FORGE RESOURCES LTD
ANNUAL REPORT
ABN 30 139 886 187

FOR THE YEAR ENDED 30 JUNE 2012

DIRECTORS REPORT

The Directors present their report on the Company and its controlled entities for the year ended 30 June 2012.

DIRECTORS
The names of Directors in office at any time during or since the end of the year are:

Nicholas Curtis, B.A. (Hons), Non-Executive Chairman

Nicholas Curtis was appointed to the Board 1st July 2010 and is a Founding Partner of Riverstone Advisory, a corporate advisory firm that specialises in bridging the gap between western resource opportunities and the increasing Chinese demand for raw materials.

Nicholas is also Executive Chairman of Lynas Corporation Limited and has been involved with that Company since mid-2001. Lynas Corporation Limited's strategy is to create a reliable, fully integrated source of rare earths supply from mine through to customers in the global rare earths industry.

Nicholas has gained extensive industry knowledge from his early career as a banker to the resources industry and from his time spent as the President and Chief Executive Officer of Sino Mining International Limited, which he established in 1996. Sino Mining International Limited was then a wholly-owned subsidiary of China National Nonferrous Metals Industry Corporation ("CNNC"), a large Chinese trading Company. Following disbandment of CNNC, Nicholas established Sino Mining Limited, which became Sino Gold Mining Limited ("Sino Gold") and was the Chairman until November 2005. Sino Gold was an Australian public Company, also listed on the Hong Kong Stock Exchange, with gold assets in China. Sino Gold was purchased by Eldorado Gold Corporation of Canada in December 2009.

Prior to his time with Sino Gold, Nicholas held the positions of Executive Director of Macquarie Bank Limited and Managing Director of Asia Resource Capital Limited, a joint venture between Macquarie Bank Limited and CNNC.

Nicholas also served as Chairman of St Vincents & Mater Health Sydney Limited from 2004–2009.

Dr. Matthew James, BE (Hons) Ph.D, Managing Director

Dr. James was appointed to the Board effective 15th August 2011 and joined Forge Resources from Lynas Corporation where he held the role of Executive Vice President Strategy and Corporate Communications with accountability for strategy and business development, as well as investor relations and corporate communications. Matthew played an instrumental role over the past 9 years in building Lynas to an ASX100 Company with a market capitalisation of approximately $3.5 billion, filling a wide range of roles in the senior management of Lynas during his time there, including Chief Financial Officer.

Prior to joining Lynas, Matthew spent three years at Deutsche Bank in London followed by four years in the London office of McKinsey & Company, the management consulting firm where he worked at the CEO and board level of major companies helping them in strategic, organisational and operations issues. Matthew received a BE (Hons) degree in Ceramic Engineering from the University of New South Wales, Australia and Ph.D. in Material Science and Engineering from Queens' College at the University of Cambridge.

DIRECTORS REPORT

Harold Ou Wang, Masters of Science, Non-Executive Director

Harold Wang was appointed to the Board 1st July 2010 and is a Founding Partner of Riverstone Advisory, a corporate advisory firm that specialises in bridging the gap between western resource opportunities and the increasing Chinese demand for raw materials.

Harold previously worked for China National Non-ferrous Metals Corporation (CNNC), China's non-ferrous sector 'ministry' and former parent of CHINALCO, CNMC, JNMC, Minmetals and many other non-ferrous majors. Harold was Deputy Director of CNNC's planning department, overseeing new investment projects, and Foreign Affairs Department. In his role at CNNC Harold was in charge of all international funding for CNNC for a period of 10 years.

Harold also held the position of Vice President, China Business Development with Sino Mining International, Sino Refco Capital and Asia Resource Capital a Joint Venture between Macquarie Bank and CNNC. Harold held the position of Executive Director and President of Lynas Corporation Limited. Harold studied at Tsinghua University, Beijing for his Master's degree of Engineering in early 1980s.

Michael Wolley, Non-Executive Director

Michael was appointed to the Board 7th June 2012 and holds a first class honours degree in Chemical and Materials Engineering (University of Auckland) and a Masters of Management (Macquarie Graduate School of Management). Michael had a 15 year career with Mobil Oil Australia in a range of roles including engineering, operations, strategic planning and business development in Australia and New Zealand. In 1995 he left Mobil to pursue opportunities in Asia Pacific and worked in a number of senior executive roles in the manufacturing and industrial sectors including a period as President BlueScope Steel China.

In 2007 Michael returned to the resources sector as Chief Operating Officer for Lynas Corporation, and subsequently into the gold sector where he is a Director of Red Mountain Mining, an ASX listed gold development business.

Michael currently holds the position of Vice President Corporate Development for The Todd Corporation Limited ("Todd"). He is a Director of Montero Mining, a TSX listed resources business, and also sits on the Board of Strattera, the New Zealand minerals industry body, and is a member of the AICD and the NZICD.

Emmanuel Correia, B.Bus ACA, Non-Executive Director

Emmanuel Correia was appointed to the Board 8th October 2009 and is a Chartered Accountant and has extensive experience in the corporate finance and equity capital markets. Emmanuel has had over 20 years public accounting and corporate finance experience both in Australia, North America and the United Kingdom. He has held various senior positions with Deloitte and other accounting firms and boutique corporate finance houses.

Emmanuel provides corporate advice to a diverse client base both in Australia and in overseas markets. Emmanuel has previously held a number of public Company Directorships and his key areas of expertise include Initial Public Offerings and secondary capital raisings, corporate strategy and structuring and merger and acquisitions. Emmanuel is a non–executive director of Exalt Resources Ltd and Ambassador Oil and Gas and is also the Company Secretary of Bluglass Ltd.

DIRECTORS REPORT

Jim Malone, B.Comm, Non-Executive Director (Resigned 31 October 2011)

COMPANY SECRETARY

The name of the Company Secretary as at the end of the financial year and at the date of this report is Shane Hartwig.

Shane Hartwig is a Certified Practicing Accountant and Chartered Company Secretary and holds a Bachelor of Business degree, majoring in Accounting and Taxation from Curtin University of Technology in Western Australia.

Shane is involved in the areas of initial public offerings, capital raisings, prospectus and information memorandum preparation and project management, Company assessments and due diligence reviews, mergers and acquisitions and providing general corporate advice and is currently Non-Executive Director of Exalt Resources Limited, Company Secretary of Anteo Diagnostics Limited and Exalt Resources Limited both on a contract basis.

Shane has over 16 years' experience in the finance industry both nationally and internationally with exposure to both the debt and equity capital markets.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated group are to pursue and acquire mineral and energy related assets in Australia and overseas.

OPERATING RESULTS

The net loss of the consolidated group after income tax for the year was $13,717,392 (2011: $1,780,818).

DIVIDENDS

No dividends have been paid or declared by the consolidated group since the beginning of the year.

FINANCIAL POSITION

The net assets of the consolidated group at 30 June 2012 were $13,498,757 (2011: $3,714,270). At 30 June 2012 the Company had cash balances of $9,720,297 (2011: $2,923,991).

STATE OF AFFAIRS

Other than matters detailed in the Review of Operations and Likely Developments there were no significant changes in the state of affairs of the consolidated group.

DIRECTORS REPORT

REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

Background

Forge was originally formed in 2009 to participate in the exploration and acquisition of mineral and energy related assets. The Company's primary project is its 75% interest in the advanced Balla Balla Vanadium – Titanium – Magnetite ("VTi Magnetite") project ("Balla Balla") that was recently acquired by Forge from Atlas Iron Limited ("Atlas"). Balla Balla is located on granted mining tenements near the Pilbara coastline approximately 100km west of Anketell Point. A revised definitive feasibility study (DFS) is nearing completion. In addition Forge is currently farming-in to a mineral sands exploration project within the Eucla Basin. Forge in conjunction with its Joint Venture partners are advancing the exploration and development of prospective tungsten, molybdenum, gold and base metal projects located in New South Wales, Australia and in accordance with its charter will also seek to acquire or participate in additional resource and energy projects in Australia and overseas.

Corporate Activity

During the past year your Company has taken critical foundation steps along its journey to become a major diversified metals Company. Capable and experienced key management have been put in place, in particular with the appointment of Dr. Matthew James as Managing Director. Key management processes have been established to identify the way we will operate at Forge. These processes are designed to ensure integrity and diligence in evaluating all risks associated with the many projects we consider as well as careful thoroughness in reviewing and optimising those we chose to move forward, with in particular the Balla Balla project and the West Eucla Basin Mineral Sands project.

The Company completed two capital raisings during the year, an initial $2.5 million equity placement at $0.50 per ordinary share, followed by a more substantial $50 million dollar raising comprising of both debt and equity. The $50 million raising consisted of:

1. an investment by Todd Capital ("Todd") to acquire a direct 25% interest in Balla Balla ($10 million) to be run as an unincorporated joint venture between Todd (25%) and Forge (75%);
2. a senior secured project-level debt facility from Todd to Forge ($27.5 million);
3. a placement of Forge shares to Todd (at an issue price of $0.50 per share) ($8 million); and
4. alongside the Todd investment, Forge placed $4.5 million of new shares to sophisticated investors bringing the total new funding raised to $50 million.

This transaction enabled Forge to complete the purchase of Balla Balla from Atlas and provide Forge with additional working capital to advance both Balla Balla and the West Eucla Mineral Sands Project in Western Australia.

Existing Projects

Balla Balla Project

This financial year Forge acquired Balla Balla from Atlas. Following reaching agreement with Atlas, Forge subsequently sold 25% to and entered into an unincorporated Joint Venture ("JV") with a subsidiary of Todd for the development of Balla Balla.

DIRECTORS REPORT

Balla Balla is located on granted mining tenements close to the Pilbara coastline, approximately 100km east of Anketell Point, adjacent to the North West Coastal Highway, the Pilbara Energy Gas pipeline and the grid power line between Karratha and Port Hedland. The proposed mine and processing plant has been granted Environmental Ministerial Approval, and water and conditional gas agreements are in place.

Following the completion of the acquisition, Forge engaged GR Engineering Limited ("GRES") to uptake the DFS they previously completed for Aurox Iron Limited ("Aurox").

West Eucla Project

In September 2011 Forge achieved the right to explore and develop the West Eucla Mineral Sand Project by way of a farm in agreement whereby Forge has the right to earn 50.1% of the project by spending $2.0 million within two years. Forge may either elect to earn a further 28.9% (total 80%) by spending a further $4.0 million over a further three year period, or acquire the project outright with a payment of $7.5 million and the grant of a 1.5% gross sales royalty. Should Forge earn-in to 80%, Forge then has the right to acquire the project outright for a payment of $5 million and the grant of a 1.0% gross sales royalty.

