/t Ag for the period. The Splay vein continued to produce excellent grade with 3,448 tonnes at 14.1 g/t gold and 35 g/t silver mined. Towards the end of the Quarter, sublevel development on the 5 Level commenced, albeit slowly.

Development on the 4 Level identified an extension of high-grade veining to the east of the Hanging Wall vein, approximately 50 metres beyond the previous plan, which may potentially open a new area up to mining. This extension produced 220 tonnes at 26 g/t Au during the Quarter, with further drilling and development advance along strike to the east and up dip scheduled for the June Quarter. This newly identified high-grade zone extends beyond the current known limits of the mineralisation and has the potential to enlarge the system with the vein thickness increasing up to 4 metres in some places.

We are expecting production to be similar to the March 2016 Quarter at 1500oz per month for the next 6-9 months, as access to high-grade ore in the 5 Level is achieved over the remainder of the calendar year. Given that the mine is operated by KRM as an owner-miner, much of the costs on site are fixed and we estimate that output of 1500oz per month is only sufficient to achieve cash flow break-even. However, when the shaft is completed, ore hoisting capacity from the Talang Santo mine will be more than sufficient to match the 140ktpa of processing capacity at the nearby Way Linggo plant.

We believe that KRM could produce around 4000oz per month, once it completes its current development plans. These development plans come with very little capital expenditure, as the Company has its own shaft sinking and mine development crews and equipment. Additionally, the high grade mineralisation remains open at depth (the current mine plan is only to a depth of around 300m) and along strike.

