



Annual Financial Report

for the year ended 30 June 2018

**De Grey Mining Limited
ABN 65 094 206 292**

Corporate Information

ABN 65 094 206 292

Directors

Simon Lill (Executive Chairman)
Andrew Beckwith (Technical Director & Operations Manager)
Steven Morris (Non-Executive Director)
Brett Lambert (Non-Executive Director)

Company Secretaries

Craig Nelmes
Patrick Holywell

Registered Office and Principal Place of Business

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22 Railway Road
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Postal Address

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SUBIACO WA 6904

Solicitors

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16 Milligan Street
PERTH WA 6000

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

Auditors

Butler Settineri (Audit) Pty Ltd
Unit 16, First Floor Spectrum Offices
100 Railway Road
SUBIACO WA 6008

Internet Address

www.degreymining.com.au

Email Address

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Stock Exchange Listing

Australian Securities Exchange (ASX code DEG)
Frankfurt Stock Exchange (FRA code WKN 633879)

Contents

Directors' Report	3
Auditor's Independence Declaration	14
Consolidated Statement of Comprehensive Income	15
Consolidated Statement of Financial Position	16
Consolidated Statement of Changes in Equity	17
Consolidated Statement of Cash Flows	18
Notes to the Consolidated Financial Statements	19
Directors' Declaration	43
Independent Audit Report	44

Directors' Report

Your directors present their report on the consolidated entity comprising De Grey Mining Limited (“De Grey” or “the Company”) and its controlled entities (“the consolidated entity” or “Group”) for the financial year ended 30 June 2018.

All amounts are expressed in Australian dollars unless otherwise stated.

De Grey is a company limited by shares that is incorporated and domiciled in Australia.

DIRECTORS

The following persons were Directors of the Company during the whole of the financial year and up to the date of this report, except as otherwise indicated:

Simon Lill
 Andrew Beckwith (appointed 26 October 2017)
 Steven Morris
 Brett Lambert (appointed 26 October 2017)
 Davide Bosio (resigned 26 October 2017)

INFORMATION ON DIRECTORS

Simon Lill, BSc MBA

Executive Chairman

Mr. Lill joined De Grey Mining Limited in October 2013 and has a BSc and MBA, both from The University of Western Australia. He has extensive experience over three decades with ASX listed companies, spanning small cap companies to larger concerns, involving restructuring, corporate, compliance, marketing, company secretarial and management activities.

During the past three years Mr Lill has also served as a Director of the following listed companies:

Company	Date appointed	Date ceased
Mejority Capital Limited	18 May 2011	-
Purifloh Limited	2 September 2013	-
XPD Soccer Gear Group Limited	29 March 2018	-

Interest in shares and options:

5,100,000 ordinary fully paid shares
 1,883,333 options over ordinary shares in De Grey Mining Limited
 1,500,000 performance rights

Andrew Beckwith, BSc Geology, Aus IMM

Technical Director & Operations Manager

Mr Beckwith is a successful explorer whose past experience includes senior technical roles with AngloGold Ashanti, Acacia Resources, Helix Resources, Normandy NFM, North Flinders Mines, BP Minerals Australia and at Westgold Resources, where he led the team initially as exploration manager and then as Managing Director. Additionally, Mr Beckwith recently held the position of director of Bulletin Resources Limited until June 2014.

During his time with Westgold, he was intimately involved in the Explorer 108 Pb-Zn-Ag and the Au-Cu Rover 1 (1.2Moz) discoveries, both in the Northern Territory. Westgold was awarded the “2008 Explorer of the Year” for the Rover 1 discovery and also went on to acquire the Central Murchison Gold Project, in Western Australia, with growth from an initial 1.9Moz resource on acquisition to the current 5.0Moz with mining development currently underway by Metals X, which acquired Westgold in 2012. Westgold has since demerged from Metals X and is currently producing over 265,000 ounces per year and growing.

Mr. Beckwith commenced his time with De Grey as a Technical Consultant back in February 2016 and was appointment to the board in October 2017.

During the past three years Mr Beckwith has also served as a Director of the following listed companies:

Company	Date appointed	Date ceased
Carnavale Resources Limited	29 July 2014	-

Interest in shares and options:

4,025,000 ordinary fully paid shares
 3,066,668 options over ordinary shares in De Grey Mining Limited
 2,000,000 performance rights

Directors' Report

Steven Morris, Dip Fin Mkts

Non-executive Director

Mr. Morris was appointed to the board in September 2013 and assumed the role of Chairman soon after. He has some 25 years of experience at the most senior executive level in a range of industries including the last 20 years in Financial Markets.

During that time, he has held positions such as Head of Private Clients Australia for Patersons Securities Ltd and Managing Director of Intersuisse Ltd. He is the Founder and remains a significant shareholder of Peloton Shareholder Services offering management of shareholder based capital raising and investor relations advice to numerous ASX listed companies. He currently holds an executive position within the Little Group, which holds assets across a range of industries including Property Management, Software Solutions, Aviation and Ferries. He is a Non-Executive Director of Purifloh Limited and also serves as a Director of the Melbourne Football Club.

During the past three years Mr Morris has also served as a Director of the following listed companies:

Company	Date appointed	Date ceased
Purifloh Limited	2 September 2013	-

Interest in shares and options:

1,310,000 ordinary fully paid shares

1,350,000 options over ordinary shares in De Grey Mining Limited

750,000 performance rights

Brett Lambert, B.AppSc (Mining Engineering), MAICD

Non-executive Director

Mr Lambert is a mining engineer and experienced company director. He has over 30 years involvement in the Australian and international resources industry encompassing mining operations, project development, business development and corporate administration.

After graduating from the Western Australian School of Mines, Mr Lambert commenced his professional career with Western Mining Corporation ("WMC") at Kalgoorlie in 1983. He progressed to a senior management position with WMC before leaving to take responsibility for the development of Herald Resources' Three Mile Hill gold mine at Coolgardie. Mr Lambert has since held senior roles with a number of junior and mid-tier resource companies, including more than 10 years at Chief Executive Officer/Managing Director level.

Mr Lambert has served as a director of companies listed on the Australian Securities Exchange, London's Alternative Investment Market ("AIM") market, the Toronto Stock Exchange and the Stock Exchange of Thailand.

During the past three years Mr Lambert has also served as a Director of the following listed companies:

Company	Date appointed	Date ceased
Mincor Resources NL	1 January 2017	-
Australian Potash Limited	9 May 2017	-
ABM Resources NL (now Prodigy Gold)	8 March 2016	9 May 2016

Interest in shares and options:

Nil ordinary fully paid shares

Nil options over ordinary shares in De Grey Mining Limited

500,000 performance rights

Daive Bosio

Mr Bosio resigned from the board on 26 October 2017.

COMPANY SECRETARY

The following person acted as Company Secretary of the Company during the whole of the financial year and up to the date of this report:

Craig Nelmes, BBus

Mr. Nelmes joined De Grey Mining Limited in October 2013 and is an Accountant with over 20 years experience in the mining sector in Australia and overseas, as well as seven years with International Accounting firm Deloitte and most recently ten years with Corporate Consultants Pty Ltd, a Company providing accounting, secretarial and administrative services to ASX and TSX listed entities.

Patrick Holywell, FGIA GradDipCA GAICD BCom

Patrick Holywell is a Chartered Accountant with over fifteen years of experience in corporate governance, finance and accounting including employment with Deloitte and Patersons Securities Ltd. Mr Holywell has been employed by and acted as company secretary, CFO and/or director of a number of companies in the resources sector.

Directors' Report

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the course of the year was exploration and development activities at the Pilbara Gold Project, 80 kms south west of Port Hedland in the Pilbara region of Western Australia. De Grey currently controls a considerable tenement package comprising over 1,500km². The tenement package is highly prospective for gold and also comprises significant base metals resources (Zn-Ag-Pb) as well as the recently identified lithium prospects.

FINANCIAL REVIEW

The consolidated loss after tax for the year ended 30 June 2018 was \$2,476,951 (2017: \$3,218,897).

EARNINGS PER SHARE

The basic loss per share for the year ended 30 June 2018 was 0.85 cents per share (2017: 1.91 cents per share).

DIVIDENDS

No dividends were paid or declared during the financial year. No recommendation for payment of dividends has been made.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have a number of significant changes in the state of affairs of the Company and its controlled entities during the financial year; and are as follows:

- Executed a fully binding Share Sale Agreement to 100% acquire the Indee tenements and within forms part of the greater Pilbara Gold Project, with final settlement extended to 24 January 2019 (and the option to extend that date out to 24 July 2019);
- ~\$10 M equity funding injections through a combination of private placements and the exercise of option class during the financial year, with a further \$5M placement completed in July 2018 (*Refer to Matters Subsequent to the end of the Financial Year*).
- Additional funding has allowed for the acceleration of the exploration activities (including extensive diamond and RC drilling programs across the Pilbara project resource areas and exploration targets), as well as commencing pre-feasibility studies; and
- Identified the potential for conglomerate hosted gold mineralization within the Pilbara Gold Project Tenement package.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 11 July 2018, the Company completed a \$5 Million placement to ASX listed DGO Gold Limited ("DGO") via the issue of 25 Million ordinary fully paid shares at a price of \$0.20 each. For each share two classes of free attaching unlisted options were also issued on a 1:2 basis, being 12.5M unlisted options with an exercise price of \$0.25 and expiry date of 31 October 2020 and 12.5M unlisted options with an exercise price of \$0.30 and expiry date of 30 May 2021.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

De Grey seeks to maximise shareholder value through its ongoing exploration and development work at The Pilbara Gold Project. The Project consists of a combination of 100% owned tenements, tenements with farm in rights in favour of De Grey and tenements where De Grey has entered into a fully binding share sale agreement to acquire 100% of the *Indee tenements*). The combination of the above, represents a tenement package of over 1,500Km² in the Pilbara region of Western Australia, and +200 km of prospective shear zones hosting mineralisation and which includes gold, base metals and lithium.

