



30 April 2008

## MARCH 2008 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**

- Construction and Mining approvals well advanced
- Upgraded resource estimate allows for detailed mine design
- 2008 exploration programme targeting further increase in resources
- Capital cost estimate for project set at RMB 323.2 million (US\$45.5 million)
- Orders placed for long lead time items and power supply
- Financing well advanced

#### **Approvals**

##### **Project Registration**

The approvals required for Project Registration are being processed by the Heilongjiang Development and Reform Commission and are expected to be completed in June. This will allow the main plant construction to commence. Infrastructure and other works outside the Mining Area, such as the power line and access road, are unaffected and development is expected to commence shortly.

Details of the individual components of the Project Registration approval process are itemised below.

1. Feasibility Report	Completed and Approved
2. Clarification of Mining Area	Completed and Approved
3. Project Registration Report	Completed . under review
4. Development Utilisation Plan	Completed and Approved
5. Safety Report	Completed and Approved
6. Soil & Water Conservation Plan	Completed and Approved
7. Geo hazard report	Completed and Approved
8. Pre Land Acquisition Plan	In Progress

9. Cultural relic investigation report	In Progress
10. Environmental Report	Completed, Expert panel review successfully completed Approval pending

### **Mining Licence**

A Mining License will be required before mining operations can commence. The Mining Licence application is expected to be submitted around the same time as Project Registration. The approving authority is Heilongjiang Department of Lands and Resources and approval is expected to take several months. Details of the individual components of the Mining Licence approval process are itemised below.

<b>Report</b>	<b>Status</b>
1. Project Registration ( Incl.Reports as per the above)	See above
2. Geology Report	Completed and Approved
3. EL Registered Capital Repayment	In Progress

The project continues to receive strong support from the Heilongjiang provincial government, the Heihe municipal and Aihui district governments.

### **Upgraded Resource Estimate.**

Independent resource specialists Hellman and Schofield Pty Ltd (H&S) of Australia has reported a revised resource estimate incorporating the 43,500 metre 2007 drill programme. Resources were estimated by Multiple Indicator Kriging including block support correction to give tonnage and grade estimates at open pit mining selectivity, and are reported above gold equivalent cut-off grades.

The March 2007 resource estimate was reported at gold cut-off grades. Taking into account the different basis of cut-off grades used to report the 2007 estimates, the current estimate at a 0.5 g/t gold equivalent cut-off grade has:

- increased the overall resource by approximately 25% from 24 to 30 million tonnes,
- increased the Measured and Indicated resources by approximately 60% from 10 to 16 million tonnes,
- slightly decreased contained gold by approximately 4% from 1.2 to 1.16 million ounces,
- increased contained silver by approximately 20% from 3.7 to 4.5 million ounces, and
- increased zinc content by approximately 30% from 94,000 to 120,000 tonnes.

The following table presents the 2008 resource estimates at a range of cut-off grades. The figures in this table have been rounded and may exhibit rounding errors. Preliminary studies suggest that a 0.5 g/t gold equivalent is a likely approximate lower operating cut-off grade.

