



# DE GREY MINING LTD

*The Bold Explorer*

## QUARTERLY REPORT

FOR THE QUARTER ENDING 30 SEPTEMBER 2011

**ASX CODE: DEG**

**Shares on Issue**

258,862,350

**Board of Directors**

*Darren Townsend*  
Chairman

*Gary Brabham*  
Managing Director

*Jason Brewer*  
Non-Executive Director

**Company Secretary**

*Dennis Wilkins*

**Exploration Manager**

*Glenn Martin*

**Registered Office**

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A.B.N. 65 094 206 292

### Highlights

#### Argentina Projects (gold, silver)

- Field work recommenced in Argentina with first priorities follow-up of geochemical targets defined at Sierra Morena and Boleadora Projects.
- Detailed mapping and sampling commenced at Pachi project.
- Working towards De Grey's first Argentina drilling in 1Q 2012.
- 1,420 sq km of tenements staked in Rio Negro Province targeting gold and silver.

#### Turner River Project (gold, base metals)

- RC and diamond drilling program completed by farm-in partner.
- Significant drill intercepts at Discovery and Orchard Tank VMS-style base metals prospects:

**15m at 1.9g/t Au, 44.19g/t Ag, 0.17% Pb and 0.51% Zn**

**9m at 0.9g/t Au, 77.7g/t Ag and 1.84% Zn**

**21m @1.06g/t Au, 83.76g/t Ag, 0.28% Cu, 2.28% Pb and 4.85% Zn**

- Massive sulphide lens intersected in footwall of main Orchard Tank VMS horizon, assays awaited.
- First diamond core drilling at Mount Berghaus gold prospect completed, assays awaited.



# DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2011

## ARGENTINA PROJECTS

### Santa Cruz Province – 2011-2012 Field Season Commenced

Through agreements and tenement applications in its own right, De Grey has secured mineral rights over approximately 3,750 sq km of ground in Santa Cruz Province, making the Company one of the largest tenement holders in the region (Figure 1).

Spring thaw allowed field work in Santa Cruz Province to recommence in mid-September, with establishment of a field base from which to work projects in the central-western part of the Deseado Massif. De Grey has secured the services of an Argentine consulting geologist to coordinate exploration and four contract field personnel have been engaged.

Work priorities for the 2011-2012 summer field season have been set based on results of previous work, perceived technical merits of each of the projects and logistical considerations. First priority is to follow-up geochemical targets arising out of last summer's field work at Sierra Morena and Boleadora projects and to detail map and sample the Pachi property, aiming to delineate targets for drilling in the first quarter of 2012.

