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31 January 2008

## DECEMBER 2007 QUARTERLY REPORT

### **Rapidly Bringing Heilongjiang's First Ever Sino Foreign Gold Mine into Production**

Leyshon Resources Limited (AIM/ASX: LRL) is pleased to report that during the quarter it continued to make substantial and wide ranging progress as it rapidly develops the Zheng Guang gold zinc project in Heilongjiang, northeast China.

#### **Highlights**

- 43,000 m diamond and RC drill programme completed
- Revised resource estimate expected to upgrade much of the current Inferred resource to Measured and Indicated due in February 2008
- Encouraging results received from the Zheng Guang North deposit
- Three additional exploration licences issued by the Ministry of Lands and Resources
- Major exploration programme for 2008 being prepared by consulting geologists CSA Australia Pty Ltd
- Mine design progressing well
- Orders placed for two Ball Mills at a cost of US\$2m
- Contract awarded to supply 13MW of electrical power supply
- Orders for crushing circuit being finalized
- Department of Lands and Resources approval of layout of open pit, process plant and tailings dam

#### **Drilling Programmes**

The 43,000 metre diamond and reverse circulation drilling programme was completed in October 2007 and work is well underway on a revised resource estimate which is due for release in February 2008.

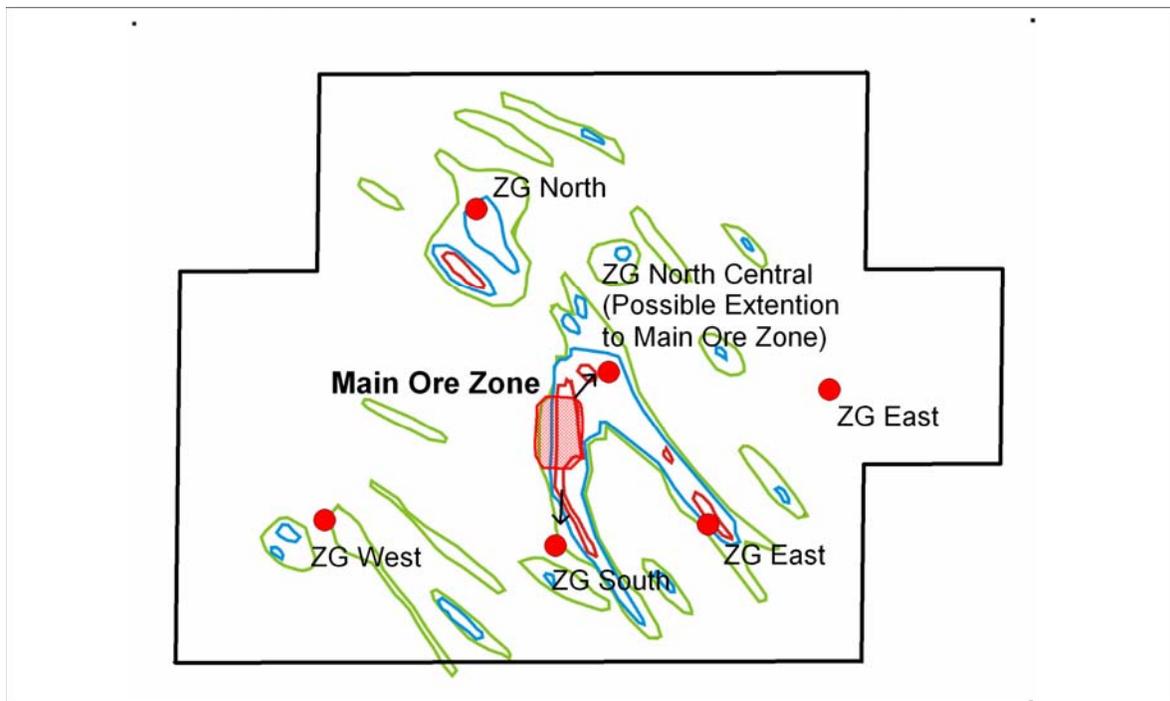
This revised estimate, which is being made by independent resource specialists Hellman and Schofield of Australia, is expected to upgrade much of the current 1.21 million ounces of gold, 3.72 million ounces of silver and 94,000 tonnes of zinc resource estimate to the Measured and Indicated categories, facilitating mine planning and project development later this year.

The diamond drilling programme completed 109 holes for 21,400 metres and was focussed on infill drilling in the centre of the Main Ore Zone. The majority of holes intersected strong mineralisation with broad cumulative widths demonstrating good continuity both down dip and between important sections.

The 22,300 metre reverse circulation drilling successfully tested oxide ore zones across the Main Ore Zone and potential new deposits previously identified at 6 geochemical anomalies across the exploration licence. It also included a sterilization programme over the proposed area for the tailings dam.