Figure 5: Talang Santo Production and Cost History and Forecasts



Source: Patersons Securities Limited

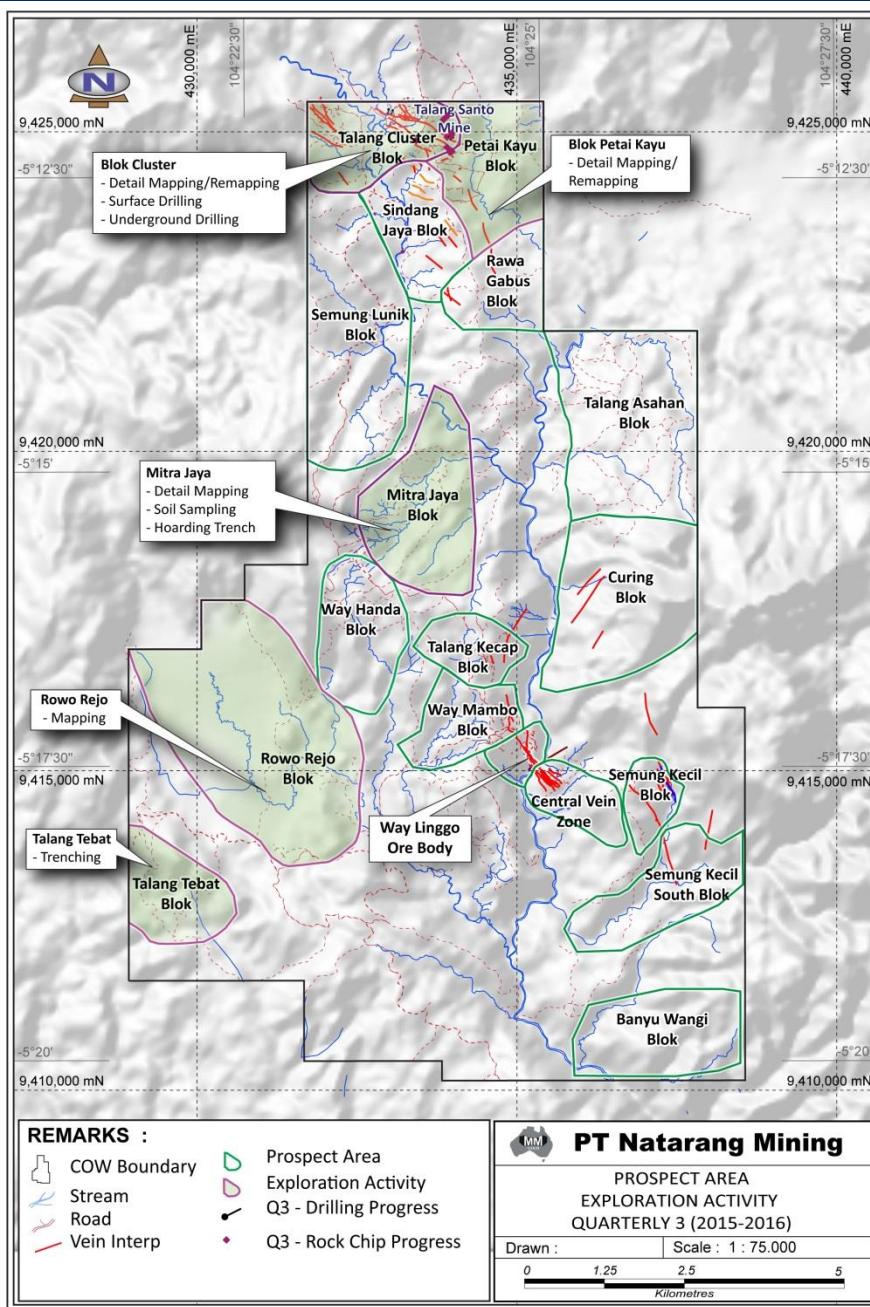
Exploration

The Company continues to see significant potential for organic growth with extensive reconnaissance, surface mapping, geochemical sampling, test pitting and trenching and some surface drilling undertaken during the Quarter to further refine areas of priority.

Surface exploration mapping and geochemical sampling was conducted in the prospect of Talang Cluster, Petai Kayu, Rowo Rejo, and Talang Tebat.

Reconnaissance and mapping was also conducted over the Silver vein to the south west of Talang Santo and the surface expression was delineated over +/- 200m with massive quartz and silica-limonite breccia identified. Further work and sampling is being conducted to understand the relationship with the main Mawi structure. Similar work was also conducted across the south and north Petai Kayu prospects looking for surface outcrop and any exposure of the intersection with the east-west Mawi structure.

Figure 6: Exploration Mapping



Source: Kingsrose Mining Ltd

VALUATION

We have valued KRM by applying an 8% discount rate to the future cash flows estimated to be derived from its Talang Santo Gold Mine, which we have assumed would produce a further 340koz over a 9-year period representing c90% of the current Mineral Resource. We normally apply a 5% discount rate for gold producers, but the added risk profile of this single-asset Company that operates in Indonesia, has seen us apply a higher rate.

We applied a nominal value of cUS\$7m (A\$9.5m) to mine life extensions beyond our assumed mine life at Talang Santo, the 186koz of remnant resources at the Way Linggo Mine and the regional exploration portfolio.

As at 31 March 2016, KRM had \$2.0m of cash and another \$3.8m worth of bullion and trade receivables. It also had A\$9.8m of debt outstanding, in the form of A\$4.25m owed to current Executive Director, Bill Phillips, and US\$4.25m, of which half is owed to Mr Phillips with the remainder owed to former Director and current shareholder, Michael John Andrews. These loans are secured against the assets of the Company and repayments were rescheduled in early May 2016 to commence in October 2016, which was a six-month deferral.

Additional to the factoring in of the net debt position as at 31 March 2016, we also applied the net present value of \$4m of corporate costs per annum as a negative to our valuation of KRM.

This resulted in a total valuation of A\$94m, which is equivalent to 26.2 cents per KRM share.

SUBSTANTIAL SHAREHOLDERS

Based on the most recent disclosure, the current substantial shareholders are:

Rex Harbour	15.26%
John William Phillips	6.18%

Mr Phillips is also an Executive Director of KRM, and has also provided the Company with two loans, which amounted to A\$4.25m and US\$2.125m, outstanding as at 31 December 2015.

BOARD OF DIRECTORS

John Morris - Chairman

Mr Morris has over 36 years' experience in exploration, project development and management of public listed resource companies. He has held prior Directorships in a number of gold and base metals public companies in Australia and overseas including Forsayth NL, Uruguay Mineral Exploration Plc and Amerisur Resources Plc (formerly Chaco Resources Plc/Gold Mines of Sardinia Plc)

J. William (Bill) Phillips - Executive Director

Mr Phillips has over 30 years' experience in mining contracting and mine management, much of which has been gained in Western Australia. He is highly regarded as a leading specialist in underground narrow vein mining. He has managed or been instrumental in the successful development of 16 mines either in the role of contractor or as owner/shareholder.

