De Grey Mining Limited

ABN 65 094 206 292

Annual Financial Report

for the year ended 30 June 2012

Corporate Information

ABN 65 094 206 292

Directors
Peter Batten (Executive Chairman)
Darren Townsend (Non-Executive Director)
Gary Brabham (Non-Executive Director)
Jason Brewer(Non-Executive Director)

Company Secretary
Dennis Wilkins

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Solicitors
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WEST PERTH WA 6005

Bankers
National Australia Bank Limited
1232 Hay Street
WEST PERTH WA 6005

Share Registry
Security Transfer Registrars Pty Ltd
770 Canning Highway
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Telephone: (08) 9315 2333
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Auditors
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100 Railway Road
SUBIACO WA 6008

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Stock Exchange Listing
De Grey Mining Limited shares are listed on the Australian Securities Exchange (ASX code DEG).

Contents

Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as "the Group") consisting of De Grey Mining Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Peter Batten, BAppSc (Geol), MAusIMM, MGSA (Executive Chairman, appointed 16 July 2012)

Peter joined De Grey Mining Limited in July 2012 and brings 29 years of experience in mineral exploration and mining in a wide variety of commodities (including substantial gold experience), ranging from project generation, managing various mining operations, running his own consulting firm and in more recent times a number of Managing Director roles.

Peter's corporate experience includes time as Managing Director of Bannerman Resources, taking it from early stage exploration company through to feasibility study and listing on the Toronto Stock Exchange. Peter listed Berkeley Resources on the ASX before taking the company to China and in 2010 guided White Canyon Uranium through initial production in Utah, USA and completing the company's listing on the TSX-V.

Peter is a non-executive director of ASX listed Nimrodel Resources Ltd.

Darren Townsend, B.Eng (Mining) – Hons, EMBA (Independent Non-Executive Director since July 2012, Independent Non-Executive Chairman from January 2011 to July 2012, director since May 2006, member of audit and remuneration committees)

Darren joined De Grey Mining Ltd in 2004 as General Manager - Operations and is well versed in the company's activities. He has a Bachelor of Mining Engineering degree, with Honours and has completed post graduate business qualifications. Darren has extensive operational and technical experience and was previously General Manager of Sons of Gwalia's Wodgina tantalum operation. Prior to this, Darren worked as Superintendent of Mine Production with Rio Tinto at Mt Tom Price. Darren is currently President/CEO of TSX listed company Pacific Wildcat Resources Corp.

Gary Brabham, BAppSc (app Geol), MSc (Geol), PGCert (Geostats), MAusIMM, MAIG (Non-Executive Director since July 2012, Managing Director from January 2008 to July 2012, director since November 2005)

Gary Brabham was appointed to the board in November 2005. He has more than 25 years of experience in mine geology and mineral exploration for a variety of commodities. As chief geologist for several Australian and overseas gold projects, and through consulting roles with Hellman & Schofield, Gary has seen a number of projects through evaluation, feasibility and mine start-up phases.

Jason Brewer, M.Eng (ARSM) (Independent Non-Executive Director from 3 December 2010, Chairman of audit and remuneration committees)

Jason has over 18 years international experience in the natural resources sector and in investment banking. He is a mining engineer with a Master's degree in mining engineering with honours from the Royal School of Mines, London. He has experience in coal, gold and base metal mines, having worked at British Coal's underground operations in Newcastle, the Kidd Creek Copper and Zinc mine in Canada for Falconbridge, the Lanfranchi Nickel Mine in Western Australia for WMC and the Kinross Gold Mine in South Africa for Gencor.

He is a qualified mining engineer with operating experience in Canada, South Africa, and Australia. Jason is also a director of Continental Coal Limited [from 12/2009], Black Mountain Resources Limited [from 2/2012] and Kaboko Mining Limited (formerly Uran Limited) [from 8/2011]. Jason is a former director of Altona Mining Limited within the last 3 years.

COMPANY SECRETARY

Dennis William Wilkins, B.Bus, AICD, ACIS (Member of audit committee)

Mr Dennis Wilkins is an accountant who has been a director, company secretary or acted in a corporate advisory capacity to listed resource companies for over 20 years. Mr Wilkins previously served as the Finance Director and Company Secretary for a mid-tier gold producer and also spent five years working for a leading merchant bank in the United Kingdom. Resource postings to Indonesia, South Africa and New Zealand in managerial roles have broadened his international experience.

Mr Wilkins has extensive experience in capital raising specifically for the resources industry and is the principal of DWCorporate which provides advisory, funding and administrative management services to the resource sector. Mr Wilkins is a director of Key Petroleum Limited and Minemakers Limited.

Directors' Report continued

Interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of De Grey Mining Limited were:

	Ordinary Shares	Options over Ordinary Shares
Peter Batten	8,130,890	19,500,000
Darren Townsend	890,440	2,000,000
Gary Brabham	192,860	3,000,000
Jason Brewer	733,334	2,000,000

PRINCIPAL ACTIVITIES

During the year the Group carried out exploration on its tenements and applied for or acquired additional tenements with the objective of identifying economic mineral deposits.
There was no significant change in the nature of the Group's activities during the year.

DIVIDENDS

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

OPERATING AND FINANCIAL REVIEW

Operating Results for the Year

The operating loss after income tax of the Group for the year ended 30 June 2012 was $1,580,537 (2011: $2,298,986). Included in this loss figure is an amount of exploration expenditure of $1,765,021 (2011: $1,325,390). Refer notes to the financial statements note 1(m).

Summarised operating results are as follows:

	2012	
	Revenues $	Results $
Consolidated entity revenues and loss from ordinary activities before income tax expense	1,580,684	(1,580,537)

Shareholder Returns

	2012	2011
Basic loss per share (cents)	**(0.5)**	(0.9)

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. The board has appointed a separate risk committee which meets annually to assess risks and develop strategies to mitigate the impact of any perceived risks.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed in this Annual Report no significant changes in the state of affairs of the Group occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 23, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group expects to maintain the present status and level of operations and hence there are no likely developments in the Group's operations.

Directors' Report continued

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant 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.

REMUNERATION REPORT

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

Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of De Grey Mining Limited has been designed 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.

The board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives (if any), was developed by the board. All executives receive a base salary (which is based on factors such as length of service, performance and experience) and superannuation. The board reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%. Some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation. In addition, directors receive options in the company in accordance with the employees option incentive plan.

All remuneration paid to key management personnel is valued at the cost to the company and expensed. Shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by the key management personnel. Options are valued using the Black-Scholes methodology.

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. Independent external advice is sought when required. 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 (currently $250,000). Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

Performance based remuneration

The company currently has no performance based remuneration component built into key management personnel remuneration packages.

Company performance, shareholder wealth and key management personnel remuneration

The remuneration policy has been tailored to increase the direct positive relationship between shareholders' investment objectives 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. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced. For details of key management personnel interests in options at year end, refer to note 16 of the financial statements.

Use of remuneration consultants

The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2012.

Voting and comments made at the Company's 2011 Annual General Meeting

The Company received approximately 99% of "yes" votes on its remuneration report for the 2011 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Directors' Report continued

Details of remuneration

Details of the remuneration of the directors and the key management personnel of the Group are set out in the following table.

The key management personnel of the Group include the directors as per page B3 above.

The requirement to disclose remuneration for the top five remunerated Company and Group executives was removed by the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*, effective for reporting periods commencing on or after 1 July 2011. For comparative purposes only, the table below includes the remuneration for the 2011 financial year for those employees who were classified as executives but who do not meet the definition of key management personnel. Hence their remuneration for the 2012 financial year is not disclosed.