De Grey has focused on infill and extensional drilling at its existing identified resources as a pre-cursor to completion of an Open Pit Mining Pre- Feasibility Study (PFS"). That PFS work remains in progress at the date of this report, with completion anticipated during the first quarter of 2019. The Company through the PFS is targeting an open pit 7+ year mine life at 1Mtpa to consider the economics of such a Project.

The Company also recognises the potential of its land package for further substantial gold discoveries with over 40 identified gold anomalies already identified, as well as significant underground potential at a number of the existing resources. It is also anticipated that regional exploration work through a combination of air core and RC drilling will represent part of the overall plan to increase the resource base will continue through 2019 and beyond.

Aside from the shear zone hosted resources the Company also controls three zones of conglomerate gold mineralisation and intends to undertake bulk sample testing. The style of mineralisation does not lend itself to traditional sampling methods due to nuggety gold mineralisation. The potential of these zones is seen as significant, and exploration work will continue in tandem with the shear zone hosted mineralisation remaining the strong focus.

De Grey is also continuing to explore its base metals and lithium prospects and is considering mechanisms to continue to add shareholder value through various corporate strategies.

Directors' Report

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A. Key Management Personnel
- B. Remuneration policy
- C. Service agreements
- D. Details of Remuneration
- E. Securities Based Compensation
- F. Other Transactions and Balances with Key Management Personnel

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A. Key management personnel

Names and positions held of the Company's key management personnel ("Key Management Personnel") in office at any time during the financial year and up to the date of this annual report are:

Key Management Personnel	Position
Mr Simon Lill	Executive Chairman
Mr Andrew Beckwith	Technical Director & Operations Manager (appointed 26 October 2017)
Mr Steven Morris	Non-Executive Director
Mr Brett Lambert	Non-Executive Director (appointed 26 October 2017)
Mr Davide Bosio	Non-Executive Director (resigned 26 October 2017)
Mr Craig Nelmes	Company Secretary
Mr Patrick Holywell	Company Secretary (appointed 2 July 2018)

Except as noted, the named persons held their current position for the whole of the financial year and/or at the date of this report.

B. Remuneration policy

The remuneration policy of De Grey Mining Limited has been designed by the board. Its objective is to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long term incentives based on key performance areas affecting the Group's financial results. The board of De Grey Mining Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group.

From time to time when reviewing the remuneration, the Company may also source external advice to assist with salary setting and determination of other benefits, including short term and long term incentive plans.

The remuneration policy has been tailored to increase the direct positive relationship between shareholders' investment objectives and director and key management personnel performance. Currently, this is facilitated through the issue of options to the majority of key management personnel to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth.

Fixed remuneration

Fixed remuneration consists of total Directors' fees, salaries, consulting fees and employer contributions to superannuation funds, excluding performance pay (cash, shares and options). Fixed remuneration levels are reviewed annually by the board.

Executive remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework has three components:

- Total fixed remuneration - a base salary (which is based on factors such as length of service, performance and experience) and employer contributions to superannuation.
- Short-term performance incentives; and
- Long-term incentives through participation in the Performance Rights ("PRP") and/or Employee Option ("EOP") Plans of De Grey Mining Limited and as approved by the Board.

Non-executive Directors' remuneration

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability.

Directors' Report

Fees for non-executive directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, these directors may receive short term performance incentives and longer term performance incentives via the EOP.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is currently \$250,000.

The annual remuneration for each non-executive director remained at \$36,000 per annum for the 2017-2018 financial year. These fees have been determined by the Board of the Company, taking into consideration factors such as the market rates of industry peer companies and the current level of activity. Where there is a significant change in the size and scale of Company activities these annual fees will be reviewed. Where approved and at the request of the board, any of the Non-Executive Directors may from time to time be required to fulfil certain executive functions.

Use of remuneration consultants

The Board may (from time to time) engage the services of external consultants to advise on the remuneration policy and to benchmark director and key management personnel remuneration against comparable entities so as to ensure that remuneration packages are consistent with the market and are appropriate for the organisation. The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2018.

Performance Rights (PRP) and Employee Option Plans (EOP) of De Grey Mining Limited

The PRP and EOP were last approved by Shareholders at the 2017 and 2015 Annual General Meetings respectively.

Directors and full and part time employees of De Grey Mining Limited are eligible to participate in each Plan. Any issue of Rights or Options to Directors under either Plan will be subject to Shareholder approval pursuant to the provisions of the ASX Listing Rules and the *Corporations Act 2001*. The Directors consider that collectively the PRP and EOP represent an appropriate method to:

- Reward Directors, Key management personnel and employees for their past performance;
- Provide long term incentives for participation in the Company's future growth;
- To motivate and retain Directors, KMP and senior employees;
- Establish a sense of ownership in the Company for the Directors and employees;
- Enhance the relationship between the Company and its employees for the long-term mutual benefit of all parties; and
- Enable the Company to attract high calibre individuals who can bring specific expertise to the Company.

Voting on the Remuneration Report - 2017 Annual General Meeting

The Company received approximately 99.4% of "yes" votes on its remuneration report for the current financial year (2017: 96.9%).

C. Executive service agreements

Remuneration and other terms of employment for the executive directors and other KMP are formalised in employment or service agreements. The major provisions of the agreements relating to remuneration for the year ended 30 June 2018 are set out in the table below:

Name	Agreement	Base Salary p.a.	Term of the Agreement	Redundancy
Simon Lill	Service	\$156,000 ¹	Not specified	6 months
Andrew Beckwith	Employment	\$250,000 ²	Not specified	6 months
Andrew Beckwith	Service	\$180,000 ³	Not specified	N/A
Craig Nelmes	Service	\$169,512 ⁴	Not specified	6 months

¹ Mr. Lill's service agreement was effective from 1 November 2017 and supersedes his prior service agreement dated 1 October 2013.

² Mr. Beckwith's employment agreement was effective from 1 November 2017.

³ Mr. Beckwith's provided consulting services via his consultancy entity Penand Pty Ltd, before mutual termination on 31 October 2017.

⁴ Mr. Nelmes's service agreement was effective from 1 May 2018, previously he provided Secretarial and financial services via his former employer – Corporate Consultants Pty Ltd.

De Grey Mining Limited

Directors' Report

D. *Details of Remuneration*

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and specified executives of De Grey Mining Limited and the Group are set out in the following tables. The key management personnel of the Group are the Directors of De Grey Mining Limited and the Company Secretaries.

<i>Key management personnel of the Group</i>	<i>Short-term</i>		<i>Post-employment</i>	<i>Share based payments</i>		<i>Total</i>	<i>% of remuneration</i>
	<i>Salary</i>	<i>Consulting</i>	<i>Superannuation</i>	<i>Options</i>	<i>Performance rights</i>		<i>Share-based</i>
	<i>& Fees</i>	<i>& Fees</i>					
	\$	\$	\$	\$	\$	\$	%
Directors							
Simon Lill							
2018	-	147,000	-	-	62,401	209,401	30%
2017	-	102,000	-	10,200	-	112,200	9%
Andrew Beckwith ³							
2018	152,216	60,000	14,461	26,200	86,698	339,575	33%
Steven Morris							
2018	-	36,000	-	-	32,512	68,512	47%
2017	-	34,000	-	6,800	-	40,800	17%
Brett Lambert ³							
2018	21,917	3,000	2,082	-	21,675	48,674	45%
Davide Bosio ²							
2018	19,005	-	1,995	-	-	21,000	0%
2017	35,580	-	3,610	6,800	-	45,990	15%
Sub- total Directors							
2018	193,138	246,000	18,538	26,200	203,286	687,162	
2017	35,580	136,000	3,610	23,800	-	198,990	
Other Key management personnel							
Craig Nelmes ¹							
2018¹	-	28,059	-	13,100	37,441	70,600	64%
2017 ¹	-	-	-	6,800	-	6,800	100%
Patrick Holywell ⁴							
2018	-	-	-	-	-	-	-
Total key management personnel compensation							
2018	193,138	274,059	18,538	39,300	240,727	765,762	
2017	35,580	136,000	3,610	30,600	-	205,790	

¹Mr Nelmes service agreement entered into from 1 May 2018, previous via former employer Corporate Consultants Pty Ltd's service agreement for Secretarial, financial, administrative services

²Mr Bosio resigned 26 October 2017.

³Mr. Beckwith and Mr. Lambert were appointed directors 26 October 2017.

⁴Mr Holywell was appointed 2 July 2018

De Grey Mining Limited

Directors' Report

Share-holdings of Key Management Personnel

	Opening Balance 1 July 2017	Received on exercise of options	Purchases (disposals) during the year	Other changes during the year	Closing Balance 30 June 2018
	No.	No.	No.	No.	No.
Directors					
Simon Lill	3,750,000	750,000	600,000	-	5,100,000
Andrew Beckwith	3,225,000 ²	-	800,000	-	4,025,000
Steven Morris	910,000	-	400,000	-	1,310,000
Brett Lambert	- ²	-	-	-	-
Davide Bosio	-	-	-	-	- ¹
Other executives					
Craig Nelmes	862,111	525,000	425,000	-	1,812,111
Patrick Holywell	- ³	-	-	-	-
Total	8,747,111	1,275,000	2,225,000	-	12,247,111

¹Mr Bosio resigned 26 October 2017.