Following the farm-in agreement, 212 NQ aircore drill holes have been completed resulting in the discovery of large volumes of HM bearing sand over a strike distance of 6 km. This new discovery is named the McLaren HM Deposit.

Specialist resource consultant Hellman and Schofield Pty Ltd has calculated the JORC compliant HM resource estimate (inferred category) to be 470 million tonnes @ 4.6% HM for 21.5 million tonnes of contained HM. The estimate applies a 2.0% HM cut-off grade and a bulk density of 1.8 and is defined by a 500 meter by 200 meter drill spacing.

Overview of NSW Exploration Activities

The Company's NSW projects are host to a range of mineralization types including volcanogenic massive sulphide, intrusive related gold and copper as well as vein hosted tin and tungsten. The tenements are all located within the highly prospective Lachlan Fold Belt. In the last year the Mayfield North and Michelago Projects have been advanced to a point where drill targets have been identified, Wymah exploration results have identified multiple targets, and our joint venture partners have reached important development milestones in the Mayfield and Captains Flat Projects.

DIRECTORS REPORT

REMUNERATION REPORT

Details of the nature and amount of remuneration for each Director of Forge Resources Limited and key management personnel and for the executives receiving the highest remuneration are set out below.

Remuneration Policy and Practices

The Company's policy for determining the nature and amount of remuneration of Board members and senior executives is as follows:

i. Non-Executive Directors

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to its Non-Executive Directors and will review their remuneration annually.

The maximum aggregate annual remuneration of Non-Executive Directors is subject to approval by the shareholders in general meeting. The shareholders have determined at a general meeting held on 9 March 2010 the maximum aggregate remuneration amount to be $350,000 per year. The Directors have resolved that the fees payable to Non-Executive Directors for all Board activities are $155,000 per year plus superannuation guarantee contributions of 9% per annum where required by legislation.

ii. Key management personnel

To pursue the Company's objectives, the Company has assembled a group of Director's which we believe have extensive experience in the mining, metallurgy and finance industries. The Company will recruit appropriate key executive management personnel commensurate with the Company's growth in activity. The remuneration structure for these key executive management, including Executive Directors will be based on a number of factors, including qualifications, particular experience, general past performance of the individual concerned, overall performance of the Company and general human resources market pricing. There is no predetermined equity compensation element within the remuneration structure nor predetermined performance conditions to be satisfied; these equity compensation elements and performance conditions are considered on an individual basis.

Company performance and Director and executive remuneration

The aim of the Company's remuneration policy is to achieve goal congruence between the Company's shareholders, Directors and executives.

Executive Share Trust

The Company has established the Forge Resources Limited Employee Share Trust ("EST") for the purpose of retaining and incentivising its key personnel. The Company believes that the criteria set out in the Trust provide a cost effective performance-based means by which the Company can reward its key personnel. For further details, please refer to note 17 of the financial statements which set out the main terms of the EST.

DIRECTORS REPORT

Remuneration of Directors and Key Management for the year to 30 June 2012

	Short-term benefits		Post-employment		Share-based payments				Total remuneration represented by options, rights and shares
	Cash salary and fees	Non-cash benefits	Super-annuation	Termi-nation benefits	Options	Rights	Shares	Total	
	$	$	$	$	$	$	$	$	%
2012									
Directors									
N Curtis	-	-	-	-	-	-	7,920,000	7,920,000	100
M James ***	291,887	-	19,729	-	204,226	-	-	515,842	40
H Ou Wang	36,000	-	-	-	79,500	-	-	115,500	69
E Correia	35,000	-	-	-	39,750	-	-	74,750	53
M Wolley **	-	-	-	-	-	-	-	-	-
J Malone *	11,667	-	-	-	-	-	-	11,667	-
Total Directors	**374,554**	**-**	**19,729**	**-**	**323,476**	**-**	**7,920,000**	**8,637,759**	**95**
Key Mgmt									
G Atkins	204,707	-	18,423	-	111,531	-	-	334,661	33
S Hartwig	72,000	-	-	-	39,750	-	-	111,750	36
Total Key Mgmt	**276,707**	**-**	**18,423**	**-**	**151,281**	**-**	**-**	**446,411**	**34**
Total	**651,261**	**-**	**38,152**	**-**	**474,757**	**-**	**7,920,000**	**9,084,170**	**92**

* Resigned 31 October 2011
** Appointed 7 June 2012
*** Appointed 15 August 2011

	Short-term benefits		Post-employment		Share-based payments			Total remuneration represented by options and rights
	Cash salary and fees	Non-cash benefits	Super-annuation	Termi-nation benefits	Options	Rights	Total	
	$	$	$	$	$	$	$	%
2011								
Directors								
N Curtis	-	-	-	-	-	-	-	-
H Ou Wang	36,000	-	-	-	-	-	36,000	-
E Correia	8,750	-	-	-	-	-	8,750	-
J Malone	32,083	-	-	-	-	-	32,083	-
B Siddall *	-	-	-	-	-	-	-	-
S Hartwig *	-	-	-	-	-	-	-	-
Total Directors	**76,833**	**-**	**-**	**-**	**-**	**-**	**76,833**	**-**

DIRECTORS REPORT

* Resigned 1 July 2010

Key Mgmt								
G Atkins	16,820	-	1,514	-	1,887	-	20,221	9
S Hartwig	6,000	-	-	-	-	-	6,000	-
Total Key Mgmt	**22,820**		**1,514**		**1,887**		**26,221**	**7**
Total	**99,653**	**-**	**1,514**	**-**	**1,887**	**-**	**103,054**	**2**

Directors' securities holdings

As at the date of this report, the relevant interests of the Directors in the securities of the Company were as follows:

	Number		
For the year to 30 June 2012	**Fully paid ordinary shares**	**Options**	**Performance Shares**
Nicholas Curtis	28,250,000	1,333,334	-
Matthew James*	410,000	3,616,667	-
Harold Ou Wang	350,000	1,416,667	-
Michael Wolley ***	-	-	-
Emmanuel Correia	325,001	858,334	-
Jim Malone**	375,000	125,001	-
	29,710,001	7,350,003	-
For the period to 30 June 2011			
Nicholas Curtis	4,000,000	1,333,334	24,000,000
Matthew James*	350,000	116,667	-
Harold Ou Wang	350,000	116,667	-
Emmanuel Correia	325,001	608,334	-
Jim Malone**	375,000	125,001	-
	5,400,001	2,300,003	24,000,000

* Appointed effective 14 August 2011
** Resigned 31 October 2011
*** Appointed 7 June 2012

DIRECTORS REPORT

Service Agreement

The Managing Director, Dr Matthew James is an employee of the Company under an agreement signed on 1 August 2011. Under the terms of the contract:

- A salary package of $370,000 per annum including statutory superannuation
- Annual leave of 4 weeks
- An incentive component comprising 2,000,000 options to purchase fully paid ordinary shares in Forge with the following key terms:
    - Options were approved by Forge shareholders at AGM held 24 November 2011
    - Exercise Price of $0.54
    - Expiry date of 4 years from date of issue
    - Options to vest, 1,000,000 on the first anniversary date of employment and 1,000,000 in the event the Company is successful in raising a minimum of $15m at a price no less than $0.35 per share on or before 23rd March 2012.

End of audited Remuneration Report

DIRECTORS REPORT

SHARE OPTIONS

Numbers of options over unissued ordinary shares at the date of this report were as follows:

2012	
Options exercisable at $0.56 per share on or before 10 September 2017	50,000
Options exercisable at $0.54 per share on or before 15 June 2015	900,000
Options exercisable at $0.54 per share on or before 1 December 2015	4,575,000
Options exercisable at $0.50 per share on or before 31 May 2014	6,500,000
Options exercisable at $0.50 per share on or before 31 May 2015	1,000,000
Options exercisable at $0.67 per share on or before 15 June 2015	600,000
2011	
Options exercisable at $0.20 per share on or before 31 July 2014	19,855,905
Options exercisable at $0.20 per share on or before 15 June 2015	600,000

PERFORMANCE SHARES

The Performance Shares expired on 21 March 2012 and were replaced by ordinary shares in the Company as approved by a general meeting of shareholders held on 25 May 2012.

The terms and conditions of the 24,000,000 Performance Shares were as follows:

Rights attaching to the Performance Shares

(a) Each Performance Share is a share in the capital of the Company.

(b) The Performance Shares shall confer on the holder ("Holder") the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to Shareholders. Holders have the right to attend general meetings of Shareholders of the Company.

(c) The Performance Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of Shareholders of the Company.

(d) The Performance Shares do not entitle the Holder to any dividends.

(e) Upon winding up of the Company, the Performance Shares may participate in the surplus profits or assets of the Company only to the extent of $0.000001 per Performance Share.

(f) The Performance Shares are not transferable.

(g) In the event that issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the Listing Rules at the time of reorganisation.

(h) The Performance Shares will not be quoted on ASX. Upon conversion of the Performance Shares, and subject to escrow provisions, into Shares in accordance with these terms, the Company must within

DIRECTORS REPORT

seven days after the conversion, apply for the Official Quotation of the Shares arising from the conversion on ASX.

(i) Holders of Performance Shares will not be entitled to participate in new issues of capital offered to holders of the Shares such as bonus issues and entitlement issues.

(j) The Performance Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

Conversion of the Performance Shares

(a) The Performance Shares will convert into Shares in the capital of the Company upon either one of the Company's existing projects or, a project acquired after the Admission Date is identified as having a JORC compliant resource which supports a successful capital raising of at least $15,000,000 at a price not less than $0.35 per Share by the Company and the Company completing such a capital raising ("Milestone"). Upon completion of the Milestone, all Performance Shares will convert into 24,000,000 Shares in the capital of the Company;

(b) The Performance Shares will expire 18 months from the Admission Date ("Expiry Date").

(c) In the event that the Milestone is not achieved by the Expiry Date, then all Performance Shares held by a Holder will automatically convert into one Share.

(d) The Shares issued on conversion of the Performance Shares will, subject to any restriction agreements entered into in accordance with the Listing Rules, as and from 5.00pm (AEST) on the date of allotment, rank equally with and confer rights identical with all other Shares then on issue and application will be made by the Company to ASX for Official Quotation of the Shares issued upon conversion.

(e) The Company will issue the Holder with a new holding statement for the Shares as soon as practicable following the conversion of the Performance Shares into the Shares.

(f) The Shares into which the Performance Shares will convert will rank pari passu in all respects with the Shares on issue at the date of conversion.