Key management personnel of the Group

	Short-Term		**Post Employment**		**Share-based Payments**	**Total**
	Salary & Fees	Non-Monetary	Superannuation	Retirement Benefits	Options	
	$	**$**	**$**	**$**	**$**	**$**
Directors						
Darren Townsend						
2012	**83,385**	**-**	**-**	**-**	**27,229**	**110,614**
2011	63,765	-	-	-	-	63,765
Gary Brabham						
2012	**325,932**	**-**	**25,115**	**-**	**81,688**	**432,735**
2011	290,473	-	26,143	-	-	316,616
Jason Brewer (appointed 3 December 2010)						
2012	**40,500**	**-**	**3,645**	**-**	**27,229**	**71,374**
2011	23,625	-	2,126	-	-	25,751
Campbell Ansell (resigned 31 December 2010)						
2011	38,250	-	3,442	-	-	41,692
Other key management personnel						
Dennis Wilkins						
2011	55,131	-	-	-	20,625	96,381
Glenn Martin (appointed 15 December 2010)						
2011	117,692	-	10,592	-	41,250	210,784
David Hammond (resigned 19 October 2010)						
2011	92,522	-	8,327	-	-	100,849
Total key management personnel compensation						
2012	**449,817**	**-**	**28,760**	**-**	**136,146**	**614,723**
2011	681,458	-	50,630	-	61,875	793,963

Service agreements

The details of service agreements of the key management personnel of the Group are as follows:

Gary Brabham, Managing Director:

- Term of agreement – 3 months written notice by either party (the agreement was terminated in July 2012).
- Salary, inclusive of statutory superannuation, of $312,000.
- Payment of termination benefit on early termination by the company, other than for gross misconduct, equal to the fee for the remaining term of the agreement.

Directors' Report continued

Share-based compensation

Options are issued at no cost to key management personnel as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of key management personnel of De Grey Mining Limited to increase goal congruence between key management personnel and shareholders. The following options over ordinary shares of the Company were granted to or vesting with key management personnel during the year:

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Exercised Number	% of Remuneration
Directors								
Darren Townsend	21/10/2011	1,000,000	21/10/2011	30/04/2014	6.5	1.61	N/A	14.6
Darren Townsend	21/10/2011	1,000,000	21/10/2012	30/04/2014	6.5	1.61	N/A	10.1
Gary Brabham	21/10/2011	3,000,000	21/10/2011	30/04/2014	6.5	1.61	N/A	11.2
Gary Brabham	21/10/2011	3,000,000	21/10/2012	30/04/2014	6.5	1.61	N/A	7.7
Jason Brewer	21/10/2011	1,000,000	21/10/2011	30/04/2014	6.5	1.61	N/A	22.6
Jason Brewer	21/10/2011	1,000,000	21/10/2012	30/04/2014	6.5	1.61	N/A	15.6

DIRECTORS' MEETINGS

During the year the company held nine meetings of directors. The attendance of directors at meetings of the board were:

			Meetings of Committees			
	Directors Meetings		Audit		Remuneration	
	A	B	A	B	A	B
Darren Townsend	9	9	2	2	-	-
Gary Brabham	9	9	*	*	*	*
Jason Brewer	8	9	2	2	-	-

Notes

A - Number of meetings attended.

B - Number of meetings held during the time the director held office during the year.

* Not a member of the relevant committee.

SHARES UNDER OPTION

At the date of this report there are 37,000,000 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	16,750,000
Movements of share options during the year:	
Issued, exercisable at 6.5 cents, on or before 30 April 2014	10,000,000
Expired on 4 July 2011, exercisable at 25 cents	(3,000,000)
Cancelled, exercisable at 25 cents, on or before 30 June 2012	(3,250,000)
Total number of options outstanding as at 30 June 2012	**20,500,000**
Movements subsequent to the reporting date:	
Issued, exercisable at 2.2 cents, on or before 3 September 2014	6,500,000
Issued, exercisable at 2.3 cents, on or before 3 September 2015	6,500,000
Issued, exercisable at 2.6 cents, on or before 3 September 2015	6,500,000
Cancelled, exercisable at 6.5 cents, on or before 30 April 2014	(3,000,000)
Total number of options outstanding as at the date of this report	**37,000,000**

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
30 April 2014	6.5	7,000,000
30 June 2014	6.5	10,500,000
3 September 2014	2.2	6,500,000
3 September 2015	2.3	6,500,000
3 September 2015	2.6	6,500,000
Total number of options outstanding at the date of this report		**37,000,000**

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

Directors' Report continued

INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the company has paid premiums insuring all the directors of De Grey Mining Limited against costs incurred in defending proceedings for conduct involving:

(a) a wilful breach of duty; or

(b) a contravention of sections 182 or 183 of the *Corporations Act 2001*,

as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums to be paid is confidential in terms of the agreement with the underwriter.

NON-AUDIT SERVICES

The following non-audit services were provided by the Groups auditor, Butler Settineri (Audit) Pty Ltd, or associated entities (refer note 17). 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;

– 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:

	2012 $	2011 $
Tax compliance services	**1,616**	-

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 B9.

Signed in accordance with a resolution of the directors.

Peter Batten
Executive Chairman

Perth, 21 September 2012

Chartered Accountants

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of De Grey Mining Limited for the year ended 30 June 2012, 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.

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

BUTLER SETTINERI (AUDIT) PTY LTD

MARIUS VAN DER MERWE CA
Director

Perth
Date: 21 September 2012

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Registered Company Auditor Number 289109

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Corporate Governance Statement

The Board of Directors

The company's constitution provides that the number of directors shall not be less than three and not more than nine. There is no requirement for any shareholding qualification.

As and if the company's activities increase in size, nature and scope the size of the board will be reviewed periodically, and as circumstances demand. The optimum number of directors required to supervise adequately the company's constitution will be determined within the limitations imposed by the constitution.

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the company's scope of activities, intellectual ability to contribute to board's duties and physical ability to undertake board's duties and responsibilities.

Directors are initially appointed by the full board subject to election by shareholders at the next general meeting. Under the company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the *Corporations Act 2001*, the board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the remuneration and audit committees. The committee structure and membership is reviewed on an annual basis.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the company website. All matters determined by committees are submitted to the full board as recommendations for board consideration.

Minutes of committee meetings are tabled at the subsequent board meeting. Additional requirements for specific reporting by the committees to the board are addressed in the charter of the individual committees.

Role of the Board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for oversight of management and the overall corporate governance of the company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Appointments to Other Boards

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

Independent Professional Advice

The board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the company's expense. With the exception of expenses for legal advice in relation to directors rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

Continuous Review of Corporate Governance

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the company.

ASX Principles of Good Corporate Governance

The board has reviewed its current practices in light of the revised ASX Corporate Governance Principles and Recommendations with a view to making amendments where applicable after considering the company's size and the resources it has available.

As the company's activities develop in size, nature and scope, the size of the board and the implementation of any additional formal corporate governance committees will be given further consideration.

The board has adopted the revised Recommendations and the following table sets out the company's present position in relation to each of the revised Principles.

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 1:	**Lay solid foundations for management and oversight**		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	**A**	Matters reserved for the Board are included on the Company's website.
1.2	Companies should disclose the process for evaluating the performance of senior executives	**N/A**	The remuneration of executive and non-executive Directors is reviewed by the remuneration committee with the exclusion of the Director concerned. The remuneration of management and employees is reviewed by the Executive Chairman and approved by the Board. Acting in its ordinary capacity, the Board from time to time carries out the process of considering and determining performance issues.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	**A**	
Principle 2:	**Structure the board to add value**		
2.1	A majority of the board should be independent directors	**A**	
2.2	The chair should be an independent director	**A**	
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	**N/A**	The positions of Chairman and Managing Director are both held by Peter Batten. Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits.
2.4	The board should establish a nomination committee	**A**	The full Board is the nomination committee. Acting in its ordinary capacity from time to time as required, the Board carries out the process of determining the need for screening and appointing new Directors. In view of the size and resources available to the Company it is not considered that a separate nomination committee would add any substance this process.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	**N/A**	Given the size and nature of the Company a formal process for evaluating performance has not been developed.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	**A**	The skills and experience and the period of office of Directors are set out in the Company's Annual Report (Directors' report) and on its website.
Principle 3:	**Promote ethical and responsible decision-making**		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	**A**	The Company has established a Code of Conduct which can be viewed on the Company's website.