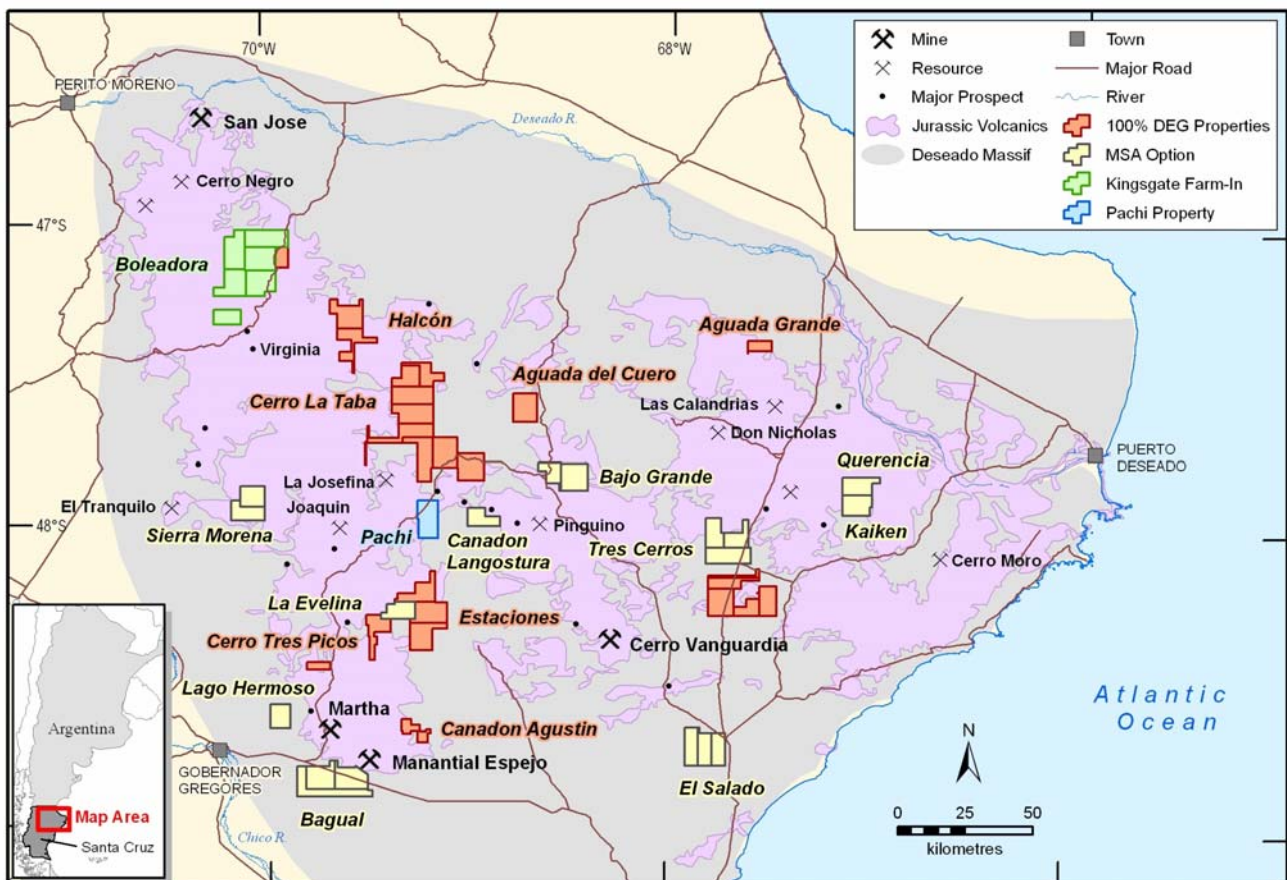


Figure 1: Locations of De Grey's projects, Santa Cruz, Argentina



## DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2011

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### Rio Negro Province – New Project Acquisition

The Company's Argentine subsidiary, De Grey Argentina S.A., has lodged applications for exploration tenements covering 1,420 sq km in the south-east of Rio Negro Province, Argentina (Figure 2).

The tenements cover Jurassic volcanic and epiclastic rocks of the Marifil Volcanic Complex, part of the Somuncura Massif. The Somuncura hosts numerous examples of epithermal to mesothermal gold-silver deposits, similar to the Deseado Massif, and the Marifil Formation is regarded as being broadly equivalent to the Chon Aike Formation, host to almost all epithermal gold-silver mineralisation in the Deseado.

In mid-2011 De Grey commissioned a project generation study to investigate the potential for gold-silver mineralisation in the south-eastern part of the Somuncura Massif, in the district surrounding the town of Sierra Grande, site of an operating iron ore mine. The district was targeted on the basis of its prospective geology, known nearby mineral occurrences and competitor activity, and ground availability.

De Grey's tenement applications comprise 17, mainly contiguous, cateos (exploration licences) covering a total area of 1,420 sq km. The tenement areas were selected on the basis of a remote sensing and structural study, mineral occurrences and nearby prospects. The Company knows of no previous modern mineral exploration within the staked areas but numerous fluorite vein occurrences testify to hydrothermal activity in the area.

The Arroyo Verde epithermal Au-Ag vein system, previously drilled by Portal Resources, is located immediately south of De Grey's tenements, in Chubut Province. In the same area, Portal discovered disseminated and stockwork Mo-Cu mineralisation, with subordinate Au and Ag, over a 7km x 4km area at the Refugio-Porvenir prospect. North of De Grey's tenements, the abandoned Gonzalito mine exploited Pb-Zn-Ag mineralisation of an unknown style until closure in 1982.

About 80km north of Sierra Grande, the San Roque project of Marifil Mines is currently being drilled by NovaGold Resources in a farm-in arrangement. San Roque features Au-Ag-In (indium) mineralisation hosted by several mesothermal vein and stockwork systems associated with a rhyolitic volcanic centre. Drill results recently published by NovaGold include cumulative intersections of 150m @ 1.00g/t Au, 9.5g/t Ag and 32.7ppm In, and 191.2m @ 0.24g/t Au, 21.1g/t Ag and 10.6ppm In.<sup>1</sup>

In neighbouring Chubut Province, rocks of the Somuncura Massif host one of the world's largest undeveloped silver deposits, the Navidad deposit, with estimated resources of 756Moz of silver.

The Sierra Grande district is an area of moderate topographic relief with ephemeral drainage systems that ideally suit stream sediment geochemical sampling as a first-pass screening tool. Commencement of exploration activities requires prior liaison with landholders in the area, a process the Company intends to start shortly. Commencement of field reconnaissance and sampling programs is scheduled for the second quarter of 2012, as exploration work in Santa Cruz winds down for winter. It is expected that field work in Rio Negro will be possible throughout winter.