²Mr Beckwith and Mr Lambert were appointed directors 26 October 2017.

³Mr Holywell was appointed 2 July 2018.

Option-holdings of Key Management Personnel

	Opening Balance 1 July 2017	Options acquired as compensation	Purchases (disposals) during the year	Options exercised/Other changes during the year	Closing Balance 30 June 2018
	No.	No.	No.	No.	No.
Directors					
Simon Lill	2,333,333	-	300,000	(750,000)	1,883,333
Andrew Beckwith	2,666,668 ²	-	400,000	-	3,066,668
Steven Morris	1,000,000	-	350,000	-	1,350,000
Brett Lambert	- ²	-	-	-	-
Davide Bosio	1,000,000	-	-	-	1,000,000 ¹
Other executives					
Craig Nelmes	2,509,811	-	300,000	(525,000)	2,284,811
Patrick Holywell	- ³	-	-	-	-
Total	9,509,812	-	1,350,000	(1,275,000)	9,584,812

¹Mr Bosio resigned 26 October 2017.

³Mr Holywell was appointed 2 July 2018.

Directors' Report

Performance rights of Key Management Personnel

	Opening Balance 1 July 2017	Rights acquired as compensation	Purchases (disposals) during the year	Other changes during the year	Closing Balance 30 June 2018
	No.	No.	No.	No.	No.
Directors					
Simon Lill	-	1,500,000	-	-	1,500,000
Andrew Beckwith ²	-	2,000,000	-	-	2,000,000
Steven Morris	-	750,000	-	-	750,000
Brett Lambert ²	-	500,000	-	-	500,000
Davide Bosio ¹	-	-	-	-	-
Other executives					
Craig Nelmes	-	900,000	-	-	900,000
Patrick Holywell ³	-	-	-	-	-
Total	-	5,650,000	-	-	5,650,000

¹Mr Bosio resigned 26 October 2017.

²Mr Beckwith and Mr Lambert were appointed directors 26 October 2017.

³Mr Holywell was appointed 2 July 2018.

Directors' Report

E. Securities based compensation - options

The Company granted 1,500,000 (2017: 4,500,000) options over unissued ordinary shares during the financial year to Directors and other executives as part of their remuneration, as detailed in the table below:

	Grant Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Granted Number	Exercised Number	Vesting Date	Number Vested at end of year
2018								
Andrew Beckwith	24 Sep 2017	31 Oct 2020	10.0	2.62	1,000,000	-	24 Sep 2017	1,000,000
Craig Nelmes	24 Sep 2017	31 Oct 2020	10.0	2.62	500,000	-	24 Sep 2017	500,000
2017								
Simon Lill	6 Dec 2016	30 Nov 2018	10.0	0.68	1,500,000	-	6 Dec 2016	1,500,000
Steven Morris	6 Dec 2016	30 Nov 2018	10.0	0.68	1,000,000	-	6 Dec 2016	1,000,000
Davide Bosio	6 Dec 2016	30 Nov 2018	10.0	0.68	1,000,000	-	6 Dec 2016	1,000,000
Craig Nelmes	6 Dec 2016	30 Nov 2018	10.0	0.68	1,000,000	-	6 Dec 2016	1,000,000

There are no performance related conditions attached to any of these issued options.

F. Securities based compensation – performance rights

The number of performance rights granted and their respective vesting status – to directors and key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Total
	No.	No.	No.	No.	No.	No.
Simon Lill	200,000	200,000	500,000	500,000	100,000	1,500,000
Andrew Beckwith	400,000	400,000	400,000	400,000	400,000	2,000,000
Steve Morris	150,000	150,000	150,000	150,000	150,000	750,000
Brett Lambert	100,000	100,000	100,000	100,000	100,000	500,000
Craig Nelmes	100,000	100,000	300,000	300,000	100,000	900,000

The values of rights over ordinary shares granted, exercised and lapsed for directors as part of compensation during the year ended 30 June 2018 are set out below:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Total
	\$	\$	\$	\$	\$	\$
Simon Lill	9,194	9,194	28,091	11,325	4,597	62,401
Andrew Beckwith	18,389	18,389	22,471	9,060	18,389	86,698
Steve Morris	6,895	6,895	8,429	3,398	6,895	32,512
Brett Lambert	4,597	4,597	5,619	2,265	4,597	21,675
Craig Nelmes	4,597	4,597	16,855	6,795	4,597	37,441
						240,727

G. Other transactions and balances with Key Management Personnel

There were no other transactions and balances with key management personnel.

----- End of Audited Remuneration Report -----

Directors' Report

DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held in the 12 months to 30 June 2018 and the number of meetings attended by each Director were:

	Directors Meetings	
	Eligible	Attended
Simon Lill	12	12
Andrew Beckwith	6	6
Steven Morris	12	11
Brett Lambert	6	6
Davide Bosio	6	5

SHARE OPTIONS

At the date of this report there are 132,918,975 unissued ordinary shares in respect of which options are outstanding.

	Number	Exercise Price	Expiry Date
Listed options	53,103,031	10 cents	30 November 2018
Unlisted options	6,100,000	10 cents	30 November 2018
Unlisted options	1,134,611	4 cents	10 June 2019
Unlisted options	2,250,000	10 cents	31 October 2020
Unlisted options	12,000,000	10 cents	31 October 2020
Unlisted options	33,333,333	20 cents	30 November 2019
Unlisted options	12,500,000	25 cents	30 November 2019
Unlisted options	12,500,000	30 cents	30 May 2021

During the financial year 79,308,333 options were issued and 31,043,903 were exercised. Since the end of the financial year 25,000,000 options were issued and 2,374,169 were exercised.

ENVIRONMENTAL REGULATION

The Group is subject to environmental regulation in respect to its exploration activities. The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the year under review.

RISK MANAGEMENT

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board. Given the size and scale of its current operations, the board and key management personnel as a group periodically assess risks and develop strategies to mitigate the impact of any perceived risks. The board endeavours to identify potential risks when carrying out strategy planning and budgeting tasks and assessment and monitoring through its board meetings.

INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, De Grey Mining Limited paid a premium to insure the directors and secretary of the Company. The total amount of insurance contract premiums paid is confidential under the terms of the insurance policy.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Directors' Report

NON-AUDIT SERVICES

The following non-audit services were provided by the Group's auditor, Butler Settineri (Audit) Pty Ltd, or associated entities (refer note 20). The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general standard of independence for auditors.

Butler Settineri received or are due to receive the following amounts for the provision of non-audit services:

	2018	2017
	\$	\$
Tax compliance services	2,200	3,750

PROCEEDINGS ON BEHALF OF THE COMPANY

As at the date of this report there are no leave applications or proceedings booked on behalf of De Grey Mining Limited under section 237 of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 14.

Signed in accordance with a resolution of the directors



Simon Lill
Executive Chairman

Perth, 28 September 2018

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of De Grey Mining Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.

The declaration is in respect of De Grey Mining Limited and the entities it controlled during the year.

BUTLER SETTINERI (AUDIT) PTY LTD



LUCY P GARDNER
Director

Perth

Date: 28 September 2018

Consolidated Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2018	Notes	Consolidated	
		2018 \$	2017 \$
REVENUE	4	184,311	30,798
EXPENDITURE			
Depreciation expense		(40,663)	(11,276)
Director & employee expenses		(480,303)	(182,147)
Share based payments – directors and employees	5/28	(347,947)	(49,980)
Exploration expenditure		-	(2,323,620)
Corporate and compliance expenses		(346,560)	(205,835)
Consulting expenses		(204,463)	(99,682)
Corporate advisory		(203,375)	(30,000)
Share based payments – corporate advisory	5	(314,880)	-
Investor relations & promotional expenses		(557,269)	(68,854)
Administration expenses		(128,302)	(249,778)
Occupancy expenses		(37,500)	(28,500)
Other expenses		-	(23)
LOSS BEFORE INCOME TAX		(2,476,951)	(3,218,897)
INCOME TAX BENEFIT / (EXPENSE)	6	-	-
LOSS FOR THE YEAR		(2,476,951)	(3,218,897)
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified to profit or loss</i>			
Other comprehensive income for the year, net of tax		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF DE GREY MINING LIMITED		(2,476,951)	(3,218,897)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the company (cents per share)	27	(0.85)	(1.91)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Financial Position