DIRECTORS REPORT

MEETINGS OF DIRECTORS

Attendances by each Director to meetings of Directors (including committee of Directors) during the year to 30 June 2012 were as follows:

	Directors Meetings		Audit Committee Meetings	
2012	**Number eligible to attend**	**Number attended**	**Number eligible to attend**	**Number attended**
Nicholas Curtis	13	12	-	-
Matthew James *	13	13	-	-
Harold Ou Wang	13	6	2	1
Michael Wolley ***	1	1	-	-
Emmanuel Correia	13	13	2	2
2011				
Nicholas Curtis	11	10	-	-
Harold Ou Wang	11	11	1	-
Emmanuel Correia	11	10	1	1
Jim Malone **	11	11	1	1
George Siddall ****	-	-	-	-
Shane Hartwig ****	-	-	-	-

* Appointed effective 15 August 2011
** Resigned effective 31 October 2011
*** Appointed 7 June 2012
**** Resigned effective 1 July 2010

During the year, some Board business was affected by execution of circulated resolutions.

INDEMNIFYING OFFICERS OR AUDITORS

Since the end of the financial year, the Company has paid a premium of $7,880 (2011: $7,943) in respect of a contract insuring the Directors and officers of the Company against a liability incurred by such Directors and officers to the extent permitted by the Corporations Act 2001. The Company has not otherwise, during or since the end of the year, indemnified or agreed to indemnify the auditor of the Company, or of any related body corporate, against a liability incurred by such the auditor.

PROCEEDINGS

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the

DIRECTORS REPORT

Company for all or any part of those proceedings. The Company was not a party to any such proceedings in the year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 11 September 2012, the Company issued 1,025,000 options (800,000 options still subject to shareholder approval) to purchase fully paid ordinary shares in the Company's Employee Share Trust.

Other than described above there has not arisen in the interval since 30 June 2012 and up to the date of this report, any matter that, in the opinion of the Directors, has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

NON-AUDIT SERVICES

The Board of Directors is satisfied that the provision of non audit services by the auditor during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's APES 110: Code of Ethics for Professional Accountants.

Details of the amounts paid or payable to the auditors (Hall Chadwick) for non-audit services provided during the year are set out below.

	2012	2011
	$	$
(a) Taxation Services		
Tax compliance services, including review of Company income tax returns	4,250	8,135
Total remuneration for taxation services	4,250	8,135
(b) Advisory Services		
Consulting services	48,000	4,000
Total remuneration for advisory services	48,000	4,000
Total remuneration for non-audit services	52,250	12,135

DIRECTORS REPORT

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the Corporations Act 2001 the auditor's independence declaration for year ended 30 June 2012 has been received and can be found on page 16 of the Annual Report and forms part of this report.

Signed in accordance with a resolution of the Board of Directors.

Matthew James
Managing Director

Dated this 28 September 2012

**FORGE RESOURCES LTD ABN 30 139 886 187
AND CONTROLLED ENTITIES**

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF FORGE RESOURCES LTD**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there have been:

(a) no contraventions of the auditor independence requirements as set out in 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.

Hall Chadwick

Hall Chadwick
Level 29, St Martins Tower
31 Market Street, SYDNEY NSW 2001

Cwebb

Graham Webb
Partner
Dated: 28 September 2012

SYDNEY
Level 29
St Martin's Tower
31 Market Street
Sydney NSW 2000
Australia

GPO Box 3555
Sydney NSW 2001

Ph: (612) 9263 2600
Fx: (612) 9263 2800

NEWCASTLE
Ph: (612) 4969 5521
Fx: (612) 4969 6059

PARRAMATTA
Ph: (612) 9687 2100
Fx: (612) 9687 2900

PENRITH
Ph: (612) 4721 8144
Fx: (612) 4721 8155

MELBOURNE
Ph: (613) 8678 1600
Fx: (613) 8678 1699

PERTH
Ph: (618) 9489 2560
Fx: (618) 9489 2562

BRISBANE
Ph: (617) 3211 1250
Fx: (617) 3211 1249

GOLD COAST
Ph: (617) 5538 2322
Fx: (617) 5526 8599

CORPORATE GOVERNANCE STATEMENT

The Company has adopted a comprehensive system of control and accountability as the basis for the administration of corporate governance.

The Board is responsible to Shareholders for the overall management of the Company's business and affairs. The Directors' overriding objective is to increase Shareholder value within an appropriate framework, which protects the rights and interests of Shareholders and ensures the Company is properly managed.

The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable, the Company has adopted the Corporate Governance Principles and Recommendations (2nd edition) ("**Principles & Recommendations**") as published by ASX Corporate Governance Council.

The Company's corporate governance principles and policies are structured with reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd edition) with 2010 Amendments ("Principles and Recommendations"), which are as follows:

Recommendation 1	Lay solid foundations for management and oversight;
Recommendation 2	Structure the Board to add value;
Recommendation 3	Promote ethical and responsible decision making;
Recommendation 4	Safeguard integrity in financial reporting;
Recommendation 5	Make timely and balanced disclosures;
Recommendation 6	Respect the rights of shareholders;
Recommendation 7	Recognise and manage risk;
Recommendation 8	Remunerate fairly and responsibly;

In accordance with recommendations of the ASX, information published on the Company's web site includes charters of Board and its subcommittees, codes of conduct and other policies and procedures relating to the Board and its responsibilities. A copy of the Company's Corporate Governance Statement can be found on the Company's website www.forgeresources.com.au under the Corporate Governance Section.

To the extent that they are relevant to the organisation, the Company has adopted the eight Corporate Governance Principles and Recommendations (2nd edition) ("**Principles and Recommendations**") as published by the ASX Corporate Governance Council.

The Board will consider on an ongoing basis its Corporate Governance procedures and whether they are sufficient as the Company's activities develop in size, nature and scope.

The Board sets out below its "if not, why not" report. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

The table below summarises the eight principles and recommendations (P&R) and those recommendations not adopted by the Company.

CORPORATE GOVERNANCE STATEMENT

	ASX P&R[1]	If not, why not[2]		ASX P&R[1]	If not, why not[2]
Recommendation 1.1	✔		Recommendation 4.3	✔	
Recommendation 1.2	✔		Recommendation 4.4[3]	n/a	n/a
Recommendation 1.3[3]	n/a	n/a	Recommendation 5.1	✔	
Recommendation 2.1		✔	Recommendation 5.2[3]	n/a	n/a
Recommendation 2.2		✔	Recommendation 6.1	✔	
Recommendation 2.3	✔		Recommendation 6.2[3]	n/a	n/a
Recommendation 2.4		✔	Recommendation 7.1	✔	
Recommendation 2.5	✔		Recommendation 7.2	✔	
Recommendation 2.6[3]	n/a	n/a	Recommendation 7.3	✔	
Recommendation 3.1	✔		Recommendation 7.4[3]	n/a	n/a
Recommendation 3.2	✔		Recommendation 8.1		✔
Recommendation 3.3	✔		Recommendation 8.2	✔	
Recommendation 3.4	✔		Recommendation 8.3	✔	
Recommendation 3.5[3]	n/a	n/a	Recommendation 8.4[3]	n/a	n/a
Recommendation 4.1	✔				
Recommendation 4.2		✔			

Notes

1 Indicates where the Company has followed the Principles and Recommendations.

2 Indicates where the Company has provided "if not, why not" disclosure.

3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1: *Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.*

Recommendation 1.2: *Companies should disclose the process for evaluating the performance of senior executives.*

Disclosure:

As contained in the Company's Corporate Governance Statement, the Chairman will review the performance of all Senior Executives on an ongoing basis by way of informal meetings and report his findings to the Board.

Recommendation 1.3: *Companies should provide the information indicated in the Guide to reporting on Principle 1.*

CORPORATE GOVERNANCE STATEMENT

Disclosure:

A summary of the Company's Board Charter and functions reserved for the Board and Executive Chairman is available on the Company's website at www.forgeresources.com.au under the section marked Corporate Governance.

Principle 2 – Structure to the Board to add value

Recommendation 2.1: *A majority of the Board should be Independent Directors*

Notification of Departure:

1 of 5 Directors is classified as independent.

Explanation for Departure:

The Company's Constitution requires that the minimum number of Directors is 3. The Company presently has five Directors consisting of four Non-Executive Directors and one Managing Director. Of the Directors, only Mr Emmanuel Correia, a Non-Executive Director is considered as independent. Mr Nicholas Curtis is the Non-Executive Chairman and is a substantial shareholder of the Company, Dr Matthew James is the Managing Director of the Company, Mr Harold Wang is a Non-Executive Director and has been a principal of a material adviser to the Company and Mr Michael Wolley has been appointed as a representative of a related body corporate of Todd which purchased a 25% interest in Balla Balla and is a substantial shareholder of Forge.

The Board seeks to ensure that, where practical, a majority of the Board will be independent. The Board has adopted specific principles in relation to directors' independence. These specific principles are available on the Company's website at www.forgeresources.com.au under the section marked Corporate Governance.

Recommendation 2.2: *The Chair should be an independent director.*

Notification of Departure:

The Chair, Nicholas Curtis is not an independent Director by virtue of his shareholding in the Company.

Explanation for Departure

The Board believes that the composition of the Board is both appropriate and acceptable at this stage of the Company's development and includes an appropriate mix of skills and expertise, relevant to the Company's current business.

Recommendation 2.4: *The board should establish a nomination committee.*

Notification of Departure:

The Company has not established a separate Nomination Committee.

CORPORATE GOVERNANCE STATEMENT

Explanation for Departure:
The full Board considers those matters that would usually be the responsibility of a nomination committee.

Given the size of the Board and the Company's current operations, the Board considers that no efficiencies or other benefits would be gained by establishing a separate committee. Items that are usually required to be discussed by a Nomination Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Nomination Committee it will operate under the Nomination Committee Charter. The Nomination Committee Charter provides for the Board to meet at least annually and otherwise as required.

Recommendation 2.5: *Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.*

Disclosure:

The full Board, in its capacity as the Nomination Committee, is responsible for evaluating the performance of the Board, its committees and individual Directors. The Board, committees and individual Directors are evaluated annually by way of informal meetings and/or internal questionnaires.

Recommendation 2.6: *Companies should provide the information indicated in the Guide to Reporting on Principle 2.*

Disclosure:

The independent Director, Emmanuel Correia is independent as he is a Non-Executive Director, not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of his judgment.

To assist Directors with independent judgement, it is the Board's policy that the Directors may seek independent professional advice at the Company's expense, subject to prior consultation with the Chair of the Board.

The full Board carries out the role of the Nomination Committee. To assist the Board to fulfil its function as the Nomination Committee, it has adopted Remuneration and Nomination Committee Charter, which is publicly available on the Company's website at www.forgeresources.com.au under the section, marked Corporate Governance.