A = Adopted
N/A = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them	**N/A**	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. The Company does not think that it is appropriate to state measurable objectives for achieving gender diversity due to its size and stage of development.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them	**N/A**	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. However, the policy does not include requirements for the board to establish measurable objectives for achieving gender diversity. Given the Company's size and stage of development as an exploration company, the board does not think it is yet appropriate to include measurable objectives in relation to gender. As the Company grows and requires more employees, the Company will review this policy and amend as appropriate.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board	**A**	The proportion of women employees in the whole organisation is 29%. There are currently no women in senior executive positions. There are currently no women on the board.
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3	**A**	
Principle 4:	**Safeguard integrity in financial reporting**		
4.1	The board should establish an audit committee	**A**	The Company has established an audit committee which comprises two non-executive Directors. The charter for this committee is disclosed on the Company's website.
4.2	The audit committee should be structured so that it:	**A**	
	• consists only of non-executive directors	**A**	
	• consists of a majority of independent directors	**A**	
	• is chaired by an independent chair, who is not chair of the board	**A**	
	• has at least three members	**N/A**	
4.3	The audit committee should have a formal charter	**A**	
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	**A**	

A = Adopted
N/A = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 5:	**Make timely and balanced disclosure**		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	**A**	The Company has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The Board is actively aware of the continuous disclosure regime and there are strong informal systems in place to ensure compliance, underpinned by experience.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	**A**	The Board receive monthly reports on the status of the Company's activities and any new or proposed activities. Disclosure is reviewed as a routine agenda item at each Board meeting.
Principle 6:	**Respect the rights of shareholders**		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	**A**	In line with adherence to continuous disclosure requirements of ASX all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including the Annual Report, Quarterly Reports, the Company website and the distributions of specific releases covering major transactions or events.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	**A**	The Company has formulated a Communication Policy that is disclosed on the Company's website.
Principle 7:	**Recognise and manage risk**		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	**A**	The Company does have formalised policies on risk management and the Board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at Board meetings and risk management culture is encouraged amongst employees and contractors. Determined areas of risk which are regularly considered include: • performance and funding of exploration activities • budget control and asset protection • status of mineral tenements • compliance with government laws and regulations • safety and the environment • continuous disclosure obligations
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	**A**	The Company does have formalised risk management policies and recognises its responsibility for identifying areas of significant business risk and ensuring that arrangements are in place to adequately manage these risks. This issue is regularly reviewed at Board meetings and a risk management culture is encouraged amongst employees and contractors.

A = Adopted
N/A = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	**A**	The Board has received the required assurance and declaration.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	**N/A**	The Company substantially complies with the disclosures required apart from a disclosure of the Company's policies on risk oversight and management of material business risks. Given its current stage of development and size, the Company considers that non-disclosure of this information will not materially affect investors.
Principle 8:	**Remunerate fairly and responsibly**		
8.1	The board should establish a remuneration committee	**A**	
8.2	The remuneration committee should be structured so that it:		
	• consists of a majority of independent directors	**A**	The remuneration committee consists of Darren Townsend and Jason Brewer, both of whom are independent directors.
	• is chaired by an independent director	**A**	
	• has at least 3 members	**N/A**	Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits.
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	**A**	
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8	**A**	For details on the Remuneration Committee refer to the Corporate Governance section of the Company's website. The directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%. Some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation. In addition, directors receive options in the company in accordance with the employees and contractors option incentive plan.

A = Adopted
N/A = Not adopted

Consolidated Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2012	Notes	Consolidated 2012 $	Consolidated 2011 $
REVENUE	4	**1,580,684**	212,633
EXPENDITURE			
Depreciation expense		**(30,717)**	(39,359)
Employee benefits expense		**(586,688)**	(467,682)
Exploration expenditure		**(1,765,021)**	(1,325,390)
Corporate expenses		**(175,292)**	(95,884)
Occupancy expenses		**(112,628)**	(94,105)
Consulting expenses		**(136,835)**	(134,892)
Investor relations and advertising expenses		**(17,172)**	(35,484)
Administration expenses		**(87,654)**	(146,961)
Share based payments	26	**(246,146)**	(110,000)
Other expenses		**(3,068)**	(61,862)
LOSS BEFORE INCOME TAX		**(1,580,537)**	(2,298,986)
INCOME TAX BENEFIT / (EXPENSE)	6	**-**	-
LOSS FOR THE YEAR		**(1,580,537)**	(2,298,986)
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**21,018**	43,473
Other comprehensive income for the year, net of tax		**21,018**	43,473
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF DE GREY MINING LIMITED		**(1,559,519)**	(2,255,513)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the company (cents per share)	25	**(0.5)**	(0.9)

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 2012

	Notes	Consolidated 2012 $	Consolidated 2011 $
CURRENT ASSETS			
Cash and cash equivalents	7	**2,418,214**	1,375,979
Trade and other receivables	8	**25,443**	46,099
Other assets	9	**40,413**	40,168
TOTAL CURRENT ASSETS		**2,484,070**	1,462,246
NON-CURRENT ASSETS			
Plant and equipment	10	**79,487**	122,574
TOTAL NON-CURRENT ASSETS		**79,487**	122,574
TOTAL ASSETS		**2,563,557**	1,584,820
CURRENT LIABILITIES			
Trade and other payables	11	**256,534**	183,999
Provisions	12	**20,798**	59,479
TOTAL CURRENT LIABILITIES		**277,332**	243,478
TOTAL LIABILITIES		**277,332**	243,478
NET ASSETS		**2,286,225**	1,341,342
EQUITY			
Contributed equity	13	**42,197,751**	39,939,495
Reserves	14(a)	**486,637**	356,548
Accumulated losses	14(b)	**(40,398,163)**	(38,954,701)
TOTAL EQUITY		**2,286,225**	1,341,342

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 2012

Consolidated	Notes	Contributed Equity $	Options Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
BALANCE AT 1 JULY 2010		38,655,744	421,895	-	(36,940,535)	2,137,104
Loss for the year	14(b)	-	-	-	(2,298,986)	(2,298,986)
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations	14(a)	-	-	43,473	-	43,473
TOTAL COMPREHENSIVE LOSS		-	-	43,473	(2,298,986)	(2,255,513)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the year	13(b)	1,350,000	-	-	-	1,350,000
Share issue transaction costs	13(b)	(66,249)	-	-	-	(66,249)
Issue of employee and contractor options	14(a)	-	176,000	-	-	176,000
Transfer of reserve upon expiry of options	14(a)	-	(284,820)	-	284,820	-
BALANCE AT 30 JUNE 2011		39,939,495	313,075	43,473	(38,954,701)	1,341,342
Loss for the year	14(b)	**-**	**-**	**-**	**(1,580,537)**	**(1,580,537)**
OTHER COMPREHENSIVE INCOME						
Exchange differences on translation of foreign operations	14(a)	**-**	**-**	**21,018**	**-**	**21,018**
TOTAL COMPREHENSIVE LOSS		**-**	**-**	**21,018**	**(1,580,537)**	**(1,559,519)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the year	13(b)	**2,484,935**	**-**	**-**	**-**	**2,484,935**
Share issue transaction costs	13(b)	**(226,679)**	**-**	**-**	**-**	**(226,679)**
Issue of employee and contractor options	14(a)	**-**	**246,146**	**-**	**-**	**246,146**
Transfer of reserve upon expiry of options	14(a)	**-**	**(137,075)**	**-**	**137,075**	**-**
BALANCE AT 30 JUNE 2012		**42,197,751**	**422,146**	**64,491**	**(40,398,163)**	**2,286,225**