Mr Phillips most recent role was overseeing development, mining and production at Medusa Mining Limited's Co-O gold mine and processing plant in the southern Philippines. He is now focused solely on the Way Linggo gold/silver mine located in Sumatra, Indonesia and is a member of the Board of Commissioners for Kingsrose Mining Ltd 85% owned subsidiary, PT Natarang Mining.

Doug Kirwin - Non Executive Director

Mr Kirwin is a highly regarded geologist with 45 years' experience, mainly in the Asia-Pacific region. He was the exploration Executive Vice-President of Ivanhoe Mines and was Managing Director of International Geological Services Pty. Ltd. He has also held several senior positions with Anglo American and Amax.

Mr Kirwin holds a Master of Science Degree in mineral exploration from James Cook University in Australia. As a member of the joint discovery team of the Hugo Dummett Deposit at Oyu Tolgoi, Mongolia, he was a co-recipient of the PDAC inaugural Thayer Lindsley medal awarded for the most significant international mineral discovery in 2004 and was the Society of Economic Geologists International Exchange Lecturer for 2006.

Mr Kirwin served as the Vice President of the Society of Economic Geologists from 2009 until 2011. He has been an independent consultant since 2011. In 2015, Mr Kirwin received the Alumni of the year award from James Cook University, where he is currently an adjunct research professor.

Andrew Spinks - Non Executive Director

Mr Spinks has a wealth of technical, managerial and corporate experience gained over 24 years within the mining industry in both Australia and overseas. Previously, Andrew has held a number of key geological, operational and managerial roles, including positions with Whim Creek, Dominion Mining, Plutonic Resources, Australian Gold Fields, Black Range Minerals, Crescent Gold Limited and more recently with Macarthur Minerals Limited. Andrew is currently a director of ASX Listed Kibaran Resources Limited.

Kingsrose Mining Limited (KRM)

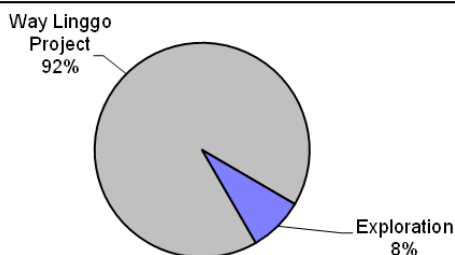
\$0.165

Valuation	A\$m	A\$/sh
Way Linggo Project	105.7	0.295
Other Projects	0.0	0.000
Exploration	9.5	0.026
Unpaid capital	0.0	0.000
Corporate	(17.4)	(0.048)
Forwards	0.0	0.000
Bullion	3.8	0.011
Cash (est.)	2.0	0.006
Debt	(9.8)	(0.027)
NAV	93.8	0.262
(@ 8% discount rate)		
Price Target (1.0x NAV)		0.262

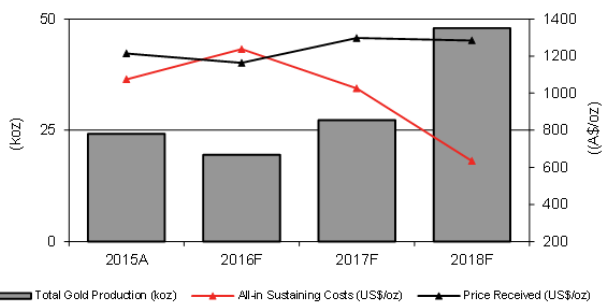
NAV Sensitivity

NPV(nom) @ 5% disc.	0.30
NPV(nom) @ 0% disc.	0.37

Valuation Summary of Operating Assets



Gold Production Summary



Resources & Reserves

As At 30 June 2015

Reserves	Mt	Au g/t	Au koz
Total	0	0.0	0
Resources	Mt	Au g/t	Au koz
Talang Santo	1.40	8.0	360
Way linggo	0.50	11.5	186
Total	1.91	8.9	546

Directors

Name	Position
John Morris	Non-Executive Chairman
Bill Phillips	Executive Director
Andrew Spinks	Non-Executive Director
Doug Kirwin	Non-Executive Director

Substantial Shareholders

	No.	%
Rex Harbour & Associates	54.7	15.3
James William Phillips	22.2	6.2
Top 20	249.6	69.6

Year End June 30

Commodity Assumptions	2015A	2016F	2017F	2018F
A\$:US\$	0.84	0.73	0.74	0.73
Gold (US\$/oz)	1224	1171	1297	1285
Silver (US\$/oz)	17.40	15.46	17.98	18.20
Gold (A\$/oz)	1461	1599	1756	1766
Target Price Sensitivity	0%	+10%	Change	
FX (A\$:US\$)	0.262	0.230	-12%	
Gold Price	0.262	0.322	23%	
Gold Grade	0.262	0.329	26%	
Operating Costs	0.262	0.234	-11%	