In determining candidates for the Board, the full Board in its capacity as the Nomination Committee follows a prescribed procedure which is publicly available on the Company's website at www.forgeresources.com.au under the section marked Corporate Governance.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Under the Company's Constitution, if there are 3 or more Directors then one third of the Directors (excluding the Managing Director) must retire at every annual general meeting. Retiring directors are eligible for re-election. Re-appointment of Directors is not automatic.

CORPORATE GOVERNANCE STATEMENT

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.2: The entity has established a policy concerning diversity and has disclosed the policy or a summary of that policy on its website at www.forgeresources.com.au. The policy includes requirements for the board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's success will be the result of the quality and skills of its people. The Company's policy is to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability.

Forge is committed to maintaining diversity within its workforce at all levels, and to do this end sets a minimum target of 15% women in Board/Senior Executive Positions to encourage gender diversity. Such targets are important but the overriding factor will be the employment of the best person for the role.

Below are details of the Company's gender diversity numbers.

Gender Diversity	Male	Female
Total Staff (incl. Board)	10	2
Senior Executives/Directors	2	1
Non-Executive Directors	4	-

Recommendation 3.3: The entity has disclosed in the annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

Recommendation 3.4: The entity has disclosed in the annual report the proportion of women employees in the whole organization and women in senior executive positions or on the Board.

Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.

Disclosure:

Forge has established a Code of Conduct and a Share Trading policy which all executives and employees are expected at a minimum to follow. The Company's Code of Conduct and Share Trading policy is available on the Company's website at www.forgeresources.com.au under the section marked Corporate Governance.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.2: *The audit committee should be structured so that it:*

Å consists only of non-executive directors;
Å consists of a majority of independent Directors;
Å is chaired by an independent chair; who is not chair of the Board; and
Å has at least three members.

CORPORATE GOVERNANCE STATEMENT

Notification of Departure:

Currently the Audit Committee does not consist of a majority of independent Directors.

Explanation for Departure:

The full Board considers the current members of the Audit Committee have the requisite skill and background to carry out tasks pursuant to the Audit Committee Charter whilst maintaining independent thought and judgement.

Recommendation 4.4: *Companies should provide the information indicated in the* Guide to reporting on Principle 4.
Disclosure:

The Company has a Risk Management Policy and an Audit and Risk Management Committee Charter, a copy of which is available on the Company's website at www.forgeresources.com.au under the section marked Corporate Governance.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.2: *Companies should provide the information indicated in the Guide to reporting on Principle 5.*

Disclosure:

A summary of the Company's policy to guide compliance with ASX Listing Rule disclosure is available on the Company's website at www.forgeresources.com.au under the section marked Corporate Governance.

Principle 6 – Respect the rights of shareholders

Recommendation 6.2: *Companies should provide the information indicated in the Guide to reporting on Principle 6*.

Disclosure:

A summary of the Company's shareholder communication strategy is available on the Company's website at www.forgeresources.com.au under the section marked Corporate Governance.

Principle 7 – Recognise and manage risk

Recommendation 7.3: *the Board should disclose whether it has received assurance from the chief executive 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.*

The Board intends to seek written assurance from the Managing Director and CFO (or equivalent) in relation to the above statement.

CORPORATE GOVERNANCE STATEMENT

Recommendation 7.4: *Companies should provide the information indicated in the* Guide to Reporting on Principle 7.

The Company has established an Audit and Risk Management Committee to monitor and review on behalf of the Board the system of risk management, which the Company has established. This system aims to identify, assess, monitor and manage operational and compliance risks. In addition the Company has established a Risk Management policy to ensure that procedures are in place to identify, monitor and report on risks facing the Company.

A copy of the Audit and Risk Management Charter and the Risk Management policy is available on the Company's website at www.forgeresources.com.au under the section marked Corporate Governance.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1: The Board should establish a Remuneration Committee.

Recommendation 8.2*:* The remuneration committee is structured so that it:

- *consists of a majority of independent directors*
- *is chaired by an independent chair*
- *has at least three members.*

Notification of Departure:

The Company has not established a separate Remuneration Committee.

Explanation for Departure:

The full Board considers those matters that would usually be the responsibility of a remuneration committee.

Given the size of the Board and the Company's current operations, the Board considers that no efficiencies or other benefits would be gained by establishing a separate committee. Items that are usually required to be discussed by a Remuneration Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Remuneration Committee it will operate under the Remuneration Committee Charter. The Remuneration Committee Charter provides for the Board to meet at least annually and otherwise as required.

Under the Remuneration and Nomination Committee Charter, the role of the Board (when convening as the Remuneration Committee) is to review the Company's remuneration practices and policies and establish appropriate remuneration levels including incentive policies for Directors and senior executives.

Recommendation 8.4: *Companies should provide the information indicated in the Guide to reporting on Principle 8.*

Disclosure:

As noted above, the full Board performs the function of the Remuneration Committee. To assist the Board to fulfil this function, it has adopted Remuneration and Nomination Committee Charter, a copy of which is

CORPORATE GOVERNANCE STATEMENT

available on the Company's website at www.forgeresources.com.au under the section marked Corporate Governance.
The explanation for departure set out under Recommendation 8.1 above explains how the functions of the Remuneration Committee are performed.

There are no termination or retirement benefits for non-executive Directors (other than for superannuation).

It is the Company's policy to prohibit transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012.

	Note	2012	2011
		$	**$**
Revenue	2	**165,105**	727,566
Consultancy expenses		**(1,746,349)**	(524,486)
Professional fees		**(103,318)**	(46,989)
Legal fees and listing fees		**(1,158,685)**	(367,125)
Employee benefits expenses		**(683,822)**	(19,783)
Occupancy expenses		**(207,879)**	(54,796)
Directors remuneration		**(82,667)**	(100,167)
Share-based payments		**(7,920,000)**	(1,315,200)
Equity-based compensation		**(1,326,251)**	(1,887)
Depreciation and amortisation expenses		**(5,762)**	(1,665)
Other expenses		**(647,764)**	(76,286)
Loss before income tax	3	**(13,717,392)**	(1,780,818)
Income tax expense		**-**	-
Loss after income tax	4	**(13,717,392)**	(1,780,818)
Other comprehensive income			
Other comprehensive income for the year, net of tax		**-**	-
Other comprehensive income for the year		**-**	-
Total comprehensive loss for the year attributable to members of the Parent Entity		**(13,717,392)**	(1,780,818)
		Cents	**Cents**
Earnings per share			
From continuing operations:			
Basic and diluted loss per share	22	(17.7)	(8.7)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012.

	Note	2012	2011
		$	$
CURRENT ASSETS			
Cash and cash equivalents	6	**9,720,297**	2,923,991
Trade and other receivables	7	**459,120**	9,021
Other current assets	10	**126,095**	-
TOTAL CURRENT ASSETS		**10,305,512**	2,933,012
NON-CURRENT ASSETS			
Plant and equipment	8	**16,406**	22,168
Other Assets	9	**33,390,109**	813,622
Deposits	10	**-**	126,095
TOTAL NON-CURRENT ASSETS		**33,406,515**	961,885
TOTAL ASSETS		**43,712,027**	3,894,897
CURRENT LIABILITIES			
Trade and other payables	12	**2,666,015**	179,178
Short term provisions	13	**47,255**	1,449
TOTAL CURRENT LIABILITIES		**2,713,270**	180,627
NON-CURRENT LIABILITIES			
Borrowings	14	**27,500,000**	-
TOTAL NON-CURRENT LIABILITIES		**27,500,000**	-
TOTAL LIABILITIES		**30,213,270**	180,627
NET ASSETS		**13,498,757**	3,714,270
EQUITY			
Issued capital	15	**26,239,259**	5,546,831
Reserves		**1,496,138**	1,887
Accumulated losses		**(14,236,640)**	(1,834,448)
TOTAL EQUITY		**13,498,757**	3,714,270

The above statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary Issued Capital	Performance Shares	Accumulated Losses	Share Based Payment Reserve	Total
	$	$	$	$	$
For the year ended 30 June 2012					
Balance at 1 July 2011	4,231,631	1,315,200	(1,834,448)	1,887	3,714,270
Total comprehensive loss for the year	-	-	(13,717,392)	-	(13,717,392)
Cancellation of performance shares	-	(1,315,200)	1,315,200	-	-
Shares issued during the year	23,371,000	-	-	-	23,371,000
Transaction costs	(1,363,372)	-	-	-	(1,363,372)
Options issued on recognition of services provided	-	-	-	1,019,500	1,019,500
Options issued under Employee Incentive Plan	-	-	-	474,751	474,751
Balance at 30 June 2012	26,239,259	-	(14,236,640)	1,496,138	13,498,757
For the year ended 30 June 2011					
Balance at 30 June 2010	125,575	-	(53,630)	-	71,945
Total comprehensive loss for the period	-	-	(1,780,818)	-	(1,780,818)
Transactions with owners in their capacity as owners:					
Shares issued during the year	4,495,535	1,315,200	-	-	5,810,735
Transaction costs	(389,479)	-	-	-	(389,479)
Options issued under Employee Incentive Plan	-	-	-	1,887	1,887
Balance at 30 June 2011	4,231,631	1,315,200	(1,834,448)	1,887	3,714,270

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2012.

	Note	2012	2011
		$	$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		**20,721**	672,670
Payments to suppliers and employees		**(2,500,263)**	(1,301,743)
Interest received		**146,268**	116,048
Net cash used in operating activities	19(b)	**(2,333,274)**	(513,025)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		**-**	(23,833)
Exploration and evaluation expenditure		**(1,255,298)**	(151,229)
Acquisition of tenements		**(30,705,000)**	(50,000)
Net cash used in Investing activities		**(31,960,298)**	(225,062)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**27,500,000**	-
Proceeds from the issue of shares		**15,000,000**	3,895,535
Capital raising costs		**(1,410,122)**	(467,420)
Net cash provided by/(used in) financing activities		**41,089,878**	3,428,115
Net increase in cash and cash equivalents held		**6,796,306**	2,690,028
Cash at beginning of year		**2,923,991**	233,963
Cash at end of period	19(a)	**9,720,297**	2,923,991

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note 1: Statement of Significant Accounting Policies

These consolidated financial statements and notes represent those of Forge Resources Ltd and Controlled Entities (the "consolidated group" or "group").

The separate financial statements of the parent entity, Forge Resources Ltd, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 28 September 2012 by the directors of the company.