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<sup>1</sup> Refer to NovaGold Resources Inc news release dated 21 July 2011



# DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2011

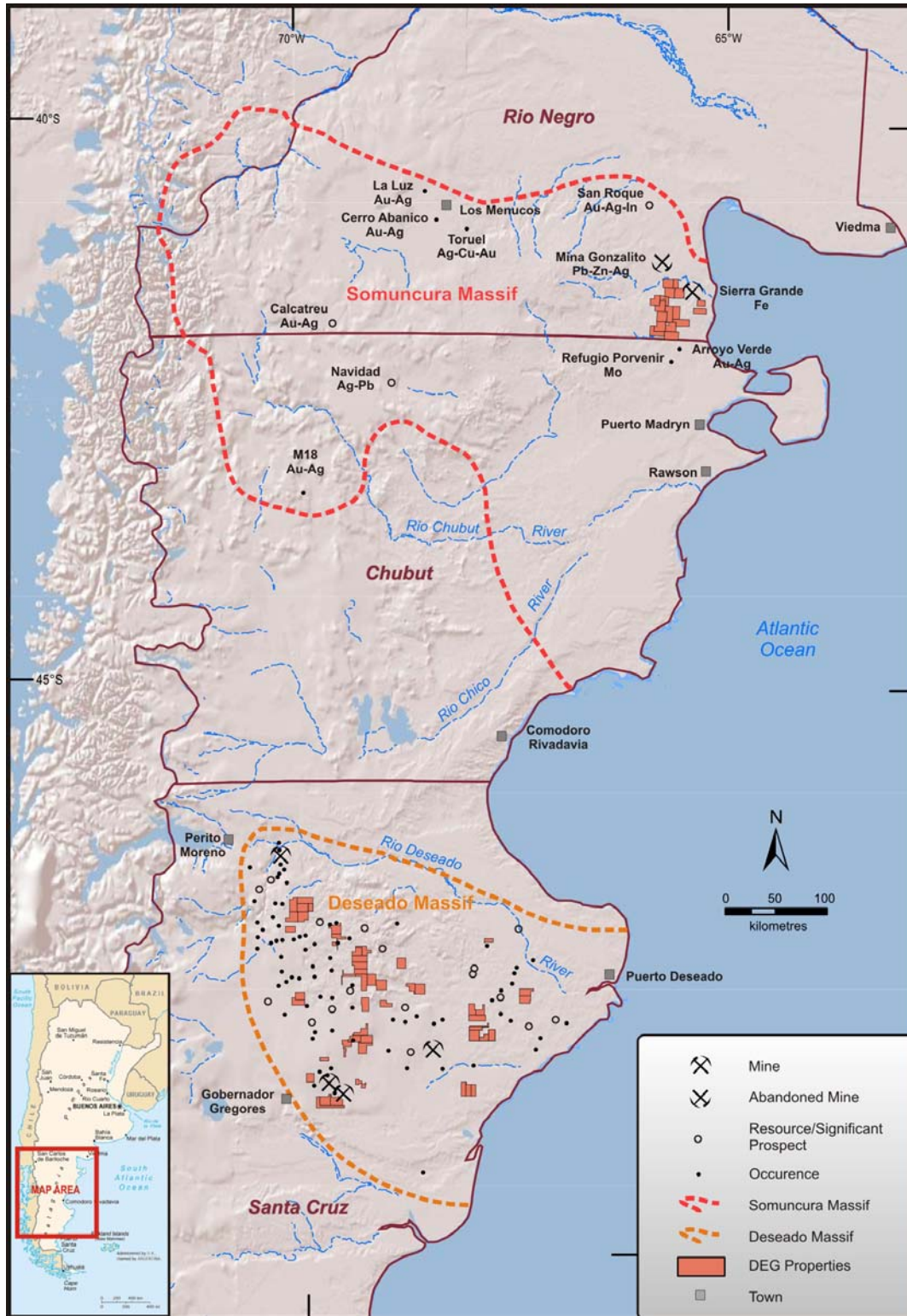


Figure 2: Mines, significant prospects and De Grey's tenements in the Deseado and Somuncura Massifs



## DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2011

### TURNER RIVER PROJECT

In May 2011 De Grey entered into agreements with Lansdowne Resources Pty Ltd, an unlisted Australian mineral exploration company, over the Company's Turner River gold and base metals exploration projects (Figure 3) under which Lansdowne may earn up to 75% interest in each project.

Lansdowne completed their first drill program during the September quarter, targeting specific positions on both the gold and base metals projects. In addition to the drill programs, detailed below, Lansdowne reprocessed aeromagnetic data over the area encompassing Brierly and Mount Berghaus prospects and re-logged RC chips and diamond drill core from selected holes at Wingina Well gold deposit.