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 2012

	Notes	Consolidated 2012 $	Consolidated 2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**-**	2,321
Payments to suppliers and employees		**(1,148,259)**	(1,167,656)
Interest received		**64,301**	115,204
Proceeds on sale of tenements		**1,500,000**	100,000
Payments for exploration and evaluation expenditure		**(1,668,444)**	(1,371,227)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	24	**(1,252,402)**	(2,321,358)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of plant and equipment		**22,727**	-
Payments for plant and equipment		**(7,668)**	(19,071)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		**15,059**	(19,071)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		**2,484,935**	1,350,000
Payments of share issue transaction costs		**(226,679)**	(66,249)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**2,258,256**	1,283,751
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,020,913**	(1,056,678)
Cash and cash equivalents at the beginning of the financial year		**1,375,979**	2,389,059
Effects of exchange rate changes on cash and cash equivalents		**21,322**	43,598
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	**2,418,214**	1,375,979

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

30 JUNE 2012

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 21 September 2012. 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) Compliance with IFRS

The consolidated financial statements of the De Grey Mining Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

(iv) 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 2012 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.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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 22.

(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.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

(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 is it 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.

(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.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 substantially 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.

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 (note 19). 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 an 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 continued

30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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 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.

Details on how the fair value of financial investments is determined are disclosed in note 2.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

(m) Exploration and evaluation costs

Exploration and evaluation costs are expensed as they are 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.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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 26.

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.

(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) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group has considered the impact of these new standards and interpretations, with details of those changes that are likely to impact on the Group set out below.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013)

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013)

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2011–2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific "RDR" disclosures.

AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2011) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012)

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

AASB 2010–9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applies to periods beginning on or after 1 July 2011/1 January 2013)

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this Standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Group.

AASB 2010–10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009–11 & AASB 2011–7] (applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2011–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009–11 will only affect early adopters of AASB 2009–11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010–7.]

This Standard is not expected to impact the Group.

AASB 1054: Australian Additional Disclosures (applies to periods beginning on or after 1 January 2013)

This Standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.

This Standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:

- compliance with Australian Accounting Standards;
- the statutory basis or reporting framework for financial statements;
- whether the financial statements are general purpose or special purpose;
- audit fees; and
- imputation credits.

This Standard is not expected to impact the Group.

AASB 2011-2: Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101 & AASB 1054] (applies to periods beginning on or after 1 July 2013)

This Standard makes amendments to the application of the revised disclosures to Tier 2 entities that are applying AASB 1053.

This Standard is not expected to impact the Group.

AASB 10: Consolidated Financial Statements (applies to periods beginning on or after 1 January 2013)

This Standard establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and Interpretation 112*Consolidation – Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This Standard is not expected to impact the Group.

AASB 11: Joint Arrangements (applies to periods beginning on or after 1 January 2013)

This Standard replaces AASB 131 *Interests in Joint Ventures* and Interpretation 113 *Jointly-Controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the Group.

AASB 12: Disclosures of Interests in Other Entities (applies to periods beginning on or after 1 January 2013)

This Standard includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. The Group has not yet determined any potential impact on the financial statements.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

AASB 13: Fair Value Measurement (applies to periods beginning on or after 1 January 2013)

This Standard establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under AASB when fair value is required or permitted by AASB. Application of this definition may result in different fair values being determined for the relevant assets.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. The Group has not yet determined any potential impact on the financial statements.

AASB 119: Employee Benefits (applicable for annual reporting periods commencing on or after 1 January 2013)

The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The definition of short-term benefits has been revised, meaning some annual leave entitlements may become long-term in nature with a revised measurement. Similarly the timing for recognising a provision for termination benefits has been revised, such that provisions can only be recognised when the offer cannot be withdrawn.

Consequential amendments were also made to other standards via AASB 2011-10.

Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine (applicable for annual reporting periods commencing on or after 1 January 2013)

This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the “stripping activity asset”.

The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

(u) Significant accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

(i) Significant accounting judgements

In the process of applying the Group’s accounting policies, management has made the following judgement:

Exploration expenditure

Exploration and evaluation costs are expensed as they are incurred.

(ii) Significant accounting estimates and assumptions

The Group has not made any significant estimates or assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(v) Going concern

The Group recorded a loss of $1,580,537 (2011: $2,298,986) for the year ended 30 June 2012, a cash and cash equivalents balance of $2,418,214 (2011: $1,375,979) and exploration and other commitments due within one year as described in note 19 to the financial statements of $1,213,045. The directors reviewed the working capital requirements of the Group for the period of a year from the date of the directors’ report, and determined that subject to an additional capital raising, the Group will be able to continue to pay its debts as and when they fall due.

Although the above facts indicate a material uncertainty in relation to the applicability of the going concern concept as it pertains to these financial statements, the directors are confident of the successful outcome of capital raising activities and therefore the financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

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 operations internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Argentine Peso.

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.

The functional currency of the Group's foreign subsidiary company is the Argentine Peso. All parent entity and Australian subsidiary entity balances are in Australian dollars and all Group balances are in either Australian dollars or Argentine Peso, 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 $2,418,214 (2011: $1,375,979) 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 3.4% (2011: 5.8%).

Sensitivity analysis

At 30 June 2012, if interest rates had changed by -/+ 80 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 $15,000 lower/higher (2011: $15,000 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 continued

30 JUNE 2012

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 two reportable segments being exploration activities undertaken in Australia and Argentina. 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 these geographic locations.

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.

	Australia		Argentina		Consolidated Total	
	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$
Segment revenue	**1,500,000**	102,321	-	-	**1,500,000**	102,321
Reconciliation of segment revenue to total revenue before tax:						
Interest revenue					**64,225**	108,339
Other revenue					**16,459**	1,973
Total revenue					**1,580,684**	212,633
Segment results	**1,338,838**	(665,393)	**(1,603,859)**	(557,676)	**(265,021)**	(1,223,069)
Reconciliation of segment result to net loss before tax:						
Other corporate and administration					**(1,315,516)**	(1,075,917)
Net loss before tax					**(1,580,537)**	(2,298,986)
Segment operating assets	-	-	-	-	-	-
Reconciliation of segment operating assets to total assets:						
Other corporate and administration assets					**2,563,557**	1,584,820
Total assets					**2,563,557**	1,584,820
Segment operating liabilties	**143,689**	124,406	**86,309**	29,599	**229,998**	154,005
Reconciliation of segment operating liabilities to total liabilities:						
Other corporate and administration liabilities					**47,334**	89,473
Total liabilities					**277,332**	243,478

4. REVENUE

	Consolidated	
	2012	2011
	$	$
From continuing operations		
Other revenue		
Interest	**64,225**	108,339
Net gain on sale of tenements	**1,500,000**	100,000
Net gain on disposal of plant and equipment	**2,993**	-
Foreign exchange gains	**4,710**	-
Other revenue	**8,756**	4,294
	1,580,684	212,633

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

	Consolidated 2012 $	Consolidated 2011 $
5. EXPENSES		
Loss before income tax includes the following specific expenses:		
Net loss on disposal of plant and equipment	-	346
Rental of premises under operating lease	**91,799**	85,681
Contributions to superannuation funds	**66,530**	66,553

6. INCOME TAX

(a) Income tax expense

	2012	2011
Current tax	-	-
Deferred tax	-	-
Adjustments for current tax of prior years	-	-
	-	-

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

	2012	2011
Loss from continuing operations before income tax expense	**(1,580,537)**	(2,298,986)
Prima facie tax benefit at the Australian tax rate of 30% (2011: 30%)	**(474,161)**	(689,696)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Capital raising fees	**(17,576)**	(20,144)
Sundry items	**(30,740)**	(36,852)
	(522,477)	(746,692)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	**522,477**	746,692
Income tax expense	-	-

(c) Unrecognised deferred tax assets

Unrecognised deferred tax assets	2012	2011
Provisions	**24,788**	44,420
Capital raising fees	**66,328**	15,900
Carry forward tax losses	**11,898,706**	11,376,229
Gross deferred tax assets	**11,989,822**	11,436,549

No deferred tax asset has been recognised for the above balance as at 30 June 2012 as it is not considered probable that future taxable profits will be available against which it can be utilised.