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Going concern basis of accounting

Notwithstanding the net loss after income tax for the consolidated entity for the financial year ended was $13,717,392 (2011: $1,780,818), the financial statements have been prepared on a going concern basis. The Directors are managing the Company's cash flows carefully to meet its operational commitments. The Company has been successful in raising share capital of $15,000,000 during the year and has $9,720,297 in cash and cash equivalents at the end of the year. The Directors consider that the going concern basis is appropriate for the following reasons:

The Company has sufficient working capital to carry out its stated objectives for at least 12 months from the date of this report. If the Company undertakes an acquisition of additional project(s) then it may have to raise additional capital to fund the development of these, however no allowance for such circumstances has been made in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Forge Resources Ltd at the end of the reporting period. A controlled entity is any entity over which Forge Resources Ltd has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 23 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

(b) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Other revenue is recognised as it accrues.

(c) Income tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combination, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where : (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less.

(e) Exploration and development expenditure

Exploration, evaluation and development expenditures incurred are capitalised in respect of each identifiable area of interest. These costs are capitalised to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest.

Costs of site restoration are provided for over the life of the project from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with local laws and regulations and clauses of the permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(f) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed.

(g) Financial instruments

Initial recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

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

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(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 and are subsequently measured at amortised cost.

Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) *Available-for-sale financial assets*

Available-for-sale investment are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

(v) *Financial liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Derivative instruments

The Group designates certain derivatives as either:

i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

ii. hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions, is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

(i) *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

(ii) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts accumulated in the hedge reserve in equity are transferred to the statement of comprehensive income in the periods when the hedged item will affect profit or loss.

Preferred shares

Preferred share capital is classified as equity if it is non-redeemable or redeemable only at the discretion of the parent Company, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

Preferred share capital is classified as a liability if it is redeemable on a set date or at the option of the shareholders, or where the dividends are mandatory. Dividends thereon are recognised as interest expense in the statement of comprehensive income.

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Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or have expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

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(h) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). 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 ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(i) Employee benefits

Provision is made for the consolidated group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(j) Provisions

Provisions are recognised when the consolidated group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(k) Earnings per share

Basic loss per share is determined by dividing the operating loss after income tax attributable to members of the Parent Entity by the weighted average number of ordinary shares outstanding during the financial year.

Diluted loss per share adjusts the figures used in the determination of basic loss per share by taking into account any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

When the consolidated group has an operating loss after income tax and the conversion of ordinary share capital in respect of potential ordinary shares does not lead to a diluted earnings per share that shows an inferior view of the earnings performance of the consolidated group, than is shown by basic loss per share, the diluted loss per share is reported the same as basic loss per share.

(l) Equity-settled compensation

The consolidated group may operate equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The

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fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(m) Segment reporting

The consolidated group identifies its reportable operating segments based on the internal reports that are reviewed by the Board of Directors. Corporate office activities are not allocated to operating segment and form part of the balance of unallocated revenue, expenses, assets and liabilities.

(n) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

All repairs and maintenance are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	**Depreciation Rate**
Plant and equipment	20 - 33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

(o) Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the consolidated group.

(p) Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(q) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(r) Interests in Joint Ventures

The Group's shares of the assets, liabilities, revenue and expenses of jointly controlled operations have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 11.

The Group's interests in joint venture entities are recorded using the equity method of accounting in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
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Where the Group contributes assets to the joint venture or if the Group purchases assets from the joint venture, only the portion of the gain or loss that is not attributable to the Group's share of the joint venture shall be recognised. The Group recognises the full amount of any loss when the contribution results in a reduction in the net realisable value of current assets or an impairment loss.

(s) Trade and Other Receivables

Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

(t) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognized as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(u) New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

– AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [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] (applicable for annual reporting periods commencing on or after 1 January 2013).

  These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

  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;

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- 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.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

– 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 and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

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 are not expected to significantly impact the Group.

– AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either “joint operations” (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or “joint ventures” (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a “structured entity”, replacing the “special purpose entity” concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

– AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 17, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

– AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Group.

NOTES TO THE FINANCIAL STATEMENTS
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– AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB101, AASB124, AASB134, AASB1049 & AASB 2011–8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

(i) for an offer that may be withdrawn – when the employee accepts;

(ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and

(iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

		2012	2011
Note 2: Revenue		**$**	**$**
Non - operating activities			
- interest income		146,268	116,048
- other income	(i)	18,837	611,518
		165,105	727,566

(i) In 2011, other income included $600,000 (2011) received as settlement in relation to termination of the agreements for sub-leases of the ‘Crown’ and ‘Swan’ deposits at Mt Weld .

Note 3: Expenses

Consulting fees	1,578,349	524,486
Legal fees	1,053,292	367,125
Licence and other fees	-	1,836
Share registry fees	40,441	24,128
	2,672,082	917,575

NOTES TO THE FINANCIAL STATEMENTS

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Note 4: Income tax expense

	2012	2011
	$	$
(a) The components of income tax expense comprise:		
Deferred tax	(983,349)	(138,383)
Deferred tax assets not recognised	983,349	138,383
	-	-
(b) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax benefit on the loss from ordinary activities before income tax at 30% (2011: 30%)	(3,808,449)	(534,245)
Add:		
Tax effect of:		
Other non-allowable items	825	736
Share based payments expensed during year	2,824,275	395,126
Less:		
Tax effect of:		
Deferred tax assets not recognised	983,349	138,383
Income tax expense/(benefit)	-	-
Tax losses		
The applicable weighted average effective tax rates are as follows:		
Deferred Tax Assets/(Liabilities) Not Brought to Account, the benefits of which will only be realised if the conditions for deductibility set out in Note (1c) occur:		
- Tax Losses	1,272,195	210,336
- Temporary Differences	425,508	94,783
Total	1,697,703	305,119

The taxation benefits will only be obtained if:

(i) the consolidated group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised;

(ii) the consolidated group continues to comply with the conditions for deductibility imposed by law; and

(iii) no changes in tax legislation adversely affect the consolidated group in realising the benefits from the deductions for the loss.

NOTES TO THE FINANCIAL STATEMENTS
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Note 5: Auditors' remuneration

	2012	2011
	$	$
Remuneration of the auditor of the Parent Entity for:		
- auditing or reviewing the financial reports	51,068	34,148
- taxation services	4,250	8,135
- corporate services	48,000	4,000
	103,318	46,283

Note 6: Cash and cash equivalents

Cash at bank and on hand	9,720,297	2,923,991

Note 7: Trade and other receivables

Current		
Other receivables	459,120	9,021
	459,120	9,021

(a) Effective interest rates and credit risk

There is no interest rate risk for the balance of trade and other receivables.

All amounts past due are considered impaired and provided against. All other receivables are within credit terms and not considered impaired. No amounts are past due as at 30 June 2012 (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note 8: Non-current assets –Plant and equipment	**Furniture, fittings and office equipment**	**Total**
	$	**$**
Consolidated		
Year ended 30 June 2011		
Opening net book amount		
Additions	23,833	23,833
Disposals	-	-
Depreciation charge	(1,665)	(1,665)
Closing net book amount	22,168	22,168
At 30 June 2011		
Cost	23,833	23,833
Accumulated depreciation	(1,665)	(1,665)
Net book amount	22,168	22,168
Year ended 30 June 2012		
Opening net book amount	22,168	22,168
Additions	-	-
Disposals	-	-
Depreciation charge	(5,762)	(5,762)
Closing net book amount	16,406	16,406
At 30 June 2012		
Cost	23,833	23,833
Accumulated depreciation	(7,427)	(7,427)
Net book amount	16,406	16,406

Note 9: Other Assets	**2012** **$**	**2011** **$**
Non-current		
Tenements acquired	31,806,000	650,000
Expenditure capitalised	1,584,109	163,622
Carrying amount at end of the year	33,390,109	813,622

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration and commercial exploitation of the tenements.

NOTES TO THE FINANCIAL STATEMENTS
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(1) Forge acquired the Balla Balla VTi Magnetite Project ("Balla Balla") from Atlas Iron Limited ("Atlas"). Following the acquisition, Forge subsequently sold 25% to and entered into an unincorporated Joint Venture ("JV") with a subsidiary of The Todd Corporation Limited of New Zealand ("Todd") for the development of Balla Balla.

(2) In September 2011 Forge achieved the right to explore and develop the West Eucla Mineral Sand Project by way of a farm in agreement whereby Forge has the right to earn 50.1% of the project by spending $2.0 million within two years. Forge may either elect to earn a further 28.9% (total 80%) by spending a further $4.0 million over a further three year period, or acquire the project outright with a payment of $7.5 million and the grant of a 1.5% gross sales royalty. Should Forge earn-in to 80%, Forge then has the right to acquire the project outright for a payment of $5 million and the grant of a 1.0% gross sales royalty. As at 30 June 2012 the amount spent is $688,891.

	2012	2011
Note 10: Deposits	**$**	**$**
Current		
Deposits	126,095	-
	126,095	-
Non Current		
Deposit	-	126,095
	-	126,095

Note 11: Joint Venture

	Consolidated Group	
	2012	**2011**
(a) Interest in Joint Venture Operations	**$**	**$**
A controlled entity, Forge Resources Swan Pty Ltd, has a 75 % interest in an unincorporated joint venture, whose principal activity is exploration of the Balla Balla asset. The Company is the manager of the unincorporated joint venture. The joint venture commenced on 31 May 2012.		
The consolidated group share of assets employed in the joint venture is:		
CURRENT ASSETS		
Receivables:		
– Other receivables	119,053	-
Total current assets	119,053	-
NON-CURRENT ASSETS		
Other costs carried forward in respect of areas of interest:		
– exploration development expenditure	247,988	-
– Tenements	30,655,000	-
	30,902,988	-

NOTES TO THE FINANCIAL STATEMENTS
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Note 11: Joint Venture

	Consolidated Group	
	2012	**2011**
Total non-current assets	30,902,988	-
Share of total assets of joint venture	31,022,041	-
Other Current Liabilities		
Sundry payables and accrued expenses	1,369,041	-
Non-current Liabilities		
Borrowings	27,500,000	
Total Liabilities	28,869,041	-
Net interest in joint venture	2,153,000	-
Expenses	448,211	-

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

NOTES TO THE FINANCIAL STATEMENTS
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Note 12: Trade and other payables

	Note	2012	2011
		$	$
Trade payables		592,841	100,021
Sundry payables and accrued expenses		2,073,174	79,157
		2,666,015	179,178

Note 13: Short term provisions

	Short term employee benefits	Total
	$	$
Opening balances at 1 July 2011	1,449	1,449
Additional provisions	50,889	50,889
Amounts used	(5,083)	(5,083)
Unused amounts reversed	-	-
Balance at 30 June 2012	47,255	47,255
Opening balances at 1 July 2010	-	-
Additional provisions	1,449	1,449
Amounts used	-	-
Unused amounts reversed	-	-
Balance at 30 June 2011	**1,449**	1,449

Note 14: Borrowings

NON-CURRENT	Note	2012	2011
		$	$
Secured liabilities:			
Loans	13a,b	27,500,000	-
Total non-current borrowings		27,500,000	-
Total borrowings		27,500,000	-

a. The carrying amounts of non-current assets pledged as security are:

	2012	2011
Mortgage on interests in Balla Balla mining tenements	27,500,000	-
	27,500,000	-

NOTES TO THE FINANCIAL STATEMENTS
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b. **Loan Summary**

A wholly-owned subsidiary of The Todd Corporation Limited ("Todd Lender") has, under a Loan Facility Agreement, provided Forge Resources Swan Pty Ltd ("Forge Resources Swan") (a wholly-owned Forge subsidiary) with $27.5 million of senior secured debt secured over Forge's interests in the Balla Balla project. The loan was drawn down in full in May 2012. The loan has an initial two year term (which ends in May 2014), which can be rolled 6 monthly at the option of Todd Lender up to a maximum 10 year term. During the first two years, interest accrues at 15% per annum compounded annually, and during each rollover period it will accrue and compound six monthly at 5% per annum plus BBSW (bank bill swap rate) for the rollover period.