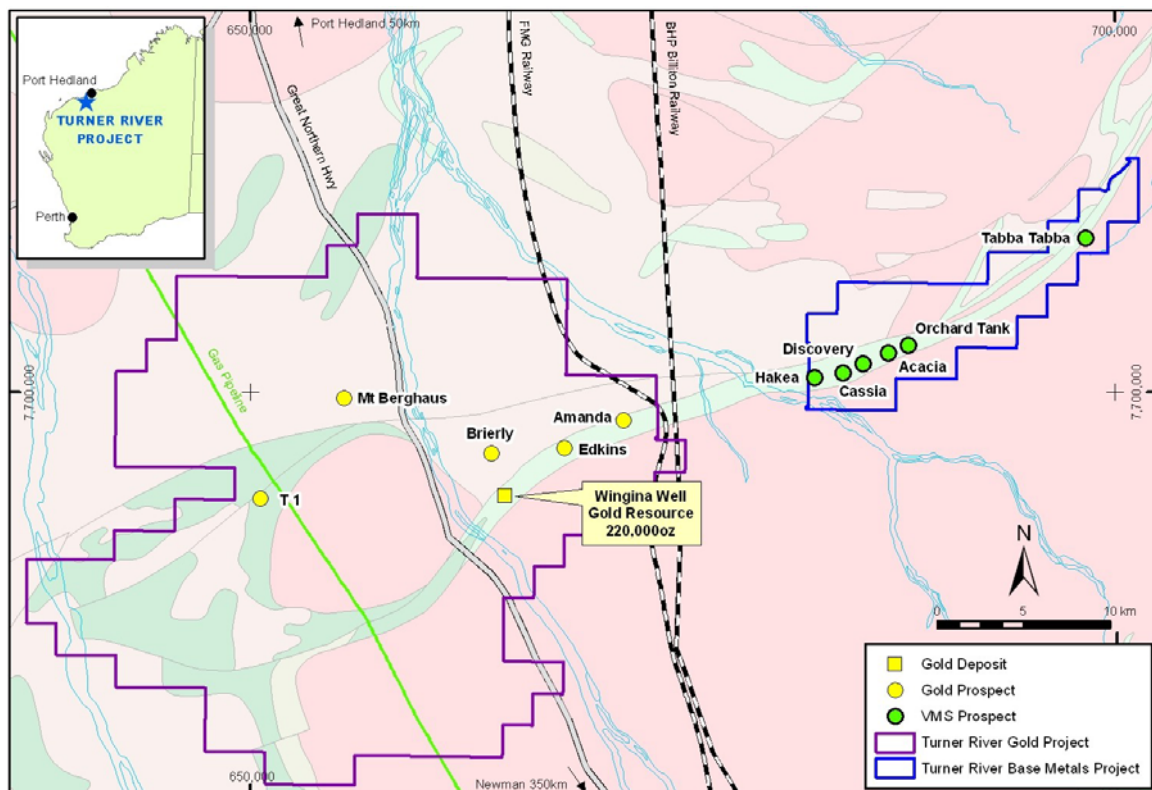


Figure 3: Turner River Gold and Base Metals project areas

### Turner River Gold

One diamond core hole (MBHDD001) was drilled at Mount Berghaus prospect where previous work by De Grey outlined gold mineralisation associated with intermittent quartz veining over about 2km strike length. Primary control on the mineralisation is the Mallina Shear Zone but highest grades appear to be associated with splay structures oblique to the main shear. Intercepts from previous work by De Grey include 24m at 2.6g/t Au, 12m at 33.4g/t Au (including 1m at 354g/t Au), 2m @ 16.0g/t Au and 2m @ 11.9g/t Au.<sup>2</sup>

<sup>2</sup> Refer to De Grey Mining Limited June 2005 quarterly report for drill hole locations and details of drill intercepts.



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Lansdowne's drilling is the first diamond core drilling undertaken at Mount Berghaus, and was targeted to test down dip of previously reported high grade intercepts in BGRC039 (3m at 25.74g/t Au, 3m at 21.12g/t Au and 2m at 1.18g/t Au) and to provide structural information for resource modelling. Geological logging noted quartz veining and stock-works in several intervals and assay results are expected early in the next quarter.

A single RC hole was completed at the Brierly Gold Prospect, where previous aircore drilling by De Grey defined gold mineralisation hosted by deeply weathered Mallina Group metasediments over 5.5km strike with drill intercepts including 48m @ 1.62g/t Au (including 8m @ 6.98g/t Au), 19m @ 0.51g/t Au, 8m @ 3.20g/t Au and 8m @ 2.43g/t Au<sup>3</sup>.

Lansdowne's program at Brierly was curtailed due to drilling difficulties and further drilling is planned when suitable equipment can be secured. The completed hole returned an intercept of **4m @ 2.34g/t Au** from 60m depth in BRIRC001.

### Turner River Base Metals

Previous work by De Grey discovered VMS-style Zn-Pb-Ag-Au and subordinate copper mineralisation at a number of prospects over a strike length of 18 km in the eastern part of the Turner River project. Previous drilling has achieved intersections such as<sup>4</sup>:

- 4.90m at 12.7% Zn, 331g/t Ag, 7.31% Pb, 2.54g/t Au and 0.35% Cu at the Orchard Tank prospect;
- 16m at 3.79% Zn, 167g/t Ag, 1.81% Pb, 1.19g/t Au and 0.16% Cu at the Discovery prospect.

During the September quarter, Lansdowne drilled two RC holes and two pre-collared diamond core holes at the Discovery prospect, with a third hole pre-collared but the diamond core tail remaining to be drilled. One pre-collared core hole was drilled at the Orchard Tank prospect. To date, assays have been received only for the RC portions of the holes.