AT 30 JUNE 2018	Notes	Consolidated	
		2018	2017
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	7	1,147,538	1,007,029
Trade and other receivables	8	245,075	126,738
Inventories	9	19,894	11,695
Other assets	10	42,962	16,040
TOTAL CURRENT ASSETS		1,455,469	1,161,502
NON-CURRENT ASSETS			
Available-for-sale financial assets	11	200,000	-
Deferred exploration & evaluation expenditure	12	21,982,686	980,397
Plant and equipment	13	691,087	58,361
TOTAL NON-CURRENT ASSETS		22,873,773	1,038,758
TOTAL ASSETS		24,329,242	2,200,260
CURRENT LIABILITIES			
Trade and other payables	14	1,322,874	1,024,126
Employee benefit obligations	15	9,868	-
Contract liabilities	16	700,000	-
TOTAL CURRENT LIABILITIES		2,032,742	1,024,126
NON-CURRENT LIABILITIES			
Contract liabilities	16	12,700,000	-
TOTAL NON-CURRENT LIABILITIES		12,700,000	-
TOTAL LIABILITIES		14,732,742	1,024,126
NET ASSETS		9,596,500	1,176,134
EQUITY			
Contributed equity	17	59,464,845	49,108,104
Reserves	18	711,106	170,530
Accumulated losses	18	(50,579,451)	(48,102,500)
TOTAL EQUITY		9,596,500	1,176,134

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

YEAR ENDED 30 JUNE 2018

	Notes	Contributed Equity \$	Reserves \$	Accumulated Losses \$	Total \$
Consolidated					
BALANCE AT 30 JUNE 2016		45,837,739	120,550	(44,883,603)	1,074,686
Loss for the year	18(b)	-	-	(3,218,897)	(3,218,897)
OTHER COMPREHENSIVE INCOME					
		-	-	-	-
TOTAL COMPREHENSIVE LOSS				(3,218,897)	(3,218,897)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	17(b)	3,514,063	-	-	3,514,063
Share issue costs	17(b)	(243,698)	-	-	(243,698)
Share based payments - options	18(a)	-	49,980	-	49,980
Transfer of reserve on expiry of options	18(a)	-	-	-	-
BALANCE AT 30 JUNE 2017		49,108,104	170,530	(48,102,500)	1,176,134
Loss for the year	18(b)	-	-	(2,476,951)	(2,476,951)
OTHER COMPREHENSIVE INCOME					
		-	-	-	-
TOTAL COMPREHENSIVE LOSS				(2,476,951)	(2,476,951)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	17(b)	10,110,003	-	-	10,110,003
Share application monies (non-refundable)	17(b)	250,000	-	-	250,000
Share issue costs	17(b)	(158,887)	-	-	(158,887)
Share based payments - options	18(a)	-	407,205	-	407,205
Share based payments – performance rights	18(a)	-	288,996	-	288,996
Transfer of reserve on expiry of options	18(a)	155,625	(155,625)	-	-
BALANCE AT 30 JUNE 2018		59,464,845	711,106	(50,579,451)	9,596,500

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2018

	Notes	Consolidated	
		2018	2017
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Royalties received		11,316	19,562
EIS Grant received		53,680	-
Payments to suppliers and employees		(2,019,783)	(918,750)
Interest received		22,596	7,268
Payments for exploration and evaluation expenditure		(5,153,578)	(2,125,359)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	26	(7,085,770)	(3,017,279)
CASH FLOWS FROM INVESTING ACTIVITIES			
Option payments to acquire tenements		(195,000)	(290,000)
Option payments to acquire – Indee Gold Pty Ltd		(1,500,000)	(100,000)
Payments for available for sale financial assets		(200,000)	-
Payments for plant and equipment		(593,224)	(43,618)
NET CASH INFLOW / (OUTFLOW) FROM INVESTING ACTIVITIES		(2,488,224)	(433,618)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		9,623,390	3,494,063
Proceeds from application for issue of ordinary shares (non-refundable)		250,000	-
Payments of share issue transaction costs		(158,887)	(243,698)
NET CASH INFLOW FROM FINANCING ACTIVITIES		9,714,503	3,250,365
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		140,509	(200,532)
Cash and cash equivalents at the beginning of the financial year		1,007,029	1,207,561
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	1,147,538	1,007,029

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of De Grey Mining Limited and its subsidiaries. The financial statements are presented in the Australian currency. De Grey Mining Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 28 September 2018. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. De Grey Mining Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) *New standards and interpretations adopted in the 2018 financial year*

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial year. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

(ii) *New standards and interpretations not yet adopted*

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments and associated Amending Standards (applicable for annual reporting period commencing 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

Following the changes approved by the AASB in December 2014, the Company no longer expects any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities. While the Company has yet to undertake a detailed assessment of the financial instruments classified as available-for-sale financial assets, it would appear that they would satisfy the conditions for classification as available for sale and hence there will be no change to the accounting for these assets.

Impact – unlikely as the Company does not have any hedging arrangements in place. The new impairment model is an expected credit loss model which may result in the earlier recognition of credit losses. The Company has not yet assessed how its own impairment provisions would be affected by the new rules.

AASB 15 Revenue from Contracts with Customers (applicable for annual reporting period commencing 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for good and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial recognition without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

Impact - unlikely as the Company does not have any revenue from contracts with customers at this stage.

AASB 16: Leases applies to annual reporting periods beginning on or after 1 January 2019

This Standard supersedes AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease, IC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of lease. Early application of the Standard is permitted provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as AASB 16. The key features of AASB 16 are as follows:

- Leases are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and Liabilities arising from the lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also include payments to be made in optional periods if the lessee is

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

- reasonably certain to exercise an option to extend to lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for leases.

Impact - The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease office rental commitments of \$244,475, see note 22. The group has assessed that these lease commitments will likely become finance leases under the new standard, and hence an asset and corresponding financial liability of \$219,740 will be recognised upon adopting the new standard.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which have been measured at fair value.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of De Grey Mining Limited ("company" or "parent entity") as at 30 June 2018 and the results of all subsidiaries for the year then ended. De Grey Mining Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent, De Grey Mining Ltd and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the separate financial statements of De Grey Mining Limited.

(ii) Joint ventures

Jointly controlled assets - the proportionate interests in the assets, liabilities and expenses of joint venture activities have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in note 25.

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of De Grey Mining Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is De Grey Mining Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest Revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

Royalty Revenue

Royalties revenue is recognised on the basis of actual shipment tonnes and the agreed contractual price per tonne.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

De Grey Mining Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(j) Trade and other receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(k) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial assets - reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from investment securities.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

Details on how the fair value of financial investments is determined are disclosed in note 1(t).

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(l) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 20% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

(m) Exploration and evaluation costs

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which the expenditure is incurred where;

- (a) The Group has secured (or has the legal right to) tenure, and/or the legal rights to explore an area of interest;
- (b) Exploration and evaluation activities in the area of interest have not at the end of the reporting period reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing; and
- (c) The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale.

Where the conditions outlined in (a), (b) and/or (c) are not met in relation to specific area(s) of interest, then those exploration and evaluation costs are expensed as incurred.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are paid on normal commercial terms.

(o) Employee benefits

Wages and salaries, annual leave and long service leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and long service leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(p) Share-based payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 28.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

Options over ordinary shares have also been issued as consideration for the acquisition of interests in tenements and other services. These options have been treated in the same manner as employee options described above, with the expense being included as part of exploration expenditure.

(q) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

(r) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(t) Significant accounting judgements estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses.

Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances.

Exploration expenditure

Exploration and evaluation costs are assessed on the basis of the revised accounting policy with respect to whether or not it is appropriate to carry as a Deferred exploration asset – refer to (m) above.

Financial assets – measurement and impairment assessment

The Company is required to classify those all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective. The fair value of assets and liabilities classified as level 3 (if any) is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of consideration of all available information with respect to the asset. In the case of non-listed equity investments classified as available-for-sale, the Company takes into consideration its underlying assets and liabilities, its most recent funding and any other pertinent information to support its carrying value and/or indicators of asset impairment.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

(u) Going concern

The financial report has been prepared on a going concern basis which assumes the commercial realisation of the future potential of the Group's assets and discharge of its liabilities in the normal course of business. The group recorded a loss of \$2,476,951 (2017: \$3,218,897) for the year ended 30 June 2018, has a cash and cash equivalents balance of \$1,147,538 (2017: \$1,007,029).

The Company has annual minimum exploration commitments on its Pilbara Project tenements of \$1,563,620 (2017: \$1,307,260), including those agreements to acquire or an option to acquire.

In addition, the Company has a remaining liability of \$13.4 Million owing to the current owners of Indee Gold Pty Ltd, which is due on or before 24 January 2019, or by paying a further \$700,000 by that date, the settlement date can be extended to 24 July 2019.

Although the above matters are indicative of a material uncertainty, the Directors believe that it is appropriate to prepare the financial statements on the going concern basis for the following reasons:

The Directors believe that it is appropriate to prepare the financial statements on the going concern basis for the following reasons:

- (i) The Group, during the year and up to the date of this report, has demonstrated its capacity to raise new equity capital as required via the completion of three private placements (~\$13 Million before costs), including two to strategic investor and ASX/TSX listed Kirkland Lake Gold Limited and ASX listed DGO Limited (settling in July 2018);
- (ii) An additional ~\$1.6 Million was raised via the exercise of various class of options during the year also;
- (iii) There are currently a number of option classes, that if exercised, has the potential to provide further proceeds within the coming 12 months, that can be allocated to ongoing exploration and feasibility activities, and includes 53 Million listed options, exercisable at 10 cents each, and exercisable on or before 30 November 2018;
- (iv) A further cash payment of \$10.4 Million is to be paid on or before 24 January 2019 (settlement date) to the current owners of Indee Gold Pty Ltd, however, De Grey also has the right to extend Settlement by a further 6 months to 24 July 2019 by payment of an Extension Deposit of \$700,000, before the abovementioned settlement date, with the remaining \$9.7 Million then payable on or before 24 July 2019;
- (v) There is a recognition that it will be necessary to secure additional funding to complete the Indee Gold acquisition as well as ongoing exploration and pre-feasibility studies, ongoing corporate and administrative costs; and
- (vi) It considers that it has the capacity to raise additional funds so as to continue exploration and feasibility expenditures on its Pilbara Gold Project, further progress its base metals and lithium prospects as well as meeting its corporate and working capital needs.