Under a Joint Venture Option Agreement entered into between the wholly-owned subsidiary of The Todd Corporation Limited which has an interest in the Balla Balla JV ("Todd JV Party") and Forge Resources Swan, Todd JV Party has an option to acquire an additional 7.5% interest in the Balla Balla JV from Forge Resources Swan for a fixed consideration of $36.4 million.

The option will expire on the earliest of: the date of first drawdown of project finance for the Balla Balla project; the date on which the loan under the Loan Facility Agreement is due to be repaid; and the end of 10 years (the "Expiry Date").

The option is open up to the Expiry Date but exerciseable only during any of the following periods:

(a) each period commencing on the date that Forge Resources Swan notifies the Todd JV Party of a project finance term sheet (for the financing of the Balla Balla project) and ending 6 business days after the earlier of:
   i. giving that notification; and
   ii. the Expiry Date; and

(b) the period commencing 4 months after the giving of any notification described in paragraph (a) above if Forge Resources Swan has signed a project finance term sheet and ending on the earlier of:
   i. the date that Forge Resources Swan notifies the Todd JV Party that project finance will not proceed; and
   ii. the Expiry Date.

If the option is exercised, Forge Resources Swan will on the relevant completion date transfer to the Todd JV Party an additional 7.5% interest in the Balla Balla JV. No cash will be paid by the Todd JV Party to Forge Resources Swan if the option completes after May 2014 – rather, Todd JV Party will pay the $36.4 million consideration to the Todd Lender which will constitute full or partial (depending on when paid) repayment of the loan amount (inclusive of accrued interest) by $36.4 million under the Loan Facility Agreement.

Should Forge be successful in obtaining and drawing down on a Project Finance Facility, then Forge Resources Swan will be required to repay the loan from the Todd Lender from the proceeds of this project finance.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note 15: Issued capital

		2012	2011
		$	$
80,577,667 (2011: 25,477,667) fully paid ordinary shares	13a and b	26,239,259	5,546,831

	2012 No of shares	2012 $
(a) Fully paid ordinary shares		
Balance at beginning of reporting year	25,477,667	4,231,631
Issue of shares during the year:		
- Shares issued to WildSide (WA) P/L and Westover Holdings P/L in consideration for acquisition of tenements	1,100,000	451,000
- Shares issued during the year	30,000,000	15,000,000
- Shares issued during the year replacing performance shares	24,000,000	7,920,000
- options converted to shares during the year	-	-
Transaction costs	-	(1,363,372)
Balance at end of reporting year	80,577,667	26,239,259

	2011 No of shares	2011 $
Fully paid ordinary shares		
Balance at beginning of reporting year	3,000,003	125,575
Issue of shares during the year:		
- AAMC in consideration of acquisition of tenements	3,000,000	600,000
- shares issued during the year	19,000,000	3,800,000
- options converted to shares during the year	477,664	95,535
Transaction costs	-	(389,479)
Balance at end of reporting year	25,477,667	4,231,631

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding-up of the Company in proportion to the number of shares held. Every ordinary shareholder present at a meeting of the Company, in person or by proxy, is entitled to one vote, and upon a poll each ordinary share is entitled to one vote.

Ordinary shares have no par value.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	2012 No of shares	2012 $
(b) Performance shares		
Balance at beginning of reporting year	24,000,000	**1,315,200**
Cancellation of share during the year:		
- Shares cancelled 31 May 2012	(24,000,000)	**(1,315,200)**
Balance at end of reporting year	-	-

	2011 No of shares	2011 $
Performance shares		
Balance at beginning of reporting year	-	-
Issue of shares during the year:		
- Share issue 17 September 2010	24,000,000	1,315,200
Balance at end of reporting year	24,000,000	1,315,200

The Performance Shares will convert into Shares in the capital of the Company upon either one of the Company's existing projects or, a project acquired after the Admission Date was identified as having a JORC compliant resource which is able to support a capital raising of at least $15,000,000 at a price not less than $0.35 per Share by the Company and the Company completing such a capital raising. All Performance Shares will convert into 24,000,000 Shares in the capital of the Company. The Performance Shares will expire in 18 months from the date of the Initial Public Offering of the Company. In the event that the Milestone is not achieved by the Expiry Date, then all Performance Shares held by a Holder will automatically be forfeited. The performance shares expired and were forfeited on 21 March 2012.

(c) Options over unissued shares	**2012 Number**
Options	
Balance at beginning of reporting year	20,455,905
Issued during the year	14,300,000
Lapsed during the year	(2,300,000)
Converted during the year	-
Balance at end of reporting year	32,455,905

4,500,000 options with the exercise price of $0.54 and expiry date of 1 December 2015 were issued on 1 December 2011 to Directors and employees of the Company as approved by shareholders at the Annual General meeting held 24 November 2011.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

9,800,000 options were issued on 31 May 2012 as approved by shareholders at the General Meeting held 25 May 2012 as below:

6,500,000 options were issued to Tio (NZ) Limited (a subsidiary of Todd) on 31 May 2012 with an exercise price of $0.50 and expiry date two years from the date of issue. These options were approved at a general meeting of shareholders on 25 May 2012 and have been independently valued at $851,500.

1,000,000 options were issued to Riverstone Advisory Limited on 31 May 2012 with an exercise price of $0.50 and expiry date three years from the date of issue. These options were approved at a general meeting of shareholders on 25 May 2012 and have been independently valued at $168,000.

300,000 options were issued on 31 May 2012 with an exercise price of $0.67 and expiry date of 15 June 2015.

2,000,000 options were issued on 31 May 2012 (subject to shareholder approval) with an exercise price of $0.54 and expiry date of 1 December 2015.

6,333,569 options were issued on 21 September 2010 to shareholders at the initial public offer and 600,000 Options were issued on 27 June 2011to Geoff Atkins pursuant to the employee share plan.

13,000,000 options were issued on 1st November 2009 to the founding investor/shareholder group. Of this amount 1,100,000 were issued to Directors of the Company in their capacity as founding investor/shareholders.

1,000,000 options were issued in two tranches (633,333 on 15th March 2010 and 333,334 on 11th May 2010) as part of the seed capital raising undertaken by the Company. The Company issued 1,000,000 fully paid ordinary shares at an issue price of $0.10, plus each applicant received one free option for every three seed shares subscribed for. Of these 1,000,000 options, 166,668 were issued to two Directors as part of their respective seed capital applications.

(d) Capital management

When managing capital, management's objective is to ensure the consolidated group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the consolidated group.

Management adjusts the capital structure to the extent possible to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated group is not subject to any externally imposed capital requirements, nor does it focus on obtaining debt as a key capital management tool.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note 16: Interests of key management personnel (KMP)

Names and positions held of Company key management personnel in office at any time during the year were:

N Curtis (appointed 1 July 2010)	Non-executive Chairman
M James (appointed 15 August 2011)	Managing Director
H Ou Wang (appointed 1 July 2010)	Non-executive Director
M Wolley (appointed 7 June 2012)	Non-executive Director
E Correia (appointed 8 October 2009)	Non-executive Director
J Malone (appointed 1 July 2010) (Resigned 31 October 2011)	Non-executive Director
Shane Hartwig	Company Secretary
Geoff Atkins	Senior Project Manager

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Company's key management personnel for the year ended 30 June 2012.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

	2012 $	2011 $
Short-term employee benefits	651,261	99,653
Post-employment benefits	38,152	1,514
Share-based payments	8,394,757	1,887
	9,084,170	103,054

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

(a) KMP share holdings

The number of ordinary shares in Forge Resources Ltd held directly and indirectly by each key management personnel of the Company during the year is as follows:

	Balance at beginning of year or date of appointment	Granted as compensation	Issued on exercise of options	Other changes	Balance at end of year or date of resignation or cessation
2012					
N Curtis	4,000,000	-	-	24,250,000	28,250,000
M James ***	350,000	-	-	60,000	410,000
H Ou Wang	350,000	-	-	-	350,000
M Wolley **	-	-	-	-	-
E Correia	325,001	-	-	-	325,001
G Atkins	100,000	-	-	-	100,000
S Hartwig	382,501	-	-	-	382,501
J Malone *	375,000	-	-	-	375,000
Total	5,882,502	-	-	24,310,000	30,192,502

* Resigned 31 October 2011
** Appointed 7 June 2012
*** Appointed 15 August 2011

	Balance at beginning of year or date of appointment	Granted as compensation	Issued on exercise of options	Other changes	Balance at end of year or date of resignation or cessation
2011					
N Curtis	-	-	-	4,000,000	4,000,000
M James ***	-	-	-	350,000	350,000
H Ou Wang	-	-	-	350,000	350,000
E Correia	325,001	-	-	-	325,001
J Malone **	-	-	-	375,000	375,000
G Atkins	-	-	-	100,000	100,000
S Hartwig *	382,501	-	-	-	382,501
B Siddall *	1	-	-	-	1
Total	707,503	-	-	5,175,000	5,882,503

* Resigned effective 1 July 2010
** Resigned 31 October 2011
*** Appointed 15 August 2011

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

(b) KMP Option holdings

	Balance at beginning of year or date of appointment	Granted as compensation	Issued on exercise of options	Other changes	Balance at end of year or date of resignation or cessation
2012					
N Curtis	1,333,334	-	-	-	1,333,334
M James ***	116,667	-	-	3,500,000[1]	3,616,667
H Ou Wang	116,667	-	-	1,300,000[2]	1,416,667
M Wolley **	-	-	-	-	-
E Correia	608,334	-	-	250,000	858,334
G Atkins	633,334	-	-	100,000[3]	733,334
S Hartwig	627,501	-	-	250,000	877,501
J Malone *	125,001	-	-		125,001
Total	**3,560,838**	**-**	**-**	**5,400,000**	**8,960,838**