At Discovery, drill hole **DISRC001** (Figure 4) was designed to test down dip of hole WARB413 (5m at 1.11g/t Au, 34g/t Ag, 0.61% Pb and 1.33% Zn) and along strike of hole WARC009 (13m @ 1.19g/t Au, 58g/t Ag, 1.36%Pb and 3.11% Zn). The hole successfully intersected the target and returned:

- **15m at 1.9g/t Au, 44.19g/t Ag, 0.17% Pb and 0.51% Zn**

Drill hole **DISRD002** was designed to test between previous significant intercepts in holes WARC009 (13m at 1.2g/t Au, 58g/t Ag, 0.19% Cu, 1.36% Pb and 3.11% Zn) and WADH013 (1.5m @ 1.1g/t Au, 199g/t Ag, 0.12% Cu, 3.65% Pb and 7.92% Zn). The hole successfully intersected the target and returned:

- **9m at 0.9g/t Au, 77.7g/t Ag and 1.84% Zn**

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<sup>3</sup> Refer to De Grey Mining Limited release dated 9 October 2008 for drill hole locations and details of drill intercepts.

<sup>4</sup> Refer to De Grey Mining Limited 2007 Annual Report for drill hole locations and details of drill intercepts.



## DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2011

Drill hole **DISRC003** (Figure 5) was designed to test down dip of previous significant intercepts in holes WARB418 (11m @ 3.17g/t Au, 94g/t Ag, 0.18% Cu, 1.75% Pb, 2.81% Zn), WARB419 (15m @ 3.14g/t Au, 192g/t Ag, 0.38% Cu, 1.25% Pb, 3.03% Zn) and WARC080 (13m @ 3.12g/t Au, 315 Ag, 0.35% Cu, 2.7% Pb, 6.46% Zn, and 8m @ 1.29 g/t Au, 231g/t Ag, 0.21% Cu, 3.26% Pb, 5.64% Zn). The hole successfully intersected the target and returned:

- **21m @1.06g/t Au, 83.76g/t Ag, 0.28% Cu, 2.28% Pb and 4.85% Zn**

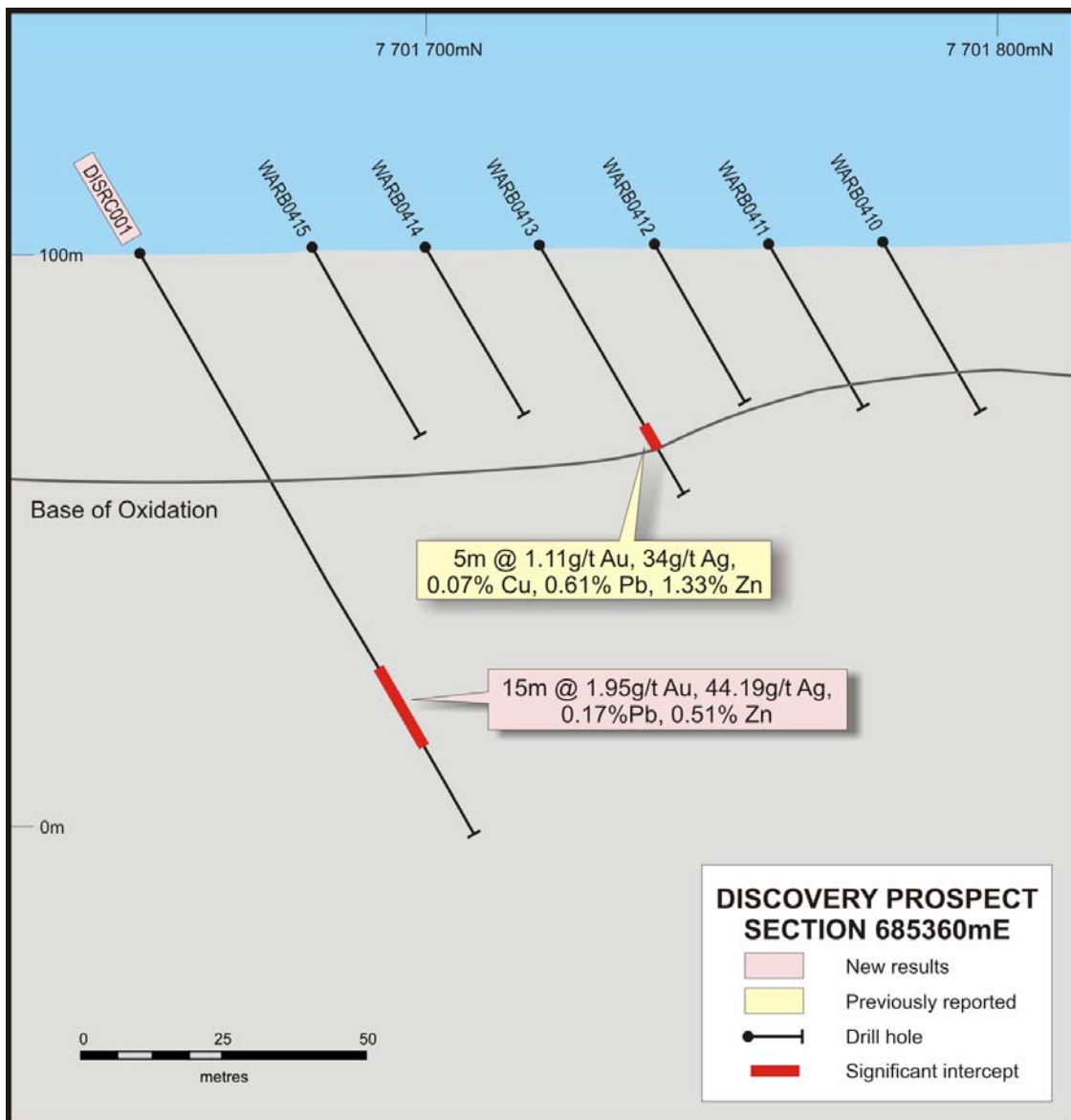


Figure 4: DISRC001 drill intercept, Discovery prospect



# DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2011

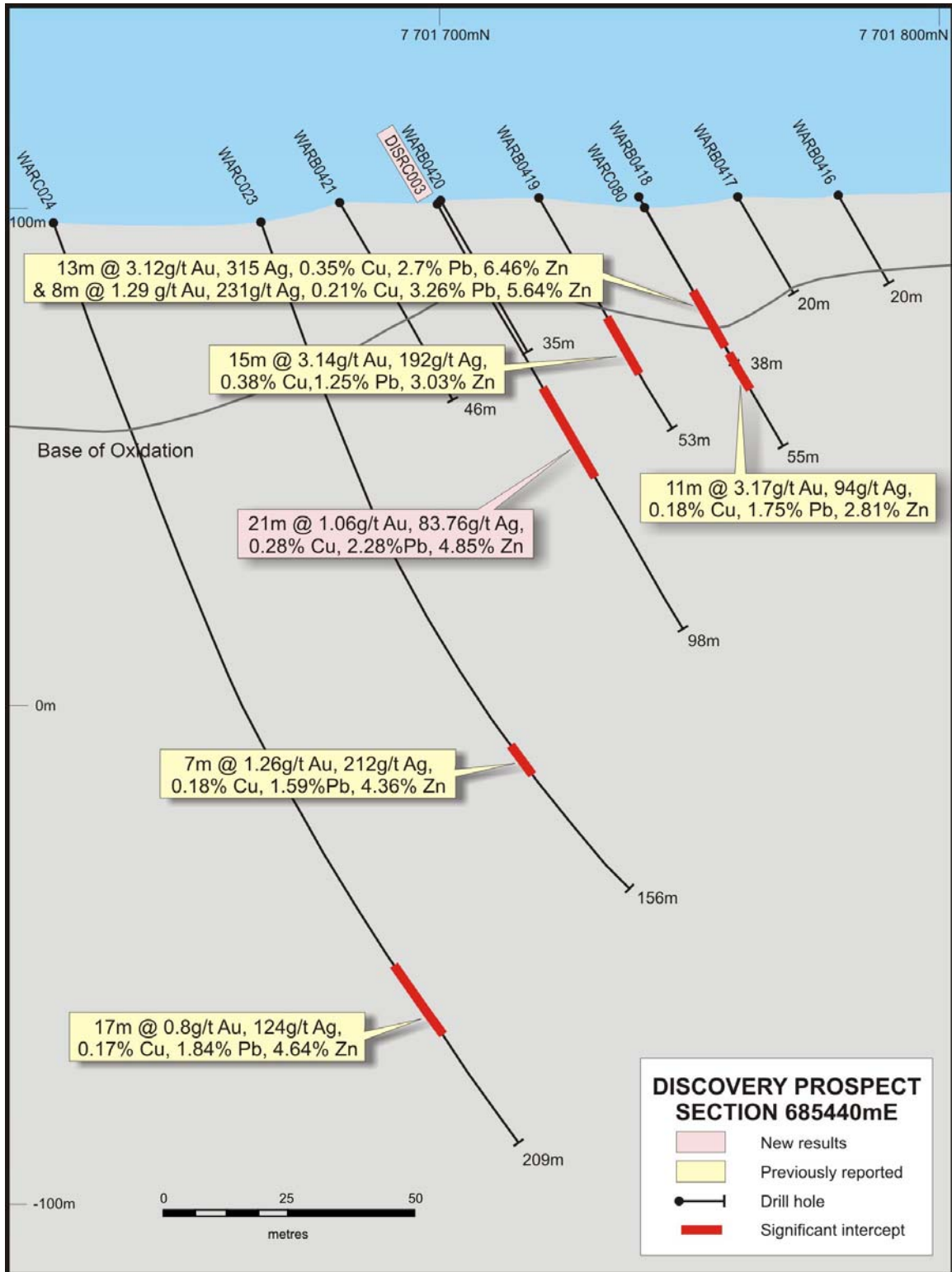


Figure 5: DISRC003 drill intercept, Discovery prospect





## DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2011

At Orchard Tank, drill hole ORCRD002 was designed to test up-dip of a previous significant intercept in WARC045 (21m at 1.08g/t Au, 137g/t Ag, 0.08% Cu, 2.1% Pb and 4.65% Zn). Assays for this hole remain outstanding, but geological logging has confirmed the position of the up-dip target (Figure 6).