The Directors have reviewed the Group's and Company's overall position and outlook in respect of the matters identified above and are of the opinion that the use of the going concern basis is appropriate in the circumstances.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full Board of Directors as the Group believes that it is crucial for all Board members to be involved in this process. The Board, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the Board on risk management.

(a) Market risk

(i) Foreign exchange risk

The Group has minimal operations internationally and there are currently limited exposures to foreign exchange risk arising from currency exposures.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy, however it monitors its foreign currency expenditure in light of exchange rate movements.

All parent entity and Australian subsidiary entity balances are in Australian dollars and all Group balances are in Australian dollars, so the Group has only minimal exposure to foreign currency risk at the reporting date.

(ii) Price risk

Given the current level of operations, the Group is not exposed to price risk.

(iii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group \$1,147,538 (2017: \$1,007,029) is subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group was 0.70% (2017: 1.29%).

Sensitivity analysis

At 30 June 2018, if interest rates had changed by +/- 100 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been \$32,481 lower/higher (2017: \$5,620 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

The maximum exposure to credit risk at balance date is the carrying amount (net of provision for impairment) of those assets as disclosed in the statement of financial position and notes to the financial statements. The only significant concentration of credit risk for the Group is the cash and cash equivalents held with financial institutions. All material deposits are held with the major Australian banks for which the Board evaluate credit risk to be minimal.

As the Group does not presently have any trade debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the Statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the balance date are recorded at amounts approximating their carrying amount.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

3. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. For management purposes, the Group has identified one reportable operating segment being exploration activities undertaken in one geographical segment being Australasia. These segments include the activities associated with the determination and assessment of the existence of commercial economic reserves, from the Group's mineral assets in the sole geographic location.

Segment performance is evaluated based on the operating profit and loss and cash flows and is measured in accordance with the Group's accounting policies.

	Australasia		Consolidated Total	
	2018	2017	2018	2017
	\$	\$	\$	\$
Segment revenue	<u>155,684</u>	23,030	<u>155,684</u>	23,030
<i>Reconciliation of segment revenue to total revenue before tax:</i>				
Interest revenue			22,596	7,268
Other revenue			6,031	500
Segment results	<u>155,684</u>	(2,300,589)	<u>155,684</u>	(2,300,589)
<i>Reconciliation of segment result to net loss before tax:</i>				
Corporate advisory			(203,375)	(30,000)
Share based payments			(662,826)	(49,980)
Other corporate and administration			(1,794,557)	(846,096)
Net loss before tax			<u>(2,476,951)</u>	<u>(3,218,897)</u>
Segment operating assets	<u>24,329,242</u>	1,154,526	<u>24,329,242</u>	1,154,526
<i>Reconciliation of segment operating assets to total assets:</i>				
Other corporate and administration assets			1,684,194	1,045,734
Total assets			<u>24,329,243</u>	<u>2,200,260</u>
Segment operating liabilities	<u>14,473,198</u>	972,127	<u>14,473,198</u>	972,127
<i>Reconciliation of segment operating liabilities to total liabilities:</i>				
Other corporate and administration liabilities			259,545	51,999
Total liabilities			<u>14,732,743</u>	<u>1,024,126</u>

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

4. REVENUE

	Consolidated	
	2018	2017
	\$	\$
From continuing operations		
Royalties- sands	11,605	23,030
EIS Grant	53,680	-
Diesel fuel tax rebates	90,399	-
Interest	22,596	7,268
Other	6,031	500
	184,311	30,798

5. EXPENSES

Loss before income tax includes the following specific expenses:

Contributions to superannuation funds	65,879	15,729
Share based payments – options (Directors & under approved plan)	58,950	49,980
Share based payments – performance rights (Directors & under approved plan)	288,997	-
Share based payments – corporate advisory services	314,880	-

6. INCOME TAX

(a) Income tax expense

Current tax	-	-
Deferred tax	-	-
	-	-

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense	(2,476,951)	(3,218,897)
Prima facie tax benefit at the Australian tax rate of 27.5% (2017: 27.5%)	(681,161)	(885,197)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Capital raising fees	(38,988)	(40,267)
Other allowable expenditure	(1,678,129)	(269,609)
Sundry items	(18,634)	29,959
Overseas projects income and expenses	-	-
	(2,416,912)	(1,165,114)

Tax effect of current year tax losses for which no deferred tax asset has been recognised

	2,416,912	1,165,114
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Income tax expense	-	-
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(c) Unrecognised deferred tax assets

Unrecognised deferred tax assets

Provisions		
Capital raising fees	103,956	99,250
Carry forward tax losses	18,341,985	11,827,572
Gross deferred tax assets	18,445,941	11,926,822

No deferred tax asset has been recognised for the above balance as at 30 June 2018 as it is not considered probable that future taxable profits will be available against which it can be utilised.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

(d) Tax consolidation

Effective 1 July 2004, for the purposes of income taxation, De Grey Mining Limited and its 100% owned Australian subsidiaries formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is De Grey Mining Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate De Grey Mining Limited for any current tax payable assumed and are compensated by De Grey Mining Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to De Grey Mining Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

(e) Franking credits

The company has no franking credits available for use in future years.

Consolidated

2018	2017
\$	\$

7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and in hand	116,128	30,926
Short-term deposits	1,031,410	976,103
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	1,147,538	1,007,029

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

Receivable – sands royalty	3,759	3,469
GST receivable (net)	184,310	91,157
Fuel tax credits receivable	56,279	31,127
Sundry debtors	727	985
	245,075	126,738

Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.

9. CURRENT ASSETS - INVENTORIES

Diesel fuel in stock	19,894	11,695
	19,894	11,695

10. CURRENT ASSETS – OTHER ASSETS

Prepayment rents	10,000	-
Prepayment – other corporate	31,030	16,040
Advances & deposits	1,932	-
	42,962	16,040

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

Consolidated

2018	2017
\$	\$

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Equity securities – Farno-McMahon Pty Ltd – unlisted (i)	200,000	-
Equity securities – Muskateer Resources Pty Ltd - unlisted (ii)	-	-
	200,000	-

- (i) A 4% interest held in an unlisted minerals exploration entity, whose major assets are mineral tenements in the Pilbara region of Western Australia. On 18 September 2018, the Company announced that Novo Resources Corp. of Canada (“Novo”) had reached a conditional agreement to acquire 100% of Farno McMahon Pty Ltd (“Farno”). The Company agreed to accept the Novo offer, which is a combination of cash and scrip and on the day prior to the announcement had a value of approximately \$314,000.
- (ii) A 4% interest held in an unlisted mineral exploration entity, whose major asset is an Australian based Zinc project. The Company has performed an assessment of the investment and considers it appropriate that it remain fully impaired as at balance date.

12. NON-CURRENT ASSETS – DEFERRED EXPLORATION & EVALUATION EXPENDITURE

Beginning of financial period	980,397	-
Exploration expenditure - all areas of interest (i)	5,907,789	2,914,017
Tenement option payments (non Indee Gold Pty Ltd)	194,500	290,000
Indee Gold Pty Ltd – acquisition consideration paid	1,500,000	100,000
Indee Gold Pty Ltd – acquisition consideration payable	13,400,000	-
Expensed to P&L	-	(2,323,620)
	21,982,686	980,397

- (i) The Group has capitalised all costs associated with The Pilbara Project.
The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

13. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

Plant and equipment

Cost	1,129,560	456,171
Accumulated depreciation	(438,473)	(397,810)
Net book amount	691,087	58,361

Plant and equipment

Opening net book amount	58,361	26,019
Additions	673,389	43,618
Depreciation charge	(40,663)	(11,276)
Closing net book amount	691,087	58,361

14. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

Trade payables	1,167,211	610,214
Trade payables to be settled via an equity issue	92,750	332,113
Other payables and accruals (i)	62,913	81,799
	1,322,874	1,024,126

- (i) Trade, other payables and accruals are non-interest bearing and are normally settled on terms of 30-45 days.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

Consolidated

2018
\$

2017
\$

15. CURRENT LIABILITIES – EMPLOYEE BENEFIT OBLIGATIONS

Employee benefits (i)	9,868	-
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- (i) The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement and has an expectation that employees will take the full amount of accrued leave or require payment within the next 12 months.

16. CURRENT & NON-CURRENT LIABILITIES – CONTRACT LIABILITIES

Contract liabilities (i)	13,400,000	-
Consists of:		
Current	700,000	-
Non-current	12,700,000	-
	13,400,000	-

- (i) The Company announced on 12 February 2018 that it had completed the execution of a Share Sale Agreement (“SSA”) to purchase 100% of the issued shares in the capital of Indee Gold Pty Ltd (“Indee Gold”) from Northwest Nonferrous Australia Mining Pty Ltd (“NNAM”). The terms of the SSA provide for settlement of the acquisition to be completed no later than 24 July 2019. A part payment of \$700,000 must be paid by 24 January 2019, unless De Grey elects to settle prior to that date. The total consideration remaining to settle the acquisition is:

- (a) Payment of \$10.4M in cash; and
(b) Issue of \$3.0M of equity in De Grey at a price that is 90% of a 20 day VWAP immediately prior to settlement.