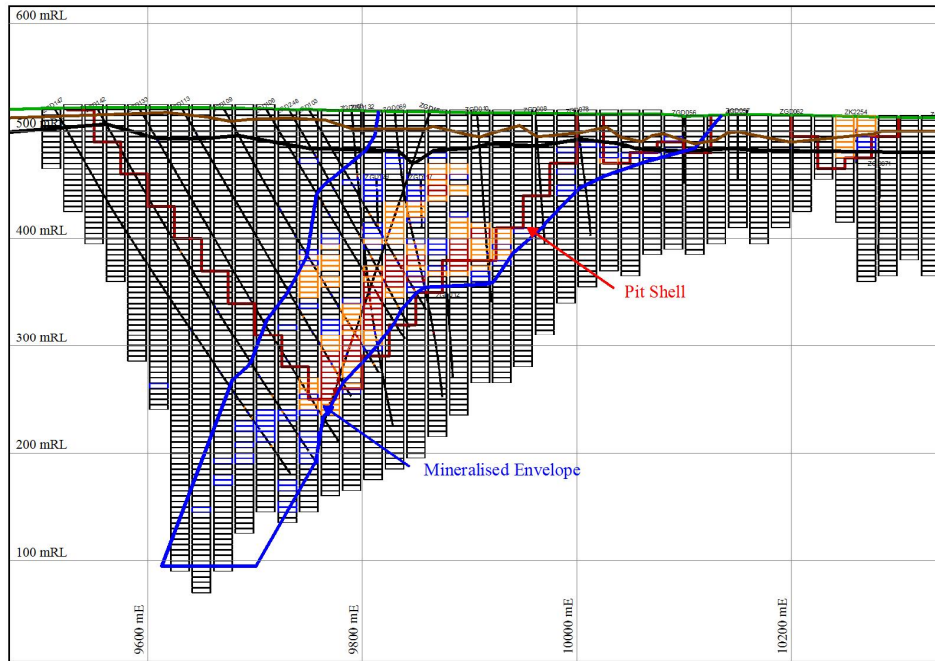
Zheng Guang April 2008 Resource Estimates					
Cut-off Au Equiv. g/t	Resource Category	Tonnes (Million)	Au (g/t)	Zn (%)	Ag (g/t)
0.3	Measured	9.25	1.28	0.39	4.84
	Indicated	12.2	1.04	0.33	3.96
	<b>Measured + Indicated</b>	<b>21.5</b>	<b>1.14</b>	<b>0.36</b>	<b>4.34</b>
	Inferred	23	0.7	0.2	3.2
	<b>Total</b>	<b>44</b>	<b>0.9</b>	<b>0.3</b>	<b>3.7</b>
0.5	Measured	7.16	1.57	0.47	5.70
	Indicated	8.91	1.32	0.41	4.78
	<b>Measured + Indicated</b>	<b>16.1</b>	<b>1.43</b>	<b>0.44</b>	<b>5.19</b>
	Inferred	14	1.0	0.3	4.2
	<b>Total</b>	<b>30</b>	<b>1.2</b>	<b>0.4</b>	<b>4.7</b>
0.7	Measured	5.73	1.86	0.54	6.49
	Indicated	6.81	1.59	0.48	5.52
	<b>Measured + Indicated</b>	<b>12.5</b>	<b>1.71</b>	<b>0.51</b>	<b>5.96</b>
	Inferred	9.7	1.2	0.4	5.1
	<b>Total</b>	<b>22</b>	<b>1.5</b>	<b>0.5</b>	<b>5.6</b>
0.9	Measured	4.70	2.15	0.60	7.23
	Indicated	5.36	1.87	0.55	6.22
	<b>Measured + Indicated</b>	<b>10.1</b>	<b>2.00</b>	<b>0.57</b>	<b>6.69</b>
	Inferred	6.9	1.5	0.4	5.9
	<b>Total</b>	<b>17</b>	<b>1.8</b>	<b>0.5</b>	<b>6.4</b>

Gold equivalent cut-offs were used to allow the value of zinc and silver to be taken into account as part of the estimation process. This was based on 1% Zn and 1g/t Ag being equivalent to 0.67 g/t Au and 0.018g/t Au respectively. These ratios were calculated at a gold price of \$930/oz and metallurgical recovery of 87.3%, and silver price of \$US17/oz and metallurgical recovery of 84%, and zinc price of US\$2250/tonne and recovery of 84% with payments at 47.5% of recovered zinc metal to allow for smelting, refining and transport charges.

The principal objective of the 2007 diamond drilling campaign was to increase confidence in resource estimates for the Main Mineralised Zone to allow detailed mine design studies to undertaken before mine development. This was achieved with estimates for portions of the Main Mineralised Zone upgraded to Measured and Indicated status.

The 2007 drilling programme also reinforced the project's exploration potential. Mineralisation in the main zone was traced for an additional 50 metres to the north and the mineralised trend continues at depth. Encouraging early results were encountered at Zheng Guang North, South, East and West.