Of particular note were the continuing encouraging results received from the Zheng Guang North deposit, with the mineralisation continuing to extend in all directions. Holes ZGR1605, AGR1610 and ZGR1611 all reported excellent intersections including 8 metres at 17.6g/t Au from 19 metres depth in ZGR1605. In addition, diamond drill hole ZGD195 reported three ten metre intersections with the best being 17 metres at 2.6g/t Au from 95 metres.

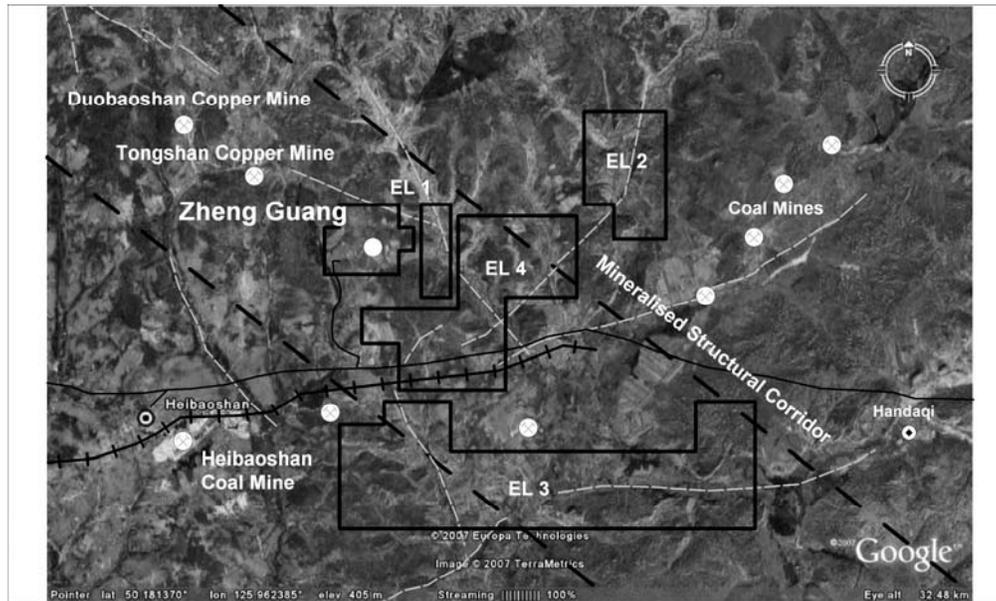
This deposit, located 750 metres to the north of the Main Ore Zone, was discovered in the 2006 drill programme and is showing good potential to be an immediate source of near surface mill feed. Encouraging results were also reported from Zheng Guang South, and other targets, and these will be followed up in the 2008 programme.



### Regional Exploration

Three additional exploration licences were issued by the Ministry of Lands and Resources covering a highly prospective area adjacent to Zheng Guang.

The new licences (EL1, 2 and 3 in the diagram) cover an area of 83 square kilometres close to and along strike from Zheng Guang. The total area now held by the joint venture is 130 square kilometres.



The new licence areas cover the highly prospective gold and base metal belt that extends from the Duobaoshan copper-gold mine in the northwest, through Zheng Guang and beyond into the coal mining area in the southeast.

A major exploration programme for 2008 is currently being prepared by consulting geologists CSA Australia Pty Ltd which will target large porphyry-style gold-copper deposits, Zheng Guang style gold and base metal carbonate deposits and high grade epithermal deposits.

### **Project Design**

The Company's engineering team lead by Project Manager Dr Ye Dong Ping has based itself in the city of Changchun in order that it can work intimately with the Changchun Design Institute on the Basic Engineering Design. The design is progressing well and is expected to be completed by mid February 2008.

To ensure that the latest metallurgical concepts are incorporated into the low cost Chinese design, independent metallurgical consultants Gary Patrick of Metallurg Pty Ltd of Australia and Tim Hetherington of EPCM of Hong Kong are working closely with the Changchun design team.

Gary Patrick has been responsible for the development of a process route which, based on the metallurgical testwork undertaken by AMMTEC of Australia, allows for a single gold/zinc sulphide ore to be mined and fed to a process plant which produces gold and silver dore together with a high grade zinc concentrate.

This development will have significant capital and operating cost benefits for the project as it will allow broad widths of a single ore type to be mined by low cost open pit methods and fed to a single circuit rather than separately mining gold and zinc ore types and feeding them to different circuits.

Tim Hetherington brings to the project his valuable experience gained from last year's highly successful construction and commissioning of TSX listed Jinshan Gold Mines Limited's 120,000 ounce per annum sino foreign gold project in the neighbouring province of Inner Mongolia.

## **Long Lead Time Orders**

The Company has placed orders for the manufacture and delivery of two ball mills at a cost of US\$2 million. The order was placed with Shenyang Heavy Machinery Group, one of China's largest engineering groups based in the neighbouring province of Jilin.