Of particular significance in this hole is a second massive sulphide horizon of approximately 3.4m thickness intersected in the footwall of the target horizon. This horizon displayed a different character to the target horizon, with the sulphides much less deformed, coarser grained and containing (in visual estimates) a higher proportion of copper sulphides (Figure 7).

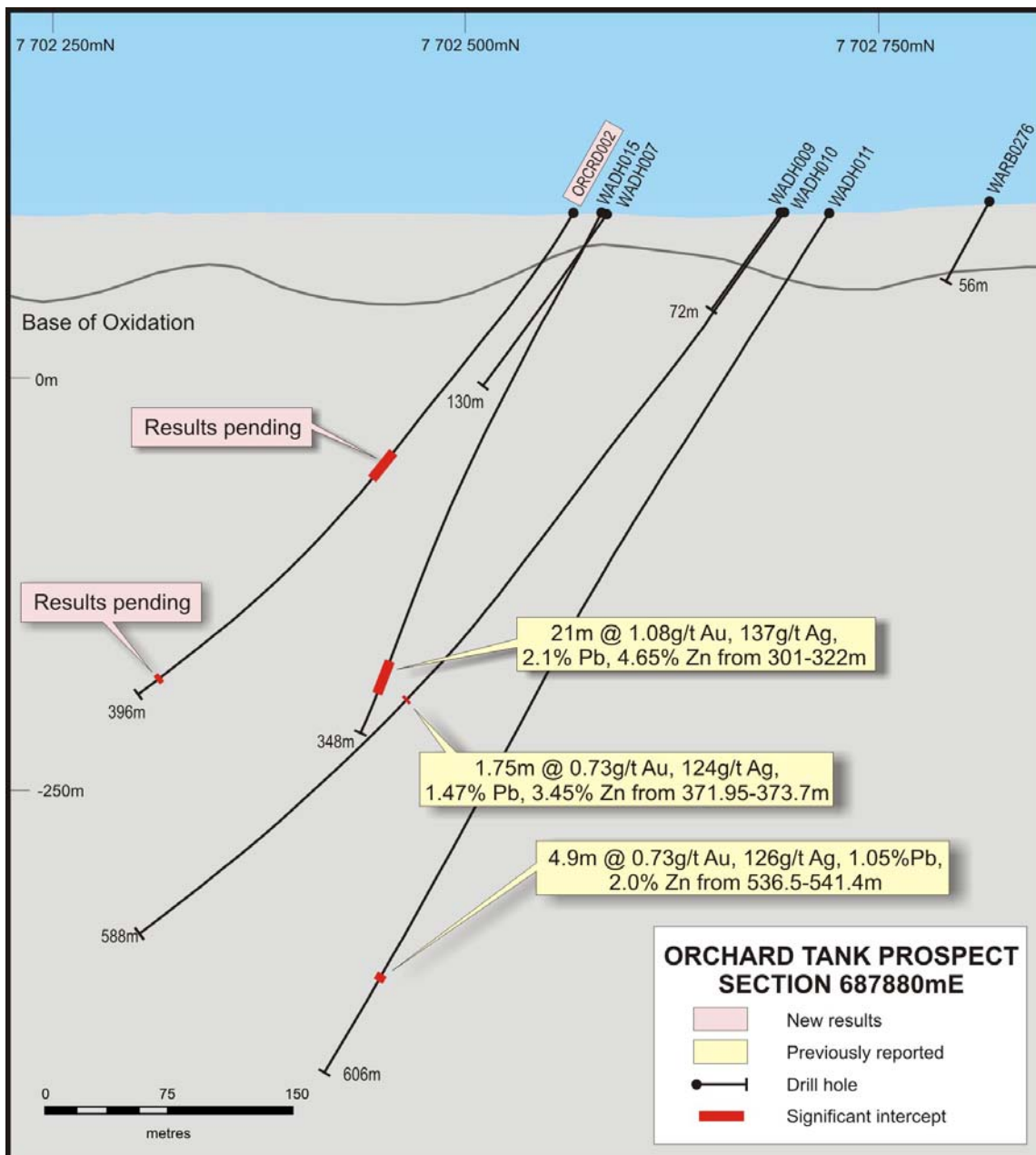


Figure 6: ORCRD002 logged mineralized intercepts, Orchard Tank prospect



**DE GREY MINING LTD QUARTERLY OPERATIONS REPORT  
FOR THE QUARTER ENDING 30 SEPTEMBER 2011**

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*Figure 7: "Footwall" massive sulphide intercept in Orchard Tank hole ORTRD002*



## DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2011

**TABLE 1 – BASE & PRECIOUS METAL INTERSECTIONS, DISCOVERY AND BRIERLY PROSPECTS**

HOLE ID	East	North	From (m)	To (m)	Interval (m)	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
DISRC001	685360	7701650	84	99	15	1.95	44.19	NSR	0.17	0.51
DISRD002	685400	7701590	176	186	9	0.9	77.7	NSR	NSR	1.84
DISRC003	685440	7701700	41	62	21	1.06	83.76	0.28	2.28	4.85
BRIRC001	666970	7696690	16	24	8	0.51	NSR	NSR	NSR	NSR
			56	60	4	2.34	NSR	NSR	NSR	NSR

**Note:** Coordinates are MGA zone 50. Holes drilled at Discovery Mt Berghaus and Brierly to the north at -60°. RC samples collected in uniform one metre intervals. Analysis is by Intertek Laboratories using Fire Assay analysis for gold and Inductively Coupled Plasma (ICP) on mixed acid digest for zinc, silver, lead and copper. "NSR" denotes no significant results.

**TABLE 2 – SUMMARY OF DRILL HOLES AWAITING ASSAYS**

HOLE ID	East	North	Target	Comments
DISRD004	685440	7701560	Test down-dip of WARC024 (17m at 0.8g/t Au, 124g/t Ag, 0.17% Cu, 1.84% Pb, 4.64% Zn)	Target horizon not reached. Diamond tail to be completed.
DISRD005W3	685480	7701560	Test down-dip of WARC022 (16m at 1.19g/t Au, 167g/t Ag, 0.16% Cu, 1.81% Pb, 3.79% Zn) and up-dip of WARC044 (7m @ 0.35g/t Au, 59g/t Ag, 0.55% Pb, 1.56 % Zn)	Assays outstanding. Logged mineralized interval in down-dip position of WARC022 from 216.2-228.5m (12.3m)
ORCRD002	687880	7702565	Test up-dip of WARC045 (21m at 1.08g/t Au, 137g/t Ag, 0.08% Cu, 2.1% Pb, 4.65% Zn)	Assays outstanding. Logged mineralized interval in up-dip position of WARC045. Second mineralized interval in footwall from 380.3-383.7m
MBHDD001	656970	7700195	Test down dip of BGRC039 (3m at 25.74g/t Au, 3m at 21.12g/t Au and 2m at 1.18g/t Au)	Assays outstanding. Quartz veining logged in several intervals.

**Note:** Coordinates are MGA zone 50. Holes drilled at Discovery, Mt Berghaus and Brierly to the north at -60°. Hole drilled at Orchard Tank drilled to the south at -60°.

The information in the report to which this statement is attached that relates to Exploration Results is based on public information and on information compiled by Mr Glenn Martin, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Martin has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 JORC Code Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Martin consents to the inclusion in the report of the matters based on his information in the form and context in which it appears

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

**De Grey Mining Limited**

ABN

65 094 206 292

Quarter ended ("current quarter")

30 September 2011

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(241)	(241)
(b) development	-	-
(c) production	-	-
(d) administration	(331)	(331)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	17	17
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(555)</b>	<b>(555)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	500	500
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>500</b>	<b>500</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(55)</b>	<b>(55)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(55)	(55)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(55)	(55)
1.20	Cash at beginning of quarter/year to date	1,376	1,376
1.21	Exchange rate adjustments to item 1.20	(27)	(27)
1.22	<b>Cash at end of quarter</b>	1,294	1,294

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	117
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Item 1.23 includes aggregate amounts paid to directors including salary, directors' fees, consulting fees and superannuation.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

+ See chapter 19 for defined terms.

**Estimated cash outflows for next quarter**

		\$A'000
4.1	Exploration and evaluation	446
4.2	Development	-
4.3	Production	-
4.4	Administration	267
<b>Total</b>		<b>713</b>

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	257	167
5.2 Deposits at call	1,037	1,209
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>1,294</b>	<b>1,376</b>

**Changes in interests in mining tenements**

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		
6.2		Interests in mining tenements acquired or increased		

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

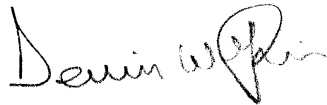
*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	258,862,350	258,862,350		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	10,500,000		<i>Exercise price</i> 6.5 cents	<i>Expiry date</i> June 2014
	3,250,000		25 cents	June 2012
7.8 Issued during quarter	2,500,000		6.5 cents	June 2014
7.9 Exercised during quarter				
7.10 Expired during quarter	3,000,000		25 cents	July 2011
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does ~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

(Company secretary)

Date: 21 October 2011

Print name: **Dennis Wilkins**

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.