* Resigned effective 1 July 2010
** Appointed 7 June 2012
*** Appointed 15 August 2011

	Balance at beginning of year or date of appointment	Granted as compensation	Issued on exercise of options	Other changes	Balance at end of year or date of resignation or cessation
2011					
N Curtis	-	-	-	1,333,334	1,333,334
M James ***	-	-	-	116,667	116,667
H Ou Wang	-	-	-	116,667	116,667
E Correia	608,334	-	-	-	608,334
J Malone **	-	-	-	125,001	125,001
G Atkins	-	600,000	-	33,334	633,334
S Hartwig *	627,501	-	-	-	627,501
B Siddall *	100,000	-	-	-	100,000
Total	**1,335,835**	**600,000**	**-**	**1,725,003**	**3,660,838**

* Resigned effective 1 July 2010

[1] 2,000,000 agreed to be issued, but still subject to shareholder approval. Share base payment expense will be included in Financial Year ending 2013 assuming shareholder approval obtained.
[2] 800,000 agreed to be issued, but still subject to shareholder approval. Share base payment expense will be included in Financial Year ending 2013 assuming shareholder approval obtained.
[3] Issued post 30 June 2012, share base payment expense will be included in Financial Year ending 2013.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

** Resigned effective 31 October 2011

*** Appointed 15 August 2011

(c) KMP Performance Shares holdings

The performance shares expired and were forfeited on 21 March 2012. Ordinary shares totalling 24,000,000 were issued to Nicholas Curtis on 31 May 2012 with the value of $7,920,000.

Note 17: Employee benefits

Superannuation

The consolidated group makes contributions based on each employee's salary to superannuation plans that provide employees with benefits on retirement in accordance with the requirements of superannuation legislations.

Employee incentive plan

The Company has established the Forge Resources Limited Employee Share Trust ("EST") for the purpose of retaining and incentivising its key personnel. A summary of the main terms of the EST is as follows:

i. The trustee of the Forge Resources Limited Employee Share Trust is Trinity Management Pty Limited ("Trustee").

ii. The Board will administer the EST in accordance with the terms of the governing Deed ("Terms") (and any other terms prescribed by the Board for the operation of the EST which are consistent with the Terms).

iii. The Board has discretion to determine which employees, Directors, executives or contractors are invited to apply to the Trustee for Share Units ("Eligible Employee"). The Company has absolute discretion to determine the number of Share Units to be issued to an Eligible Employee.

iv. The Board may from time to time suspend operation of, or cancel, the EST.

v. Subject to the ASX Listing Rules and to specified restrictions in the Terms, the Board may at any time by written instrument or by resolution, amend all or any of the provisions of the Terms, and make amendments to the Terms, or structure of an offer, as they apply in respect of foreign jurisdictions where such amendments would be appropriate for tax purposes, as determined by the Board.

vi. When the performance shares are converted to Shares, they will rank pari passu in all respects with the other Shares of the Company from the date of issue.

vii. The Company must not make an offer under the EST where the grant of the performance shares, Options or Shares contemplated by the offer would result in the Company exceeding the limit that applies under ASIC Class Order 03/184. Class Order 03/184 prescribes that the aggregate of all offers of securities in the same class in the previous 5 years under the EST must not exceed 5% of the issued capital of the Company at the time of the offer. There are certain types of issues, which are exempt from this calculation, including offers made pursuant to a disclosure document.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

viii. At the time participating employees wish to redeem or encash their holding, bonus share units are issued by the Trustee to enable full share value to be received including any growth over the holding period. The Company's contribution is limited to the issue of Shares in the Company.

ix. The share units provide to unit holders substantially the same rights in respect of the performance shares which are allocated to the share units as if the unit holders were the legal owners of the performance shares, excluding the rights to:

   (a) direct the Trustee how the voting rights attached to the performance shares shall be exercised; and

   (b) receive the income derived from the performance shares including dividends declared in respect of the shares, until such time that the performance shares are converted to Shares.

x. In general, the share units are not transferable.

xi. Any entitlement to share units, which have not vested, will be forfeited if a participant resigns from employment with the Company or ceases employment for any other reason.

xii. Subject to the ASX Listing Rules, in the event of a takeover, scheme of arrangement or other change of control as determined by the Board in respect of the Company, share units may, at the discretion of the Board, vest on a pro rata basis in accordance with an assessment of performance.

Fair value of options granted

The assessed fair value of options granted during the year ended 30 June 2012 was $0.418 per option. The fair value at grant date is determined using the Black Scholes option model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at granted date and expected volatility of the underlying share, the expected dividend yield and the risk free interest rate of the term of the option.

The models input for options granted during the year ended 30 June 2011 include the expected price volatility based on the historic volatility of companies in the mining sector.

The value of 24,000,000 shares issued to Nicholas Curtis was based on the share price of the Company on the date of issue.

Note 18: Related party transactions

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

During the period a sum of $1,958,486 (2011: $340,090) and 1,000,000 options(independently valued at $168,000) was paid to Riverstone Advisory (Riverstone), a firm involved in the provision of merger and acquisition advisory services to the natural resource sector. Riverstone provided project management and other management support services as well as advisory services relating to the potential acquisitions the Company is currently reviewing. Nicholas Curtis is a Director and shareholder of Riverstone.

Additionally payments were made to Peloton Capital Pty Ltd of $325,000 (2011: Nil) and Cardrona Energy Pty Ltd of $25,000 (2011: Nil) for corporate advisory and Company management services prior to full time

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

executive management being appointed to the Company. Emmanuel Correia is a Director of Peloton Capital Pty Ltd and Cardrona Energy Pty Ltd.

Key management personnel

Details of the compensation of key management personnel are included in Remuneration Report section of the Directors Report.

Note 19: Notes to statement of cash flows

	2012	2011
	$	$
(a) Reconciliation of cash		
Cash at bank and on hand	9,720,297	2,923,991
(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities		
Loss from ordinary activities after income tax	(13,717,392)	(1,780,818)
Depreciation and amortisation	5,762	1,665
Non-cash expense – consultancy expenses	168,000	-
Non-cash expense – share based payments	1,326,251	1,887
Non-cash expense – performance shares	7,920,000	1,315,200
Changes in assets and liabilities relating to operations:		
- Increase (Decrease) in creditors and accruals	2,368,398	65,208
- Increase (Decrease) in provisions	45,806	1,449
- Decrease (Increase) in receivables	(450,099)	7,892
- Decrease (Increase) in other non-current assets	-	(125,508)
Net cash used in operating activities	(2,333,274)	(513,025)

(c) Non-cash Financing and Investing Activities

Shares issued:

On 17 September 2010 3,000,000 ordinary shares were issued at $0.20 cents as consideration for the acquisition of mining tenements from Australian-American Mining Corporation N.L.

On 14 October 2011 1,100,000 Ordinary Shares were issued at $0.41 cents as consideration for the acquisition of mining tenements for the West Eucla project to Wild Side (WA) P/L & Westover Holdings P/L(Vendors) as part of option agreement.

On 31 May 2012 24,000,000 ordinary shares were issued at $0.33 to Nicholas Curtis for no consideration.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

On 31 May 2012 1,000,000 options were issued with an exercise price of $0.50 and expiry date three years from the date of issue. These options have been independently valued at $168,000.

Note 20: Segment information

Identification of reportable segments

The consolidated group has identified its reportable segments based on the location of its exploration assets.
The primary business segment and the primary geographic segment within which the Company operates are minerals and energy exploration in Australia respectively.

Note 21: Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the consolidated group's risk management framework. The consolidated group's risk management policies are established to identify and analyse the risks faced by the consolidated group, to set appropriate risk limited and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated group's activities.

The consolidated group's activities expose it to a limited number of financial risks as described below. The consolidated group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the consolidated group. To date, the consolidated group has not had the need to utilise derivative financial instruments such as foreign exchange contracts or interest rate swaps to manage any risk exposure identified. The consolidated group holds the following financial instruments.

	2012	**2011**
	$	**$**
Financial assets		
Cash and cash equivalents	9,720,297	2,923,991
Trade and other receivables	459,120	9,021
Total	10,179,417	2,933,012
Financial liabilities		
Trade and other payables	2,666,015	179,178
Borrowings	27,500,000	-
Total	30,166,015	179,178

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Specific financial risk exposures and management

The main risks the consolidated group is exposed to through its financial instruments are interest rate risk, credit risk and liquidity risk.

Interest rate risk

The consolidated group's main interest exposure arises from cash at bank, bank term deposits and mortgage loans as at the reporting date, the consolidated group had the following cash profile.

	2012	2011
	$	$
Cash at bank and in hand	9,720,297	2,923,991
Term deposit	459,120	109,722
Loans	(27,500,000)	-
Total	(17,320,583)	3,033,713

The consolidated group's main interest rate risk arises from cash and cash equivalents. The cash in the investment account earns a floating interest rate between 3.50% and 4.25%. The loans carry an interest rate of 15%.

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting.

Credit risk

Credit risk is managed on a consolidated group basis. Credit risk arises from cash and cash equivalents, deposits and banks as well credit exposure including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. In respect of the parent entity, credit risk relates to loans with subsidiary and associated companies. In order to achieve stated corporate objectives, the parent entity provides financial support to subsidiary and associated companies, but only to the level, which the Board considers necessary to achieve these objectives and meets agreed conditions. Any loans to subsidiary and associated companies considered to be unrecoverable have been provided for.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Liquidity risk

The consolidated group maintains sufficient liquidity by holding cash in readily accessible accounts. The consolidated group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The consolidated group's financial assets $10,179,417 (2011: $2,933,012) and financial liabilities $30,166,015 (2011: $179,178) have a maturity within 12 months of 30 June 2012.

Fair value

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective net fair values unless otherwise noted, determined in accordance with the accounting policies disclosed in the Statement of Accounting Policies.

Sensitivity analysis

The following table illustrates sensitivity to the consolidated group's exposure to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. This sensitivity assumes that the movement in a particular variable is independent of other variables.

	Profit $	Equity $
Year ended 30 June 2012		
+/- 1% in interest rates	+/- 3,441	+/- 3,441
Year ended 30 June 2011		
+/-1% in interest rates	+/- 1,441	+/- 1,441

Note 22: Earnings per share

	2012 $'000	2011 $'000
Operating loss after income tax used in the calculation of basic and diluted loss per share	13,717,392	1,780,818
	Number	**Number**
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic and diluted loss per share	77,650,818	20,507,995

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note 23: Controlled Entities

Controlled Entities Consolidated

Subsidiaries of Forge Resources Limited	Country of incorporation	Percentage Owned (%)	
		2012	**2011**
		%	%
Forge Resources Swan Pty Limited*	Australia	100	100
Forge Resources Crown Pty Limited*	Australia	100	100
Forge Balla Balla Investments Pty Ltd*	Australia	100	-

* Acquired on incorporation for a consideration of $2. There has been no trading to date.