(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.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

	Consolidated 2012 $	Consolidated 2011 $

7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2012 $	2011 $
Cash at bank and in hand	**56,261**	166,970
Short-term deposits	**2,361,953**	1,209,009
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	**2,418,214**	1,375,979

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

	2012 $	2011 $
Sundry debtors	**25,443**	46,099

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

9. CURRENT ASSETS – OTHER ASSETS

	2012 $	2011 $
Prepayments	**40,413**	40,168

10. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

	2012 $	2011 $
Plant and equipment		
Cost	**474,303**	550,686
Accumulated depreciation	**(394,816)**	(428,112)
Net book amount	**79,487**	122,574
Plant and equipment		
Opening net book amount	**122,574**	143,333
Exchange differences	**(304)**	(125)
Additions	**7,668**	19,071
Disposals	**(19,734)**	(346)
Depreciation charge	**(30,717)**	(39,359)
Closing net book amount	**79,487**	122,574

11. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2012 $	2011 $
Trade payables	**122,844**	74,285
Other payables and accruals	**133,690**	109,714
	256,534	183,999

Included in trade and other payables above is an amount of $229,998 (2011: $154,006) relating to exploration.

12. CURRENT LIABILITIES – PROVISIONS

	2012 $	2011 $
Employee benefits		
Annual leave	**6,442**	47,511
Long service leave	**14,356**	11,968
	20,798	59,479

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations.

Notes to the Consolidated Financial Statements continued

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13. CONTRIBUTED EQUITY

(a) Share capital

	Notes	2012 Number of shares	2012 $	2011 Number of shares	2011 $
Ordinary shares fully paid	13(b), 13(d)	**396,914,226**	**42,197,751**	258,862,350	39,939,495
Total contributed equity		**396,914,226**	**42,197,751**	258,862,350	39,939,495

(b) Movements in ordinary share capital

	2012 Number of shares	2012 $	2011 Number of shares	2011 $
Beginning of the financial year	**258,862,350**	**39,939,495**	225,112,350	38,655,744
Issued during the year:				
– Issued for cash at 1.8 cents per share	**138,051,876**	**2,484,935**	-	-
– Issued for cash at 4 cents per share	**-**	**-**	33,750,000	1,350,000
Transaction costs	**-**	**(226,679)**	-	(66,249)
End of the financial year	**396,914,226**	**42,197,751**	258,862,350	39,939,495

(c) Movements in options on issue

	Number of options 2012	Number of options 2011
Beginning of the financial year	**14,250,000**	19,200,000
Issued/(cancelled or expired) during the year:		
– Exercisable at 6.5 cents, on or before 30 Apr 2014	**10,000,000**	-
– Exercisable at 6.5 cents, on or before 30 Jun 2014	**2,500,000**	8,000,000
– Exercisable at 7.5 cents, on or before 30 Jun 2011	**-**	(2,500,000)
– Exercisable at 20 cents, on or before 4 Jul 2010	**-**	(5,200,000)
– Exercisable at 20 cents, on or before 30 June 2011	**-**	(3,250,000)
– Exercisable at 20 cents, on or before 31 Dec 2010	**-**	(2,000,000)
– Exercisable at 25 cents, on or before 4 Jul 2011	**(3,000,000)**	-
– Exercisable at 25 cents, on or before 30 Jun 2012	**(3,250,000)**	-
End of the financial year	**20,500,000**	14,250,000

(d) 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 2012 (2011: Nil).

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

	Consolidated 2012 $	Consolidated 2011 $

13. CONTRIBUTED EQUITY (cont'd)

(e) 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 2012 and 30 June 2011 are as follows:

	2012 $	2011 $
Cash and cash equivalents	**2,418,214**	1,375,979
Trade and other receivables	**25,443**	46,099
Other assets	**40,413**	40,168
Trade and other payables	**(256,534)**	(183,999)
Provisions	**(20,798)**	(59,479)
Working capital position	**2,206,738**	1,218,768

14. RESERVES AND ACCUMULATED LOSSES

	2012 $	2011 $
(a) Reserves		
Share-based payments reserve	**422,146**	313,075
Foreign currency translation reserve	**64,491**	43,473
	486,637	356,548
Movements:		
Share-based payments reserve		
Balance at beginning of year	**313,075**	421,895
Option expense	**246,146**	176,000
Transfer to Accumulated Losses on expiry of options	**(137,075)**	(284,820)
Balance at end of year	**422,146**	313,075
Foreign currency translation reserve		
Balance at beginning of year	**43,473**	-
Exchange differences on translation of foreign operation	**21,018**	43,473
Balance at end of year	**64,491**	43,473
(b)Accumulated losses		
Balance at beginning of year	**(38,954,701)**	(36,940,535)
Net loss for the year	**(1,580,537)**	(2,298,986)
Transfer from Share-Based Payments Reserve	**137,075**	284,820
Balance at end of year	**(40,398,163)**	(38,954,701)

(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.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

15. DIVIDENDS

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

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

	Consolidated 2012 $	Consolidated 2011 $
16. KEY MANAGEMENT PERSONNEL DISCLOSURES		
(a) Key management personnel compensation		
Short-term benefits	**449,817**	681,458
Post-employment benefits	**28,760**	50,630
Other long-term benefits	**-**	-
Termination benefits	**-**	-
Share-based payments	**136,146**	61,875
	614,723	793,963

Detailed remuneration disclosures are provided in the remuneration report on pages B5 to B7.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on page B7.

(ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of De Grey Mining Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2012	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of De Grey Mining Limited							
Darren Townsend	**1,000,000**	**2,000,000**	**-**	**(1,000,000)**	**2,000,000**	**1,000,000**	**1,000,000**
Gary Brabham	**3,250,000**	**6,000,000**	**-**	**(3,250,000)**	**6,000,000**	**3,000,000**	**3,000,000**
Jason Brewer	**-**	**2,000,000**	**-**	**-**	**2,000,000**	**2,000,000**	**2,000,000**

All vested options are exercisable at the end of the year.