Production Summary

	2015A	2016F	2017F	2018F
Production (koz)				
Way Linggo Project	24.2	19.5	27.3	48.0
Mine 2	0.0	0.0	0.0	0.0
Total Gold Production (koz)	24.2	19.5	27.3	48.0

Cost Summary

	2015A	2016F	2017F	2018F
Cash Costs (US\$/oz)	711	828	663	462
All-in Sustaining Costs (US\$/oz)	1075	1238	1026	635
Price Received (US\$/oz)	1,215	1,164	1,298	1,285
Profit & Loss (A\$m)	2015A	2016F	2017F	2018F
Sales Revenue	33.5	33.4	49.4	86.7

Other Income	0.1	0.2	(0.0)	0.4
Operating Costs	20.5	24.7	25.9	32.5
Exploration Exp.	0.0	0.0	0.0	0.0
Corporate/Admin	4.3	4.4	4.1	4.1
EBITDA	8.8	4.5	19.5	50.5
Depn & Amort	5.0	7.1	10.6	18.8
EBIT	3.8	(2.6)	8.9	31.7
Interest	1.3	1.3	1.0	0.1
Abnormals (pre-tax)	13.7	2.9	0.0	0.0
Operating Profit	16.1	(1.0)	7.9	31.6
Tax expense	5.6	0.2	3.1	11.1
Abnormals (post-tax)	0.0	0.0	0.0	0.0
NPAT	10.5	(1.3)	4.8	20.5

Normalised NPAT

	1.3	(3.6)	4.8	20.5
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Cash Flow (A\$m)

	2015A	2016F	2017F	2018F
Adjusted Net Profit	1.3	(3.6)	4.8	20.5
+ Interest/Tax/Expl Exp	7.1	1.5	4.1	11.2
- Interest/Tax/Expl Inc	0.8	3.3	5.8	13.4
+ Depn/Amort	5.0	7.1	10.6	18.8
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	12.6	1.8	13.7	37.1
- Capex (+asset sales)	5.2	7.1	10.1	8.3
- Working Capital Increase	3.7	1.0	(2.7)	4.2
Free Cashflow	3.7	(6.3)	6.3	24.6
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	0.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	(0.9)	(2.3)	(5.4)	(4.4)
Net Change in Cash	2.9	(8.6)	0.9	20.2
Cash at End Period	9.5	1.0	1.9	22.1
Net Cash/(LT Debt)	(2.0)	(8.8)	(2.5)	22.1

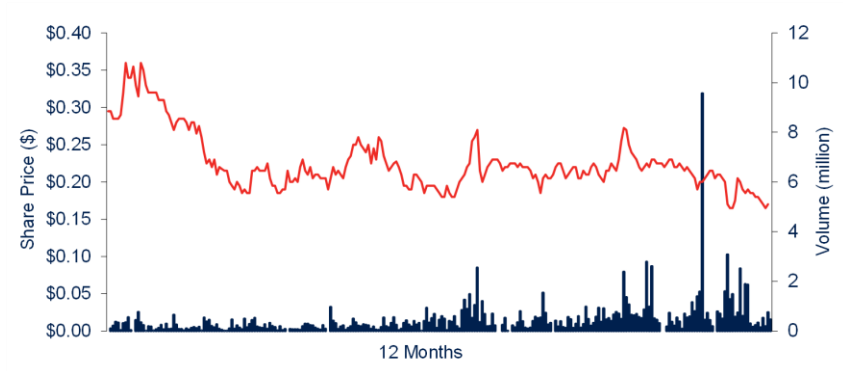
Balance Sheet (A\$m)

	2015A	2016F	2017F	2018F
Cash	9.5	1.0	1.9	22.1
Total Assets	105.6	105.0	104.8	122.6
Total Debt	12.2	10.5	5.1	0.7
Total Liabilities	19.4	18.1	13.1	10.4
Shareholders Funds	86.2	86.9	91.7	112.3

Ratios

Net Debt/Equity (%)	2.3	10.1	2.7	na
Interest Cover (x)	2.8	na	8.8	262.2
Return on Equity (%)	12.2	na	5.3	18.3

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
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Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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