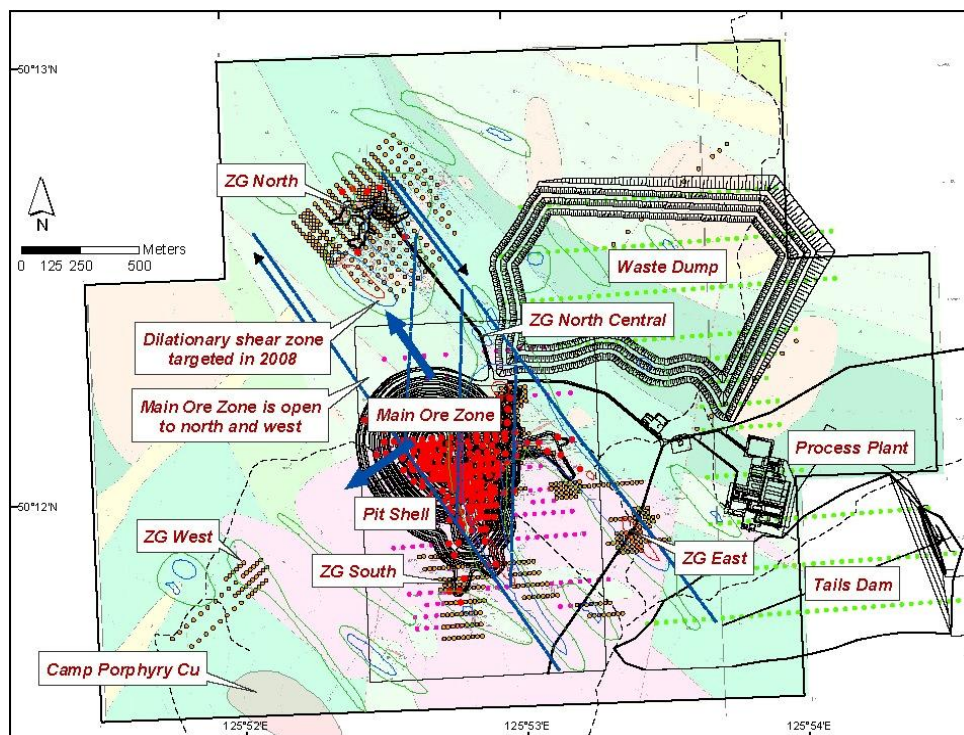
Figure 1 presents an example cross section showing drill hole traces and the current resource estimates coloured by estimated gold grade. Figure 2 presents drilling and mineralisation trends relative to a preliminary pit design and infrastructure layout derived from the 2007 model.



**Figure 1: Cross section 49,400 mN looking north**

Following structural interpretation of the core from the 2007 drilling programme, a new model for the mineralisation has been developed by the Company's geological consultants. This has highlighted the potential for an echelon pods of mineralization to occur within dilation zones within a north-west trending regional shear. The Main Zone at Zheng Guang has been interpreted as one of these dilation zones.

The 2008 programme is scheduled to commence shortly and will be targeting the strike extensions to the north and south of the Main Mineralised Zone. The programme will be testing dilatory targets within the interpreted north-west trending regional shear zone which hosts the Main Mineralised Zone, Zheng Guang North and Zheng Guang East.



**Figure 2: Zheng Guang drilling and preliminary site design**

Full details on this programme as well as details of the regional exploration programme on the recently acquired 130 km<sup>2</sup> exploration licence areas, will be provided shortly.

### **Capital Cost Estimate**

The Capital cost estimate, as prepared by the Changchun Design Institute for the Zheng Guang gold zinc project, is RMB 323.2 million (US\$45.5 million).

The cost estimate is based on a combined carbon in leach and flotation plant which will be capable of processing both oxide and sulphide ore types. The circuit has been designed to allow for the maximum flexibility in terms of ore type and has the capacity for significant additional throughput.

Details of the estimate are as follows:

	<b>RMB</b>	
Mechanical equipment	89,071,000	
Electrical and instrumentation	39,786,000	
Other equipment	27,594,000	
Civil engineering (including earthworks and tails dam)	120,644,000	
Management	46,074,000	
<b>Total</b>	<b>323,169,000</b>	<b>(US\$45.5 million)</b>

The estimate does not include any allowance for inflation or unbudgeted costs. The Company has assumed a contingency of up to RMB 33 million (US\$ 4.6 million) representing 10% of the capital estimate to allow for these items.

### **Project Design**

Changchun Gold Design Institute has completed Preliminary Engineering of the process route that was designed by independent metallurgical consultant Gary Patrick of Metallurg Pty Ltd, based on metallurgical test work completed by AMMTEC Australia.

Detailed Engineering, also being completed by Changchun Gold Design Institute, is well advanced. Civil design is almost complete and mechanical design is expected to be completed by the end of June.

Gary Patrick of Metallurg and Tim Hetherington of EPCM continue to work closely with the Changchun design team to incorporate the latest metallurgical and operating concepts into the Chinese design.