2011	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of De Grey Mining Limited							
Darren Townsend	2,000,000	-	-	(1,000,000)	1,000,000	1,000,000	-
Gary Brabham	6,500,000	-	-	(3,250,000)	3,250,000	3,250,000	-
Jason Brewer	-	-	-	-	-	-	-
Campbell Ansell	-	-	-	-	-	-	-
Other key management personnel of the Group							
Dennis Wilkins	-	1,500,000	-	-	1,500,000	750,000	750,000
Glenn Martin	-	3,000,000	-	-	3,000,000	1,500,000	1,500,000
David Hammond	1,500,000	-	-	(1,500,000)	-	-	-

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

16. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(iii) Shareholdings

The numbers of shares in the company held during the financial year by each director of De Grey Mining Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2012	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of De Grey Mining Limited				
Ordinary shares				
Darren Townsend	**342,626**	**-**	**547,814**	**890,440**
Gary Brabham	**144,645**	**-**	**48,215**	**192,860**
Jason Brewer	**-**	**-**	**733,334**	**733,334**

2011	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of De Grey Mining Limited				
Ordinary shares				
Darren Townsend	342,626	-	-	342,626
Gary Brabham	144,645	-	-	144,645
Jason Brewer	-	-	-	-
Campbell Ansell	770,645	-	(770,645)[(1)]	-
Other key management personnel of the Group				
Ordinary shares				
Dennis Wilkins	-	-	-	-
Glenn Martin	-	-		
David Hammond	-	-	-	-

(1) Mr Ansell's change during the year represents his balance at the date of his retirement as a director of the Company.

(c) Loans to key management personnel

There were no loans to key management personnel during the year.

17. REMUNERATION OF AUDITORS

	Consolidated 2012 $	Consolidated 2011 $
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	**28,559**	27,051
Total remuneration for audit services	**28,559**	27,051
(b) Non-audit services		
Butler Settineri – tax compliance services	**1,616**	-
Total remuneration for other services	**1,616**	-

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

	Consolidated 2012 $	Consolidated 2011 $

18. CONTINGENT LIABILITIES

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

19. 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 exploration commitments are as follows:

	2012 $	2011 $
within one year	**1,150,500**	946,159
later than one year but not later than five years	**3,767,000**	1,593,772
later than five years	**-**	-
	4,917,500	2,539,931

(b) Lease commitments: Group as lessee

Operating leases (non-cancellable):

	2012 $	2011 $
Minimum lease payments		
within one year	**62,545**	75,054
later than one year but not later than five years	**-**	62,545
later than five years	**-**	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	**62,545**	137,599

The property lease is a non-cancellable lease with a two-year term, with rent payable monthly in advance. The lease allows for subletting of all lease areas.

(c) Capital commitments

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

20. 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 21.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 16.

(d) Loans to related parties

De Grey Mining Limited has provided unsecured loans to its wholly owned Argentinian subsidiary, De Grey Argentina SA, totalling $2,688,231 (2011: $774,750). Interest is charged on these loans at the NAB standard lending rate plus 1%.

De Grey Mining Limited has provided unsecured, interest free loans to each of its wholly owned Australian subsidiaries totalling $13,141,993 (2011: $13,089,999) at 30 June 2012.

An impairment assessment is undertaken each financial year by examining the financial position of the subsidiaries and the market in which the subsidiaries operate to determine whether there is objective evidence that the loans are impaired. When such objective evidence exists, the company recognises an allowance for the impairment loss.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

21. 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*	
			2012 %	2011 %
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
De Grey Argentina SA	Argentina	Ordinary	**100**	100

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

22. INTERESTS IN JOINT VENTURES

(a) Wallareenya Iron Prospect

In September 2005 the company entered into an agreement to farm out 100% of the iron ore rights in tenements hosting the Wallareenya Prospect, located 50 km south east of Port Hedland, to Atlas Iron Limited, an Australian publicly listed company. In consideration De Grey received an initial 100,000 shares in Atlas on signing of the agreement to evaluate the prospect, and a further 1,000,000 shares when Atlas exercised their option. The Atlas shares received as consideration were subsequently sold by De Grey during prior financial periods. De Grey has retained a 2% gross sales revenue royalty and retains a one off right to claw back 30% equity for two times Atlas' exploration spend across the prospect if Atlas defines a resource exceeding 3 million tonnes. De Grey's rights under the agreement have a carrying value of nil.

(b) Tabba Tabba Shear

In November 2005 the company entered into an agreement with Attgold Pty Ltd to acquire an extra 16 kilometres of strike along the Tabba Tabba Shear in the company's Turner River Province, 60 kms south of Port Hedland.

The agreement with Attgold (tenement ELA45/2364) required a payment of $50,000 to Attgold on signing of the option, after which De Grey had 18 months to decide if they wish to acquire the tenement. In February 2007 De Grey acquired 100% of the tenement by exercising the option and issuing 500,000 fully paid ordinary shares to Attgold and granting Attgold a royalty of $1/t up to a maximum of $750,000. The agreement relates to gold, base and precious metals, and the joint venture has a carrying value of nil.

(c) Mount Dove Iron Rights

In June 2008 the company entered into an option agreement to sell the iron ore rights over the Mt Dove Project, being Exploration Licence 47/891 located 70 km south east of Port Hedland, to Atlas Iron Limited. In April 2012 De Grey sold its royalty over the first 2 million tonnes of iron ore to be produced from Mt Dove to Atlas Iron for cash payment of $1,000,000, that payment being received in April 2012.

At inception, De Grey received an initial consideration of 156,694 shares in Atlas (being $350,000 at the volume weighted average price for the 5 days prior to 10 April 2008) on signing of the agreement, and was to receive a payment of $650,000 in cash or 325,000 Atlas shares (at De Grey's election) no later than 12 months from the date of the formal agreement. At Atlas' request the option period was extended by 30 days to 17 July 2009. On 16 July 2009 Atlas notified De Grey of its intention to exercise the option and De Grey elected to receive the purchase payment as cash. De Grey subsequently received payment on 27 July 2009. De Grey retains a 1% gross sales revenue royalty over tonnes produced from Mt Dove in excess of 2 million tonnes.

(d) Turner River Gold Farm-out

During May 2011, De Grey entered into an agreement with Lansdowne Resources Pty Ltd under which Lansdowne may earn up to 75% interest in tenements in the west of the Turner River Project containing the Wingina Well gold resource and the T1, Mt Berghaus, Brierly, Amanda and Edkins targets. Lansdowne paid $99,000 at execution and may earn 75% interest in the project by sole funding exploration expenditure of $2 million over 3 years. Lansdowne must spend $250,000 in the first 6 months and $500,000 (cumulative) in the first 12 months to keep the agreement afoot. Upon Lansdowne earning its 75% interest a 75:25 joint venture is formed and Lansdowne continues to sole fund expenditures to Decision to Mine. Upon a Decision to Mine, a mining joint venture area is declared and further joint venture expenditures are funded by De Grey and Lansdowne in proportion to their JV interests. De Grey's free carried interest continues in respect of exploration expenditures over project areas outside of the mining joint venture area. Should no decision to mine occur within 4.5 years of commencement, Lansdowne can maintain its interest for up to a further 3 years by paying De Grey $250,000 per annum and continuing to sole fund expenditures sufficient to meet statutory expenditure requirements. Should Lansdowne elect not to maintain its interest, De Grey can elect to sole fund further expenditures and Lansdowne's interest dilutes under a 2x accelerated formula.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

22. INTERESTS IN JOINT VENTURES (cont'd)

De Grey has also granted Lansdowne an option to purchase a 75% interest in the Wingina Well gold resource in return for $1,000 paid upon signing and the issue of 2 million 20 cent shares in Lansdowne upon its listing on ASX. The option period commences immediately but the option becomes exercisable only upon Lansdowne earnings its interest in the gold joint venture. The option exercise price comprises $4.1 million plus, if the gold price at the exercise date exceeds $1,500 per ounce, an additional payment of $15 for each $100 by which the gold price exceeds A$1,500, payable in respect of each ore reserve ounce deriving from the Wingina Well resource as presently delineated. The option expires 6 months after a decision to mine under the gold joint venture, 4.5 years after the commencement date or upon termination of the gold farm-out agreement, whichever occurs earliest.