17. CONTRIBUTED EQUITY

(a) Share capital	2018		2017		
	Issue Price	Number of shares	\$	Number of shares	\$
Ordinary shares fully paid		334,468,800	59,464,845	201,296,240	49,108,104
Total contributed equity		334,468,800	59,464,845	201,296,240	49,108,104
(b) Movements in ordinary share capital					
Beginning of the financial year		201,296,240	49,108,104	2,878,652,645	45,837,739
Issued during the current & prior years:					
Placement share issue (non-cash)	\$0.002	-	-	10,000,000	20,000
Placement share issue	\$0.0029	-	-	434,663,155	1,260,523
Total shares on issue – pre-capital consolidation		-	-	3,323,315,800	-
Shares on issue – post consolidation		-	-	166,166,240	-
Share purchase plan (SPP) issue	\$0.058	-	-	7,130,000	413,540
Placement share issue	\$0.065	-	-	28,000,000	1,820,000
Share issued in lieu of supplier invoices (non-cash)	\$0.04373	7,595,324	332,113	-	-
Shares issued on exercise of options	\$0.04	20,850,000	834,000	-	-
Placement share issue	\$0.05	60,450,000	3,022,500	-	-
Shares issued on exercise of options	\$0.058	5,000,000	290,000	-	-
Shares issued on exercise of options	\$0.08	2,125,000	170,000	-	-
Shares issued on exercise of options	\$0.10	3,068,903	306,890	-	-
Shares issued - part consideration tenement acquisition	\$0.15	150,000	22,500	-	-
Placement share issue	\$0.15	33,333,333	5,000,000	-	-
Shares issued - part consideration tenement acquisition	\$0.22	600,000	132,000	-	-
Share application monies (non-refundable July 2018 placement)		-	250,000	-	-
Transaction costs		-	(158,887)	-	(243,698)
Share based payments reserve transfer on option exercise		-	155,625	-	-
End of the financial year		334,468,800	59,464,845	201,296,240	49,108,104

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

17. CONTRIBUTED EQUITY (Continued)

(c) Prior Year Share Consolidation

De Grey Mining completed its one for twenty (20) share consolidation in December 2016 following approval by shareholders at its 2016 Annual General Meeting, held on 30 November 2016. The share consolidation involved the conversion of every twenty fully paid ordinary shares on issue into one fully paid ordinary share. Where the share consolidation resulted in a shareholder having a fractional entitlement to a share, the entitlement was rounded up to the next whole number of shares. Upon the completion of the share consolidation in December 2016, the number of De Grey Mining shares on issue reduced from 3,323,315,800 shares to 166,166,240 shares as at that date.

(d) Movements in options on issue

	Number of options	
	2018	2017
Beginning of the financial year	62,030,714	521,192,212
Net issued / (exercised or cancelled) during the year:		
– Exercisable at 0.2 cents, on or before 10 June 2019 ¹	Unlisted	- (478,692,212)
– Exercisable at 4 cents, on or before 10 June 2019 ¹	Unlisted	(20,850,000) 23,934,611
– Exercisable at 0.2 cents, on or before 10 June 2019 ¹	Unlisted	- (42,500,000)
– Exercisable at 8 cents, on or before 25 Nov 2017 ¹	Unlisted	(2,125,000) 2,125,000
– Exercisable at 10 cents, on or before 30 Nov 2018	Listed	29,906,097 23,621,103
– Exercisable at 10 cents, on or before 30 Nov 2018	Unlisted	(1,250,000) 7,350,000
– Exercisable at 5.8 cents, on or before 6 Sep 2017	Unlisted	(5,000,000) 5,000,000
– Exercisable at 10 cents, on or before 31 Oct 2020	Unlisted	2,250,000 -
– Exercisable at 10 cents, on or before 31 Oct 2020	Unlisted	12,000,000 -
– Exercisable at 20 cents, on or before 30 Nov 2019	Unlisted	33,333,333 -
End of the financial year	110,295,144	62,030,714

¹ The options were re-stated after the 20:1 Capital Consolidation completed in December 2016 (Note 17(c))

(e) Movement in performance rights on issue

On 21 December 2017, 6,700,000 unlisted Performance Rights were issued to directors and employees of the Group. The issue consists of five (5) tranches each with specific performance hurdles.

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Total
Opening balance – 1 July 2017	-	-	-	-	-	-
Performance rights issued for the year	1,300,000	1,300,000	1,450,000	1,450,000	1,200,000	6,700,000
Closing balance – 30 June 2018	1,300,000	1,300,000	1,450,000	1,450,000	1,200,000	6,700,000

The Performance Rights shall vest upon satisfaction of the following milestones:

1. Tranche One – the Company declaring greater than 1,500,000 ounce gold resource (JORC 2012) at an overall grade of at least 1.7 g/t and a minimum category of JORC inferred at the Pilbara Gold Project, on or before 30 November 2019;
2. Tranche Two – the Company declaring greater than 2,000,000 ounce gold resource (JORC 2012) at an overall grade of at least 1.7 g/t and a minimum category of JORC inferred at the Pilbara Gold Project, or before 30 November 2019;
3. Tranche Three – settlement of the Company's 100% acquisition of Indee Gold Pty Ltd;
4. Tranche Four – The Company securing Project Financing for the Pilbara Gold Project at a minimum throughput of 1M tpa; and
5. Tranche Five – The Company confirming higher grade resources of at least 200,000 ounces and at an overall grade of greater than 5 g/t or before 30 November 2019.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

(f) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. Neither the Company, nor any of its subsidiaries, holds any shares in the Company at 30 June 2018 (2017: Nil).

(g) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2018 and 30 June 2017 are as follows:

	Consolidated	
	2018	2017
	\$	\$
Cash and cash equivalents	1,147,538	1,007,029
Trade and other receivables	245,075	126,738
Trade and other payables (excluding payables to be settled by an equity issue ¹)	(1,230,124)	(692,013)
Working capital position	<u>162,489</u>	<u>441,754</u>

¹ There were payables totalling \$92,750 (2017: \$332,113) (Refer Note 14) settled by an equity issue of ordinary fully paid shares on 11 July 2017 (subsequent to the financial reporting date).

18. RESERVES AND ACCUMULATED LOSSES

(a) Reserves

Share-based payments reserve (i)	<u>711,106</u>	<u>170,530</u>
	<u>711,106</u>	<u>170,530</u>

Movements:

Share-based payments reserve

Balance at beginning of year	170,530	120,550
Share based payments (options) expense (<i>Directors & EOP plan</i>)	58,950	49,980
Share based payments (options) expense (<i>Corporate advisory</i>)	348,255	-
Share based payments (performance rights) expense (<i>Directors & PR plan</i>)	288,996	-
Transfer to Issued Capital on exercise/expiry of options	(155,625)	-
Balance at end of year	<u>711,106</u>	<u>170,530</u>

(b) Accumulated losses

Balance at beginning of year	(48,102,500)	(44,883,603)
Net loss for the year	(2,476,951)	(3,218,897)
Balance at end of year	<u>(50,579,451)</u>	<u>(48,102,500)</u>

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity benefits provided to either employees or directors as remuneration or to suppliers as payment for products and services.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

Consolidated

2018	2017
\$	\$

19. DIVIDENDS

No dividends were paid during the financial year.

No recommendation for payment of dividends has been made.

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20. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) Audit services

Butler Settineri (Audit) Pty Ltd - audit and review of financial reports

42,737	20,500
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Total remuneration for audit services

42,737	20,500
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(b) Non-audit services

Butler Settineri – tax compliance services

2,200	3,750
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Total remuneration for other services

2,200	3,750
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21. CONTINGENT LIABILITIES

There are no contingent liabilities or contingent assets of the Group at reporting date.

22. COMMITMENTS

(a) Exploration commitments

The Group has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in.

Outstanding Pilbara Project exploration commitments are as follows:

Turner River tenements (100% owned) (i)

756,240	577,160
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Indee Gold Pty Ltd (“Indee Gold”) tenements under share sale agreements to acquire 100% (ii)

590,100	590,100
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Haoma Mining NL/Elazac Mining Pty Ltd (“Haoma”) tenement under option agreement (iii)

70,000	-
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Tenements under other option agreements (iv)

147,280	140,000
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Annual commitment for the Pilbara Project assets

1,563,620	1,307,260
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(i) The Turner River Project tenements are owned 100% and have minimum aggregate expenditure requirements of \$756,240 p.a. (2017: \$577,160)

(ii) The Indee Gold tenements are covered under a full share sale agreement, dated 9 February 2018, as detailed in Note 25.

(iii) The Haoma tenements are covered under an option agreement, and which De Grey formally exercised that option on 12 July 2018, as detailed in Note 25.

(iv) The other tenements under option agreements are with respect to the Farno McMahon, Vanmaris and Blue Moon Projects, as detailed in Note 25.

(b) Capital commitments

The Group did not have any capital commitments as at the current or prior balance date.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

22. COMMITMENTS (CONTINUED)

	Consolidated	
	2018	2017
	\$	\$
(c) Operating lease (non-cancellable)		
Within one year	48,895	-
Later than one year and less than five years	195,580	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	244,475	-

23. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is De Grey Mining Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 24.

(c) Transactions with related parties

Transactions between related parties are on commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

(d) Loans to related parties

De Grey Mining Limited has provided unsecured, interest free loans to each of its wholly owned Australian subsidiaries and all of which have been fully impaired.

24. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name	Country of Incorporation	Class of Shares	Equity Holding ¹	
			2018	2017
			%	%
Beyondie Gold Pty Ltd	Australia	Ordinary	100	100
Domain Mining Pty Ltd	Australia	Ordinary	100	100
Winterwhite Resources Pty Ltd	Australia	Ordinary	100	100
Last Crusade Pty Ltd	Australia	Ordinary	100	100

¹The proportion of ownership interest is equal to the proportion of voting power held.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

25. INTERESTS IN JOINT VENTURES / OTHER ACQUISITIONS

(a) Attgold Pty Ltd Retained Pegmatite Rights across E45-2364 (a tenement within the Pilbara Project)

In February 2007, De Grey acquired 100% of tenement E45-2364 on exercise of an option. Under the agreement, Attgold retained the pegmatite related rights on this tenement only. The pegmatite rights give Attgold rights to explore on the tenement for pegmatite minerals, which in turn are defined as “tin, tantalum, niobium, lithium, cesium and non-gold bearing or base metal bearing aggregate.” This is subject to various clauses of priority, access and normal statutory requirements. De Grey holds all other mineral rights in this tenement, most specifically gold and base metals and the joint venture has a carrying value of nil.

(b) Mount Dove Iron Rights

On 22 September 2015, the company entered into a Deed of Termination with the Atlas Iron Group, where they relinquished their iron ore rights on any of the Turner River Project tenements, the Company shall pay Atlas Iron Limited a one-off payment of \$50,000 if it mines iron ore on its tenements.

(c) Turner River Shingles, River Sand and Limestone Blocks Farm-Out

In October 2012 De Grey, through its wholly owned subsidiary Last Crusade Pty Ltd (“LC”), entered into an agreement with Mobile Concreting Solutions Pty Ltd (“MCS”) under which LC facilitated the excision of graticule B703 from LC’s Exploration Licence 45/3390. Under the agreement, MCS applied for a mining licence over the excised graticule to mine for shingles, river sand and limestone blocks. LC retains the right to explore for all other minerals on the affected ground and MCS pays a royalty of \$0.50 per tonne to LC for all material removed. The sands mining operations commenced in the December 2013 quarter and have continued throughout the current financial year.

(d) Haoma Option – Southern Portion of Tenement E45/2983

In October 2016, De Grey secured an option to acquire 100% of the southern portions of tenement E45/2983, from Haoma Mining NL (Haoma”), by payment of \$10,000 on exercise of such option. Haoma has retained all rights to pegmatite related mineralisation and alluvial sand and scree deposits on E45/2983; and Haoma obtained the rights to alluvials and screes on part of the De Grey tenement E45/2533 and the full tenement E45/4751.

(e) Indee Gold Option

On 24 January 2017, De Grey initially entered into an exclusive and binding Heads of Agreement (“HoA”) with current owner Northwest Nonferrous Australia Mining Pty Ltd (“NNAM”) and its wholly-owned subsidiary, Indee Gold Pty Ltd (“Indee Gold”). Indee Gold owns the gold assets to the immediate west of De Grey’s Turner River Project near Port Hedland, Western Australia.

On 9 February 2018, De Grey executed a detailed Share Sale Agreement (“SSA”) on 9 February 2018 to acquire all the shares in Indee Gold from NNAM.

Under the executed SSA, the total acquisition price is A\$15 Million (as per the initial HoA). As at the reporting date, De Grey has completed its financial obligations under the agreement via the payment of an initial Exclusivity Fee of \$100,000 (paid in January 2017) and a deposit of \$1.5 Million (paid in February 2018).

The remaining consideration payable so as to effect settlement are as follows:

- \$10.4 Million to be paid on Settlement scheduled for 24 January 2019;
- \$3 Million of Consideration Shares (new De Grey fully paid ordinary shares) to be issued on Settlement to NNAM and
- De Grey has the right to extend Settlement by 6 months to 24 July 2019 by payment of an Extension Deposit of \$700,000, before 24 January 2019, which would reduce the cash payable at Settlement to \$9.7 Million.

As at the date of this report, the Company has scheduled a Shareholders Meeting to obtain approval to proceed with both the Indee Gold acquisition, as well as approval to issue shares to NNAM as noted above. The meeting is set down for 5 October 2018.

Up to the date of the SSA settlement of SSA, De Grey is required to meet the statutory expenditure commitments on each of the Indee tenements

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

25. INTERESTS IN JOINT VENTURES / OTHER ACQUISITIONS

(f) Farno McMahon Project Option

On 28 July 2017, secured an option to joint venture (earn-in) agreement for tenement E47/2502, representing the Farno McMahon Project. An option fee of \$40,000 was paid to Vendor granting De Grey and exclusive right and period to assess the project and on 2 October 2017, the Company elected to enter into a Joint Venture Earn -in. The vendor retains all alluvial rights.

The Joint Venture Earn-in consists of two stages:

Stage 1 - DEG to spend a minimum of \$1.0M over a period of 3 years to earn 30%, as follows:

- Year 1 (to 13 December 2017) expenditure requirement of \$100,000 have been met;
- Year 2 (to 13 March 2019) expenditure requirement of \$300,000 is in progress at the date of this report; and
- Year 3 (to 13 December 2019) expenditure requirement of \$600,000

Stage 2 - DEG may spend a further \$1.0M expenditure over an additional 1-year period (Year 4) to earn an additional 45% equity in the tenement for a total equity of 75%.

(g) Vanmaris Project Option

On 25 September 2017, secured an Option letter agreement with the owner of tenements E47/3399, E47/3428-3430, P47/1732-1733 whereby De Grey may acquire an 80% interest in each of these listed tenements, within a 4 year option period.

The terms of the letter agreement included a cash and script option payment to the vendors of \$30,000 cash and 150,000 ordinary fully paid De Grey shares.

De Grey are to maintain the tenements in good standing during the option period and within the 4 year option period can elect to acquire an 80% interest on payment of \$500,000 cash. The vendor retains the alluvial and prospecting rights to a depth of 3 metres.

(h) Blue Moon Project Option

On 11 October 2017, secured an Option letter agreement with the owner of tenement P47/1773 whereby De Grey may acquire a 70% interest in the listed tenements, within a 2 year option period.

The key terms of the letter agreement included a cash and script option payment to the vendors of \$125,000 cash and 600,000 ordinary fully paid De Grey shares.

It is then to fund exploration at De Grey's discretion during the 2 year Option Period and after which it can elect to acquire 70% of the mineral rights of the tenement below 6m depth on payment of \$500,000 cash. The Vendor retains all the mineral rights to a depth of 6 metres.

	Consolidated	
	2018	2017
	\$	\$
26. STATEMENT OF CASH FLOWS		
Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	(2,476,951)	(3,218,897)
Non-Cash Items		
Depreciation of non-current assets	40,663	11,276
Share based payments (options and performance rights)	696,201	49,980
<i>Non-cash expenses</i>		
Payments to acquire or option mineral tenements	154,500	390,000
Equity settlement of expenses	332,113	20,000
Exploration & evaluation expenditure capitalised	(5,814,539)	(980,397)
Change in operating assets and liabilities		
(Increase)/decrease in trade, other receivables and assets	(145,510)	(37,793)
(Increase)/decrease in inventories	(8,200)	(11,694)
(Decrease)/increase in trade and other payables	135,953	760,246
Net cash outflow from operating activities	(7,085,770)	(3,017,279)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

27. LOSS PER SHARE

(a) Reconciliation of earnings used in calculating loss per share

Loss attributable to the owners of the company used in calculating basic and diluted loss per share

	2018	2017
	\$	\$
	(2,476,951)	(3,218,897)

Number of shares Number of shares

(b) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share

	291,136,047	168,820,401
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(c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2018, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

28. SHARE-BASED PAYMENTS

From time to time options are granted to;

- eligible employees under the Performance Rights Plan ("PRP") and/or the Employee Option Plan ("EOP") of De Grey Mining Limited to align their interests with that of the shareholders of the company.
- Directors under rules comparable with the PRP and/or EOP, but subject to shareholder approval pursuant to the provisions of the ASX Listing Rules and the *Corporations Act 2001*.

(a) Options

Employee Option Plan of De Grey Mining Limited ("EOP")¹

Shareholders approved the EOP at the Annual General Meeting held on 25 November 2015. The EOP is designed to attract and retain eligible employees, provide an incentive to deliver growth and value for the benefit of all Shareholders and facilitate capital management by enabling the Company to preserve cash reserves for expenditure on principal activities. Participation in the Plan is at the discretion of the Board and no eligible employee has a contractual right to receive an option under the Plan.

The exercise price and expiry date for all options granted will be determined by the board prior to granting of the options, and in the case of Director options subject to shareholder approval. The options granted may also be subject to conditions on exercise and usually have a contractual life of two to three years.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share in the capital of the company with full dividend and voting rights.