The 4.6 metre diameter, 750,000 tonnes per annum capacity mills are amongst the largest of their type to be manufactured in China and the first is scheduled to be delivered in August 2008 for the oxide circuit and the second in September 2009 for the sulphide circuit.

The total cost of RMB15 million (US\$2.03 million) spread over 2 years is in line with budget estimates and compares very favourably with that for overseas manufactured and supplied mills. The delivery time of 8 months, is less than a third of that being quoted for some international projects.

In addition to the order of ball mills, the local power authority, Nenjiang Power Bureau, has been contracted to engineer the supply of 13MW of electrical power from the local grid via 125KV high voltage overhead transmission lines.

Orders for the crushing circuit are currently being finalised and are expected to be placed shortly.

## **Approvals**

The approval processes are well advanced with various reports submitted and meetings attended with a view to having all necessary approvals in place to enable construction to commence later this year.

Feasibility studies and other reports, completed by the joint venture in accordance with regulatory requirements, have been submitted and approved by the relevant authorities.

An important step in the mining licence application has been achieved with the approval of the layout of the open pit, process plant and tailings dam by the Department of Lands and Resources (DOLAR).

Negotiations for the amount and terms of the payment for the Mining Licence transfer tax and Land Compensation are well advanced and expected to be finalised ahead of the commencement of development later this year.

## **Site Work and Utilities**

The Qiqiha'er Institute has completed site surveys and water resource investigations. Environmental base line studies, soil and water conservation, health and safety and other regulatory reports are well advanced.

The project benefits from being located in a well established coal and copper mining community with excellent infrastructure including a rail connection to the national network, grid power, water and a range of mining contractor services.

The project is expected to benefit further from the recently announced US\$8 billion planned infrastructure investment by the provincial government in the surrounding area. This will coincide with low energy costs resulting from the expansion of Heilongjiang's electricity generating capacity.

Heilongjiang is an energy rich province with abundant coal and gas supplies. State Grid, the provincial power authority, is expanding its installed electrical generating capacity by 80% to 2.2 terawatts (million megawatts) by 2010. The province enjoys an average price of electricity half of that in China's southern provinces and as a result, the Company expects to be able to negotiate a very attractive power tariff compared with international standards.

The Company remains fully engaged in China with its Managing Director and Chief Operating Officer based in the main operating office in Beijing. Its policy of full engagement with the local community is bearing fruit as negotiations with local farmers and other affected parties for land acquisition and access are well advanced and progressing well.

## **Corporate**

The Company has 218,110,891 ordinary fully paid shares on issue and 5.85 million options. Cash on hand at the end of the quarter was \$15,499,000.

For further information contact:

### **Leyshon Resources Limited**

*Paul Atherley - Managing Director*

*Tel: +86 137 1800 1914*

*Mob: +61 417 475 038*

### **Pelham Public Relations**

*Candice Sgroi*

*Tel: +44 (0)207 743 6376*

*Mob: +44 (0)7894 462 114*

### **Seymour Pierce**

*Jonathan Wright*

*Tel: +44 (0)207 107 8000*

<http://www.leyshonresources.com>

## **Background Information**

*Leyshon is fully engaged in China with its main operating office in Beijing its Chairman, Managing Director and Chief Operating Officer all based in China. Over 80% of employees are either native Chinese or Mandarin speaking.*

*The company is rapidly progressing the Zheng Guang gold zinc project to production status and is aiming to jointly develop it as the first ever Sino Foreign owned mine in the mineral rich province of Heilongjiang in 2008.*

*The project benefits from exceptional infrastructure as it is located within a well established coal and copper mining community with rail, power, water and mining contractor services immediately available.*

*Hellman and Schofield Pty Ltd of Australia has reported a JORC compliant resource estimate of 1.21 million ounces of gold, 3.72 million ounces of silver and 94,000 tonnes of zinc. Full details of the resource estimate are included in an AIM/ASX release dated 19 March 2007.*

*The discovery cost to date has been less than US\$5 per ounce reflecting the lack of modern exploration in a major gold belt which has produced over 20 million ounces from mainly surface and alluvial methods.*

*Leyshon's partner, the Qiqiha'er Brigade of the Heilongjiang Bureau of Geology and Mineral Resources, one of the largest organizations of its kind in China, is providing a range of services to the joint venture from its complement of 4,000 technical staff, drill rigs, laboratory and other technical facilities. This valuable support is enabling the project to rapidly move ahead on an extremely cost-effective basis.*

### **Geological Information**

*The information in this report relating to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Richard Seville, a Director of the Company, who is a member of the Australasian Institute of Mining and Metallurgy.*

*Richard Seville has sufficient experience which 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' and as a Qualified Person as defined in the AIM Rules. Richard Seville consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*