The carrying value of De Grey's interest in the project is nil.

(e) Turner River Base Metals Farm-out

During May 2011, De Grey entered into an agreement with Lansdowne Resources Pty Ltd under which Lansdowne may earn up to 75% interest in tenements in the east of the Turner River Project, site of high grade Pb-Zn-Ag VMS-style mineralisation discovered by De Grey. Lansdowne may earn a 75% interest in the project by sole funding exploration expenditure of $1.5 million over 3 years. Lansdowne must spend $175,000 in the first 6 months and $350,000 (cumulative) in the first 12 months to keep the agreement afoot. Upon Lansdowne earning its 75% interest a 75:25 joint venture is formed and Lansdowne continues to sole fund expenditures to Decision to Mine. Upon a Decision to Mine, a mining joint venture area is declared and further joint venture expenditures are funded by De Grey and Lansdowne in proportion to their JV interests. De Grey's free carried interest continues in respect of exploration expenditures over project areas outside of the mining joint venture area. Until such time as a decision to mine is made, Lansdowne may maintain its interest by continuing to sole fund expenditures sufficient to meet statutory expenditure requirements.

The carrying value of De Grey's interest in the project is nil.

(f) Minera Sudamericana Option Agreement

In July 2010 De Grey, through the wholly owned subsidiary De Grey Argentina SA ("DGA"), entered into a binding letter of intent for an option-to-purchase agreement with Minera Sudamericana SA ("MSA") over nine project areas in Argentina. The option agreement comprises two stages, an exploration stage and a project acquisition stage:

- By paying US$15,000 per quarter, DGA retains exclusive rights to conduct exploration, excluding drilling, on any or all of the MSA projects (a project being one or more contiguous mineral tenements) for up to 3 years from 1 April 2010. DGA must complete payments totalling US$60,000 prior to terminating the agreement. DGA is then free to exclude any one or more of the projects from the agreement or to withdraw from the agreement in entirety.
- At any time until 31 March 2013, DGA may elect to enter into an option-to purchase agreement over any one or more of the projects. The purchase of any one project requires DGA to make a series of escalating purchase payments over 3 years from the date that the purchase agreement is entered into, those payments to total not more than US$2 million in respect of any one project. In the event that DGA completes the purchase of any project, MSA retains a 1.5% net smelter royalty, 50% of which may be purchased by DGA for US$1.5 million at the time of a decision to mine.

(g) Sierra Morena Purchase Option Agreement

In April 2012 2012 De Grey, through the wholly owned subsidiary De Grey Argentina SA ("DGA"), exercised its rights under the Minera Sudamericana ("**MSA**")Option Agreement to enter into an option-to-purchase agreement over the Sierra Morena Project comprising tenements MS401.670/MSD/07 and MS401.671/MSD/07 located in Santa Cruz Province, Argentina. The purchase agreement requires DGA to make a series of escalating payments over 3 years from the commencement date on 1 April 2012, those payments to total US$2 million. In the event that DGA completes the purchase of Sierra Morena, MSA retains a 1.5% net smelter royalty, 50% of which may be purchased by DGA for US$1.5 million at the time of a decision to mine. DGA may withdraw from the purchase agreement at any time in which event it would retain no further interest in the project.

(h) Boleadora Project Farm-in

During July 2010 De Grey, through the wholly owned subsidiary De Grey Argentina SA ("DGA"), executed a binding letter of intent with Minera Kingsgate Argentina SA, a wholly owned subsidiary of Kingsgate Consolidated Limited, over Kingsgate's Boleadora project. DGA may earn a 60% interest in the project by sole funding US$200,000 exploration expenditure over not more than 3 years. Upon earning 60% interest, DGA may elect to form a joint venture with Kingsgate and the two parties contribute proportionally to further exploration expenditure or, increase its interest to 80% by sole funding a further US$1 million expenditure over a further period of two years at which point an 80:20 joint venture will be formed. DGA can withdraw at any time provided that it must incur minimum expenditure of US$50,000 per year for so long as it is sole funding exploration.

(i) Pachi Project Option Agreement

In July 2011 De Grey, through the wholly owned subsidiary De Grey Argentina SA, executed a binding letter of intent with an Argentine individual to enter into an option-to-purchase agreement over the Pachi Project, located in Santa Cruz Province, Argentina. The option agreement provides for annual option fee payments of US$24,200 on commencement, US$60,500 second year and US$121,000 in the third year. DGA is to undertake at least 500 metres of drilling in the first year option period provided all required permits are achieved. DGA may elect to purchase 100% interest in the Project by paying US$1,210,000 purchase price no more than 3 years from commencement. An additional US$1,210,000 is payable if a resource over 250,000 ounces of gold equivalent is defined and a decision to mine is made within 5 years of commencement, and the vendor retains a 1% net smelter royalty. DGA may terminate the agreement at any time after payment of the first annual option fee.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

23. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Following shareholder approval at the General Meeting of the Company on 3 September 2012, the Company raised $150,000 from the issue of 7,142,858 ordinary shares to the Executive Chairman, Mr Peter Batten. Mr Batten was also granted, for nil consideration, a total of 19,500,000 unlisted options with exercise prices ranging from 2.2 to 2.6 cents, and expiry dates from 3 September 2014 to 3 September 2015.

No other matter or circumstance has arisen since 30 June 2012, which 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 subsequent financial years.

24. STATEMENT OF CASH FLOWS

	Consolidated	
	2012	2011
	$	$
Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	**(1,580,537)**	(2,298,986)
Non-Cash Items		
Depreciation of non-current assets	**30,717**	39,359
Net (gain)/loss on disposal of plant and equipment	**(2,993)**	346
Option expense	**246,146**	176,000
Change in operating assets and liabilities		
Decrease in trade and other receivables	**20,656**	29,043
(Increase) in other assets	**(245)**	(16,053)
Increase/(decrease) in trade and other payables	**72,535**	(59,960)
(Decrease) in employee entitlement provisions	**(38,681)**	(191,107)
Net cash outflow from operating activities	**(1,252,402)**	(2,321,358)

25. 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	**(1,580,537)**	(2,298,986)

	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	**303,300,415**	250,447,966

(c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2012, 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.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

26. SHARE-BASED PAYMENTS

Employees and contractors option plan

The Group provides benefits to employees (including directors) and consultants of the Group in the form of share-based payment transactions, whereby employees or consultants render services in exchange for options (for nil consideration) to acquire ordinary shares. The exercise price of the options granted range from 6.5 cents to 25 cents per option. All options granted to employees in previous financial years have vested. Of options granted to employees during the current financial year, half vested on grant date, with the remaining half to vest on 21 October 2012. The options have expiry dates ranging from 30 April 2014 to 30 June 2014.

The options are granted to employees to align their interests with that of the shareholders of the company.

Supplier options

Suppliers have been granted options as part consideration for tenement acquisitions. The exercise price of the options granted is 6.5 cents with an expiry date of 30 June 2014.

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.