There were Nil director options granted (2017: 3,500,000) and 2,250,000 EOP options¹ granted (2017: 3,850,000) in the financial year ended 30 June 2018 and are all currently outstanding are detailed in the following table:

Grant date	Expiry date	Exercise price Cents	Balance at start of the year Number	Granted during the year Number	Expired or other change during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated – 2018							
25 Nov 2014	25 Nov 2017		2,125,000	-	(2,125,000)	-	-
30 Nov 2016	30 Nov 2018		3,500,000	-	(1,000,000)	2,500,000	2,500,000
30 Nov 2016	30 Nov 2018		3,850,000 ¹	-	(250,000)	3,600,000	3,600,000
24 Sep 2017	31 Oct 2020		-	2,250,000	-	2,250,000	2,250,000
			9,475,000	2,250,000	(3,375,000)	8,350,000	8,350,000
Consolidated – 2017							
25 Nov 2014	25 Nov 2017	0.4	42,500,000	-	(42,500,000)	-	-
25 Nov 2014	25 Nov 2017	8.0	-	-	2,125,000	2,125,000	2,125,000
30 Nov 2016	30 Nov 2018	10.0	-	3,500,000	-	3,500,000	3,500,000
30 Nov 2016	30 Nov 2018	10.0	-	3,850,000 ¹	- ¹	3,850,000 ¹	3,850,000
			42,500,000	7,350,000	(40,375,000)	9,475,000	9,475,000

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

Expenses arising from options - share-based payment transactions

The weighted average fair value of the options granted during the year was \$0.0262 (2017: \$0.0068). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2018	2017
Weighted average exercise price (cents)	10.0	10.0
Weighted average life of the option (years)	3.1	2.0
Weighted average underlying share price (cents)	\$0.066	\$0.04
Expected share price volatility	75%	75%
Weighted average risk free interest rate	1.5%	1.5%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

No assumptions have been made relating to dividends or expected early exercise of the options and there are no other inputs to the model.

The life of the options is based on historical exercise patterns, which may not eventuate in the future.

Total expenses arising from equity settled share-based payment transactions recognised during the period were as follows:

	\$	\$
Options issued to directors and EOP to eligible employees	58,950	49,980

(b) Performance rights

Employee Performance Rights Plan of De Grey Mining Limited (“PRP”)

Shareholders approved the PRP at the Annual General Meeting held on 30 November 2017. The PRP, like the EOP Plan is designed to attract and retain eligible employees, provide an incentive to deliver growth and value for the benefit of all Shareholders and facilitate capital management by enabling the Company to preserve cash reserves for expenditure on principal activities. Participation in the Plan is at the discretion of the Board and no eligible employee has a contractual right to receive performance rights under the Plan.

The performance rights granted will be determined by the board prior to granting of the rights, and in the case of Director performance rights, these are subject to shareholder approval. The rights granted may be subject to performance milestones before the holder has the right to exercise (Refer **Note 17**) and can have a contractual life of up to 5 years.

Rights granted carry no dividend or voting rights. When exercisable, each right is convertible into one ordinary share in the capital of the company with full dividend and voting rights.

There were 6,700,000 performance rights granted (2017: Nil) in the financial year ended 30 June 2018 and are all currently outstanding are detailed in the following table:

Expenses arising from performance rights - share-based payment transactions

On 21 December 2017, 6,700,000 unlisted Performance Rights were issued to directors and employees of the Group, with vesting conditions as described in **Note 17 (e)**

	Tranche 1	Tranche 2	Tranche 3 ¹	Tranche 4 ¹	Tranche 5
Number Issued (No.)	1,300,000	1,300,000	1,450,000	1,450,000	1,200,000
Grant Date	21-Dec-2017	21-Dec-2017	21-Dec-2017	21-Dec-2017	21-Dec-2017
Exercise Price (\$)	N/A	N/A	N/A	N/A	N/A
Expiry/Amortisation Date	30-Nov-2019	30-Nov-2019	24-Jul-2019	30-Nov-2021	30-Nov-2019
Underlying Share Price on Grant (\$)	\$0.17	\$0.17	\$0.17	\$0.17	\$0.17
Total Fair Value (\$) – Life of Right	\$221,000	\$221,000	\$246,500	\$246,500	\$204,000
Total Fair Value (\$) – Expensed 30 June 2018	\$59,763	\$59,763	\$81,460	\$32,844	\$55,166
					\$288,996

¹Under the performance rights plan, rights expire the earlier of any date specified on issue or 5 years. In the case of tranches 3 and 4 and for the purposes of amortisation, the fair value share-based payments have been calculated on the basis of all information available at date of this report, and board considers both dates as appropriate.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

29. EVENTS OCCURRING AFTER THE REPORTING DATE

There has been no matters or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in future financial years, other than;

On 12 July 2018, the Company completed a \$5 Million placement to ASX listed DGO Gold Limited (“DGO”) via the issue of 25 Million ordinary fully paid shares at a price of \$0.20 each. For each share two classes of free attaching unlisted options were also issued on a 1:2 basis, being 12.5M unlisted options with an exercise price of \$0.25 and expiry date of 31 October 2020 and 12.5M unlisted options with an exercise price of \$0.30 and expiry date of 30 May 2021. On 12 July 2018, the Company also allotted 300,000 and 1,950,000 shares on exercise of 10 cent listed options and 4c unlisted options respectively. Finally, the Company issued 1,009,300 shares as part settlement of supplier invoices.

On 18 September 2018, the Company announced that Novo Resources Corp. of Canada (“Novo”) had reached a conditional agreement to acquire 100% of Farno McMahon Pty Ltd (“Farno”), the owner of four key tenements, including tenement E47/2502. The Company had previously entered into a Joint Venture Heads of Agreement with Farno on E47/2502 whereby it can earn 75% of this tenement through expenditure of \$4 million over 4 years. The Company also held a 4% shareholding in Farno and has agreed to accept the Novo offer, which is a combination of cash and scrip.

On 18 September 2018, the Company allotted 124,169 shares on exercise of 10 cent listed options as well as 607,548 shares as part settlement of supplier invoices.

	Parent Entity	
	2018	2017
	\$	\$

30. PARENT ENTITY INFORMATION

The following information relates to the parent entity, De Grey Mining Limited, at 30 June 2018. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

Current assets	1,455,470	1,161,502
Non-current assets	22,873,773	1,038,758
Total assets	24,329,243	2,200,260
Current liabilities	2,032,743	1,024,126
Non-current liabilities	12,700,000	-
Total liabilities	14,732,743	1,024,126
Contributed equity	59,464,845	49,108,104
Reserves	711,106	170,530
Accumulated losses	(50,579,451)	(48,102,500)
Total equity	9,596,500	1,176,134
Loss for the year	(2,476,951)	(3,218,897)
Other comprehensive loss	-	-
Total comprehensive loss for the year	(2,476,951)	(3,218,897)

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments

The parent entity had no capital commitments as at 30 June 2018 and 30 June 2017.

Accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 42 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2018 and of their performance for the financial year ended on that date;
- (b) the audited remuneration report set out on pages 6 to 11 of the directors' report complies with section 300A of the *Corporations Act 2001*;
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (d) a statement that the attached financial statements are in compliance with Australian Accounting Standards has been included in the notes to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Simon Lill
Executive Chairman

Perth, 28 September 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DE GREY MINING LIMITED

Report on the Financial Report

Opinion

We have audited the financial report of De Grey Mining Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2018 the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We have conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our ethical requirements in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without qualifying our opinion above, we wish to draw your attention to Note 1(u) of the financial statements "Going Concern". The matters as set forth in Note 1(u) "Going Concern" indicates the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period.

These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Deferred exploration and evaluation expenditure

(refer notes 1(m) and 12)

The Group operates as an exploration entity and as such its primary activities entail expenditure focussed on the exploration for and evaluation of economically viable mineral deposits. These activities are currently limited to the Pilbara region in Western Australia.

All exploration and evaluation expenditure incurred during the year has been capitalised and recognised as an asset in the Statement of Financial Position.

The Group has also capitalised contract liabilities of \$13,400,000 associated with the Share Sale Agreement between the Group and the Vendors of Indee Gold Pty Ltd.

The closing value of deferred exploration and evaluation expenditure is \$21,982,686 as at 30 June 2018.

The carrying value of exploration and evaluation assets is subjective based on the Group's intention, and ability, to continue to explore the asset. The carrying value may also be affected by the results of ongoing exploration activity indicating that the mineral reserves and resources may not be commercially viable for extraction. This creates a risk that the asset value included within the financial statements may not be recoverable.

Contract liabilities

(refer notes 12 and 16)

The Group has completed the execution of a Share Sale Agreement to purchase 100% of the issued shares of Indee Gold Pty Ltd.

The Agreement includes specific payments to be made on or before 24 July 2019.

The contract liabilities under the Agreement have been recognised as liabilities totalling \$13,400,000 at 30 June 2018.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ensuring the Group's continued right to explore in the relevant areas of interest including assessing documentation such as exploration and mining licences;
- enquiring of management and the directors as to the Group's intentions and strategies for future exploration activity and reviewing budgets and cash flow forecasts;
- assessing the results of recent exploration activity to determine whether there are any indicators suggesting a potential impairment of the carrying value of the asset;
- assessing the Group's ability to finance the planned exploration and evaluation activity; and
- assessing the adequacy of the disclosures made by the Group in the financial report.

Our audit procedures included the following:

- assessing management's assumptions in determining that a constructive obligation arises as a result of the Agreement;
- assessing management's strategy and ability to finance the payments required under the Agreement; and
- assessing the adequacy of the disclosures made by the Group in the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significant in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh public interest benefits of such communication.

Report on the Remuneration Report

Opinion

We have audited the Remuneration Report included on pages 6 to 11 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of De Grey Mining Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

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LUCY P GARDNER
Director

Perth

Date: 28 September 2018