### **Long Lead Time Orders**

#### **Crushers**

- The Company placed orders for the manufacture and delivery of crushers at a total cost of US\$1.68 million. The order for a Nordberg C125 Primary jaw crusher and two Nordberg HP4f Cone crushers, has been placed with the Chinese subsidiary of Metso Minerals, the world's leading rock and mineral processing group.

- The crushers are scheduled to be delivered and installed by September 2008. The total cost of RMB12.13 million will be paid 30% up front and 70% upon delivery with a 24 month guarantee subject to a 10% performance bond.

### **Power Line**

- The Company has entered into a contract for the installation of a 16 kilometre 35KV power line, at a total cost of RMB 2.80 million (US\$390,000). The dedicated high voltage overhead transmission power line will provide 13MW of electrical power from State Grid, the provincial power authority, and has the capacity to be increased to over 20 MW.
- The lump sum contract has been placed with the Nenjiang Power Bureau for the engineering design, material purchase, construction, installation and commissioning of the line and associated facilities.

### **Ball Mills**

- The Company has also 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.

### **Site Work and Utilities**

The main site access road route has been finalised and a road design has been completed by the Qiqihar Institute Road and Bridge construction unit. The approximately 8 km long road will intersect with the Nenjiang to Heihe road which runs to the south of the site. Construction of the road is scheduled to commence in late May 2008. The road construction will include a sub terrain fibre optic cable for site communications and internet access.

The 35kv power line route has been finalised and construction is also scheduled for May 2008.

At full production, the site is calculated to consume 3,000 to 3,500 m<sup>3</sup> of water per day. The Hydrology division of the Qiqihar Institute has identified underground water supplies approximately 8 kms south east of the site which will be sufficient for the project's requirements. Approval has been given to establish a borefield that is capable of supplying over 8,000 m<sup>3</sup> per day.

The borefield will be made up of several bores, of which 2 deep bores (approximately 150m deep) have a sustainable production totaling 2400 m<sup>3</sup> per day. The balance of water will come from a series of shallower bores (approximately 20 . 30 metres deep) capable of supplying a sustained total of 5,600 m<sup>3</sup> per day.

The process design incorporates dry tailings disposal which minimises water consumption by filtering the tailings to less than 20% moisture and returning the water for immediate re use. Although the sulphide circuit plans to utilise wet tailings disposal, the entire plant is operated in closed circuit, returning all water from the tailings for reuse.

The site water supply/consumption does not include catchment from site run off or pit dewatering, which when included will further reduce borefield water requirements.

Negotiations with contractors for the preparation of site civil works, including site preparation and foundation works, are well advanced and letters of intent will be put in place early May, ahead of commencement of site works scheduled for late May.

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, Chief Operating Officer and Financial Controller 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.

## **Financing**

The Company has received numerous approaches from investment bankers and brokers from London, Australia and Hong Kong to provide funding for the project. The Company is well advanced in these discussions and expects to finalise funding arrangements in the near future.

## **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 \$12,901,000.

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**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.

Changchun Design Institute has recently reported that the capital cost estimate for the 1.5 million tonne per annum combined carbon in leach and flotation circuit process plant is RMB323 million RMB (US\$46 million). Orders have been placed for two 4.6 metre diameter ball mills at a cost of RMB15.2 million (USD 2.1 million) and a RMB12.1 million (USD 1.7 million) order has also been placed for the supply of a 700 tonne per hour Nordberg crushing circuit.

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.

**Competent Persons Statements**

The information in this report that relates mineral resource estimation is based on work completed by Mr Jonathon Abbott who is a full time employee of Hellman and Schofield Pty Ltd and a member of the Australasian Institute of Mining and Metallurgy. Mr Abbott 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. Mr Abbott consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The exploration data on which the Mineral Resource estimate is based has been compiled by Mr Irvine Hay who is a member of the Australian Institute of Mining and Metallurgy. Mr Hay is a fulltime employee of CSA Australia Pty Ltd a consultancy which provides geological services to Leyshon and 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.' Mr Hay consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Comments relating to exploration potential and calculation of metal equivalents have been compiled by Mr Richard Seville who is a member of the Australian Institute of Mining and Metallurgy. Mr Seville is a Director of Leyshon Resources Limited and 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.' Mr Seville consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*