Set out below are summaries of granted options:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Cancelled or expired during the year	Balance at end of the year	Vested and exercisable at end of the year
		Cents	Number	Number	Number	Number	Number
Consolidated - 2012							
10 Jul 2007	4 Jul 2011	25	**3,000,000**	**-**	**(3,000,000)**	**-**	**-**
1 Dec 2009	30 Jun 2012	25	**3,250,000**	**-**	**(3,250,000)**	**-**	**-**
18 May 2011	30 Jun 2014	6.5	**8,000,000**	**-**	**-**	**8,000,000**	**8,000,000**
14 Jun 2011	30 Jun 2014	6.5	**2,500,000**	**-**	**-**	**2,500,000**	**2,500,000**
21 Oct 2011	30 Apr 2014	6.5	**-**	**10,000,000**	**-**	**10,000,000**	**5,000,000**
			16,750,000	**10,000,000**	**(6,250,000)**	**20,500,000**	**15,500,000**
Consolidated - 2011							
10 Jul 2007	4 Jul 2010	20	3,000,000	-	(3,000,000)	-	-
10 Jul 2007	4 Jul 2011	25	3,000,000	-	-	3,000,000	3,000,000
19 Jul 2007	4 Jul 2010	20	2,200,000	-	(2,200,000)	-	-
25 Jun 2009	30 Jun 2011	7.5	2,500,000	-	(2,500,000)	-	-
1 Dec 2009	30 Jun 2011	20	3,250,000	-	(3,250,000)	-	-
1 Dec 2009	30 Jun 2012	25	3,250,000	-	-	3,250,000	3,250,000
17 Dec 2009	31 Dec 2010	20	2,000,000	-	(2,000,000)	-	-
18 May 2011	30 Jun 2014	6.5	-	8,000,000	-	8,000,000	4,000,000
14 Jun 2011	30 Jun 2014	6.5	-	2,500,000	-	2,500,000	2,500,000
			19,200,000	10,500,000	(12,950,000)	16,750,000	12,750,000

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.9 years (2011: 2.1 years), and the exercise price is 6.5 cents.

Expenses arising from share-based payment transactions

The weighted average fair value of the options granted during the year was 1.6 cents (2011: 2.7 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2012	2011
Weighted average exercise price (cents)	6.5	6.5
Weighted average life of the option (years)	2.5	3.1
Weighted average underlying share price (cents)	2.6	3.8
Expected share price volatility	140.54%	136.2%
Weighted average risk free interest rate	4.75%	4.75%

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.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012	Consolidated 2012 $	Consolidated 2011 $

26. SHARE-BASED PAYMENTS (cont'd)

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:

	2012 $	2011 $
Options issued to employees and contractors	**246,146**	110,000
Options issued to a supplier	**-**	66,000
	246,146	176,000

27. PARENT ENTITY INFORMATION

	Parent Entity 2012 $	Parent Entity 2011 $

The following information relates to the parent entity, De Grey Mining Limited, at 30 June 2012. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

	2012 $	2011 $
Current assets	**2,447,273**	1,391,361
Non-current assets	**71,900**	121,393
Total assets	**2,519,173**	1,512,754
Current liabilities	**191,021**	213,880
Total liabilities	**191,021**	213,880
Contributed equity	**42,197,751**	39,939,495
Share-based payments reserve	**422,146**	313,075
Accumulated losses	**(40,291,745)**	(38,953,696)
Total equity	**2,328,152**	1,298,874
Loss for the year	**(1,475,124)**	(2,277,844)
Other comprehensive loss	**-**	-
Total comprehensive loss for the year	**(1,475,124)**	(2,277,844)

As detailed in note 19, there are contingent liabilities in respect to tenement acquisition agreements that the parent entity has co-signed with a subsidiary entity.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages B15 to B41 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 2012 and of their performance for the financial year ended on that date;

(b) 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

(c) a statement that the attached financial statements are in compliance with International Financial Reporting 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.

Peter Batten
Executive Chairman

Perth, 21 September 2012

INDEPENDENT AUDITOR REPORT
TO THE MEMBERS OF DE GREY MINING LTD

Chartered
Accountants

BUTLER SETTINERI

Report on the Financial Report

We have audited the accompanying financial report of De Grey Mining Limited and its controlled entities (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the Group are responsible for the preparation of the financial report which gives a true and fair view in accordance with 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 is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report which gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

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Butler Settineri
(Audit) Pty Ltd
ACN 112 942 373

Registered Company Auditor
Number 289109

Auditor's Opinion

In our opinion, the financial report of De Grey Mining Ltd and its controlled entities is in accordance with the Corporations Act 2001 including:

a) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

b) complying with Australian Accounting Standards the Corporations Regulations 2001.

c) the financial statements also comply with International Financial Reporting Requirements as disclosed in note 1 (a).

Material uncertainty regarding going concern

Without qualifying the opinion expressed above, attention is drawn to the following matter. As a result of matters referred to in note 1(v) to the financial statements, "Going concern" the ability of the Group to continue as a going concern and meet its exploration commitments is dependent upon the Group raising further working capital. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages B5 to B7 of the directors' report for the year ended 30 June 2012.

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.

Auditor's Opinion

In our opinion the Remuneration Report of De Grey Mining Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

BUTLER SETTINERI (AUDIT) PTY LTD

MARIUS VAN DER MERWE CA
Director

Perth
Date: 21 September 2012

ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 20 September 2012.

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

			Ordinary shares	
			Number of holders	**Number of shares**
1	-	1,000	70	32,069
1,001	-	5,000	257	857,609
5,001	-	10,000	303	2,598,488
10,001	-	100,000	1,035	44,002,030
100,001		and over	488	356,566,888
			2,153	404,057,084
The number of shareholders holding less than a marketable parcel of shares are:			1,036	10,740,098

(b) Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	**Percentage of ordinary shares**
1	Mineralogy Pty Ltd	22,799,908	5.64
2	Karari Australia Pty Ltd	15,790,000	3.91
3	Seaspin Pty Ltd <Aphrodite A/C>	11,113,058	2.75
4	Allen John Tapp & Maria Polymenas <Super Account>	10,568,758	2.62
5	Batten Resources Pty Ltd <Batten Super Fund A/C>	8,130,890	2.01
6	Strickland Consolidated Pty Ltd <Law Family A/C>	8,055,556	1.99
7	Bougainvillaea Holdings Pty Ltd <Super Fund A/C>	8,000,000	1.98
8	Toltec Holdings Pty Ltd	7,242,007	1.79
9	Yandal Investments Pty Ltd	6,750,000	1.67
10	Manwest Group Pty Ltd	6,400,000	1.58
11	Harold Walter Daly & Maureen Hazel Daly <The Daly Super Fund A/C>	5,036,803	1.25
12	Struven Nominees Pty Ltd <Alan Strunin Staff	5,000,000	1.24
13	CH Global Pty Ltd <ABC Investment A/C>	5,000,000	1.24
14	W Brooks Investment Pty Ltd <B & P Super Fund A/C>	4,530,645	1.12
15	JP Morgan Nominees Australia Limited <Cash Income A/C>	4,442,438	1.10
16	Maureen Livingstone & Kenneth Livingstone <Kenmo Livingstone Super Fund A/C>	4,160,000	1.03
17	Dyspo Pty Ltd <Henty Super A/C>	4,023,899	1.00
18	John Shillingford Loveridge	4,000,000	0.99
19	Cary Max Jacques Coutelas	3,960,000	0.98
20	Macquarie Bank Limited	3,527,500	0.87
		148,531,462	36.76

Unquoted equity securities

	Number on issue	**Number of holders**
Options issued under the De Grey Mining Limited Employees and Contractors Option Plan to take up ordinary shares	8,000,000	6

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
Mineralogy Pty Ltd	22,799,908

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Schedule of interests in mining tenements

Location	Tenement	Percentage held / earning
Beyondie	E52/1806	20%[1]
Beyondie	E52/2215	20%[2]
Turner River	E47/891	100%
Turner River	E45/2533	100%
Turner River	E45/2364	100%
Turner River	P45/2655	100%
Turner River	E45/2995	100%
Turner River	E45/3390	100%
Turner River	E45/3391	100%
Turner River	E45/3392	100%

[1] De Grey retains 100% rights to all non-iron ore related minerals under a Split Commodity Agreement.
[2] De Grey retains 100% rights to all non-iron ore related minerals under a Split Commodity Agreement.