Note 24: Events occurring after the reporting period

On 11 September 2012, the Company has issued 1,025,000 options (800,000 options still subject to shareholder approval) to purchase fully paid ordinary shares to the Company's Employee Share Trust.

Other than described above there has not arisen in the interval since 30 June 2012 and up to the date of this report, any matter that, in the opinion of the Directors, has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

The financial report was authorised for issue on 28 September 2012 by the Board of Directors.

Note 25: Reserves

The share-based payments reserve records items recognised as expenses on valuation of employee share options.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

Note 26: Capital and Leasing Commitments

	Note	2012 $	2011 $
Operating Lease Commitments			
Non-cancellable operating leases contracted for but not recognised in the financial statements			
Payable – minimum lease payments:			
– Within one year		172,739	206,160
– Later than one year but not later than five years		-	172,739
– Later than five years		-	-
		172,739	378,899

The property lease is a non-cancellable lease with a 24-month term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased 4.5% per annum. The lease allows for subletting of all lease areas.

	Note	2012 $	2011 $
Expenditure Commitments			
Minimum expenditure commitments for mining tenements (including JV commitments):			
– Within one year		704,870	352,000
– Later than one year but not later than five years		1,796,685	70,000
– Later than five years		-	-
		2,501,555	422,000

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

Note 27: PARENT INFORMATION

	2012 $	2011 $
The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards.		
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	10,186,459	2,933,012
Non-current assets	5,104,738	961,885
TOTAL ASSETS	15,291,197	3,894,897
LIABILITIES		
Current liabilities	1,344,229	180,627
TOTAL LIABILITIES	1,344,229	180,627
EQUITY		
Issued capital	26,239,259	5,546,831
Retained earnings	(13,788,429)	(1,834,448)
Option reserve	1,496,138	1,887
TOTAL EQUITY	13,946,968	3,714,270

	2012 $	2011 $
STATEMENT OF COMPREHENSIVE INCOME		
Total loss	(13,269,181)	(1,780,818)
Total comprehensive income	(13,269,181)	(1,780,818)

Guarantees

Forge Resources Ltd has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contractual commitments

At 30 June 2012, Forge Resources Ltd had not entered into any contractual commitments for the acquisition of property, plant and equipment (2011: nil).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note 28 - Company Details

REGISTERED OFFICE
Level 24,
56 Pitt Street,
Sydney NSW 2000

PRINCIPAL PLACE OF BUSINESS
Level 24,
56 Pitt Street,
Sydney NSW 2000

In accordance with a resolution of the Directors of Forge Resources Ltd, the Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 25 to 65, are in accordance with the Corporations Act 2001 and:

   (a) comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

   (b) give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the consolidated group;

2. the Chief Executive Officer and Chief Financial Officer have each declared that:

   (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

   (b) the financial statements and notes for the financial year comply with the Australian Accounting Standards; and

   (c) the financial statements and notes for the financial year comply give a true and fair view.

3. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Dated this 28 September 2012

Matthew James
Managing Director

**FORGE RESOURCES LTD ABN 30 139 886 187
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT TO
THE MEMBERS OF FORGE RESOURCES LTD**

SYDNEY

Level 29
St Martin's Tower
31 Market Street
Sydney NSW 2000
Australia

GPO Box 3555
Sydney NSW 2001

Ph: (612) 9263 2600
Fx: (612) 9263 2800

NEWCASTLE

Ph: (612) 4969 5521
Fx: (612) 4969 6059

PARRAMATTA

Ph: (612) 9687 2100
Fx: (612) 9687 2900

PENRITH

Ph: (612) 4721 8144
Fx: (612) 4721 8155

MELBOURNE

Ph: (613) 8678 1600
Fx: (613) 8678 1699

PERTH

Ph: (618) 9489 2560
Fx: (618) 9489 2562

BRISBANE

Ph: (617) 3211 1250
Fx: (617) 3211 1249

GOLD COAST

Ph: (617) 5538 2322
Fx: (617) 5526 8599

Report on the Financial Report

We have audited the accompanying financial report of Forge Resources Ltd which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards (IFRS).

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 judgment, 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 and fair presentation of the financial report 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 the 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*.

HALLCHADWICK

FORGE RESOURCES LTD ABN 30 139 886 187
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO
THE MEMBERS OF FORGE RESOURCES LTD

Auditor's Opinion

In our opinion:

a. the financial report of Forge Resources Ltd is in accordance with the *Corporations Act 2001*, including:

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

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 10 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 Forge Resources Ltd for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

Hall Chadwick

Hall Chadwick
Level 29, St Martins Tower
31 Market Street, SYDNEY NSW 2001

Graham Webb
Partner
Date: 28 September 2012

ADDITIONAL INFORMATION

Additional Australian Securities Exchange information as at 31 August 2012.

Number of holders of equity securities

Fully Paid Ordinary Shares

80,577,667 fully paid ordinary shares are held by 558 individual shareholders (3,925,000 subject to ASX escrow).

All issued ordinary shares carry one vote per share.

Options

32,455,905 Options ($0.20 Ex Price, 31st July 2014 Expiry) held by 236 individual shareholders (13,308,332 subject to ASX escrow).

600,000 Unlisted options ($0.67 exercise price, 15 June 2015 expiry) held by one employee.

6,500,000 options were issued on 31st May 2012 with an exercise price of $0.50 and expiry date two years from the date of issue.

1,000,000 options were issued on 31 May 2012 with an exercise price of $0.50 and expiry date three years from the date of issue.

300,000 options were issued on 31st May 2012 with an exercise price of $0.67 and expiry date of 15 June 2015.

2,000,000 options were issued on 31 May 2012 with an exercise price of $0.54 and expiry date of 1 December 2015.

6,333,569 options were issued on 21 September 2010 to shareholders at the initial public offer and 600,000 Options were issued on 27 June 2011to Geoff Atkins pursuant to the employee share plan.

Performance Shares

24,000,000 Performance Shares held by one holder (24,000,000 subject to ASX escrow).

The Performance Shares expired on 21 March 2012 and were replaced by 24,000,000 ordinary shares, with a total value of $7,920,000, issued to Nicholas Curtis as approved by a general meeting of shareholders held on 25 May 2012.

ADDITIONAL INFORMATION

Distribution of holders of equity securities

Category (Size of Holdings)	Ordinary Shares holders	Option holders
1 - 1,000	110	3
1,001 - 5,000	109	97
5,001 - 10,000	112	28
10,001 - 100,000	166	83
100,001 and over	61	25
	558	236
Holding less than a marketable parcel	135	101

Substantial Shareholders

The names of the substantial shareholders listed in the Forge Resources Ltd register as at 31 August 2012 were:

	Fully paid ordinary shares	
Holders	Number	Percentage
TRINITY MANAGEMENT PTY LTD <FORGE RESOURCES EMPLOYEE SHARE>	24,000,000	29.78%
TIO (NZ) LIMITED	16,000,000	19.86%
	40,000,000	49.64%

Twenty largest holders of quoted ordinary shares	Fully Paid Ordinary Shares	
	Number	%
TRINITY MANAGEMENT PTY LTD <FORGE RESOURCES EMPLOYEE SHARE>	24,000,000	29.78
TIO (NZ) LIMITED	16,000,000	19.86
AUSTRALIA CONGLIN INTERNATIONAL INVESTMENT GROUP PTY LTD	5,000,000	6.21
WILKES HOLDINGS PTY LTD	4,250,000	5.27
AUSTRALIAN-AMERICAN MINING CORPORATION LIMITED	3,000,000	3.72
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	2,866,870	3.56
NATIONAL NOMINEES LIMITED	1,246,567	1.55
KELLY BROOKVALE PTY LIMITED <BURST SUPER FUND A/C>	1,165,900	1.45
MR ANDREW CLIVE BEDE ROSS + MRS MARY-LOUISE ROSS <ARML SUPER FUND A/C>	1,000,000	1.24
BRADFIELD & PRICHARD REAL ESTATE CONSULTANTS PTY LTD <BENSON & GUTH RETIRE FND A/C>	814,171	1.01
MRS YAO XU <XIAO LIU A/C>	671,634	0.83
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	661,398	0.82
WESTOVER HOLDINGS PTY LTD	550,000	0.68
QUOTIDIAN NO 2 PTY LIMITED	544,462	0.68
BRADFIELD & PRICHARD REAL ESTATE CONSULTANTS P/L <BENSON&GUTH RETMNT FUND A/C>	500,000	0.62
WILD SIDE (WA) PTY LTD	495,000	0.61
MR TIMOTHY PETER HAMILTON WEARNE	462,905	0.57
MR REGINALD STEWART INGLIS <R S INGLIS SUPER FUND A/C>	403,000	0.50

ADDITIONAL INFORMATION

DATO FRANKY G E CHUA	400,000	0.50
P G HOWARTH PTY LTD	400,000	0.50
Total	**64,431,907**	**79.96**
Remainder	**16,145.760**	**20.04**
Grand Total	**80,577,667**	**100.00**

Twenty largest holders of quoted options	Fully Paid Ordinary Shares	
	Number	%
ENCOUNTER INVESTMENTS PTY LTD <ENCOUNTER INVESTMENTS A/C>	2,655,000	13.37
CANGU PTY LTD <CANGU FAMILY A/C>	2,399,999	12.09
MR KELVIN ROBERT SMITH <GALLERY INVESTMENT A/C>	1,350,000	6.80
WILKES HOLDINGS PTY LTD	1,333,334	6.72
GEBA PTY LTD <GEBA FAMILY A/C>	1,124,999	5.67
MRS MARGARET ANNE DOWNES	700,000	3.53
MADEIRA NOMINEES PTY LTD	683,334	3.44
MR DANIEL CORREIA <THE DANS A/C>	670,000	3.37
MR EMMANUEL CORREIA	566,667	2.85
MR SHANE ANTHONY HARTWIG	500,000	2.52
LITTLE BREAKAWAY PTY LTD	500,000	2.52
MAC EQUITY PARTNERS PTY LTD	500,000	2.52
P G HOWARTH PTY LTD	426,618	2.15
JALONEX INVESTMENTS PTY LTD	425,000	2.14
TRANSOCEAN SECURITIES PTY LTD	425,000	2.14
JJ HOLDINGS (VIC) PTY LTD <SUMMERLEA S/FUND A/C>	400,000	2.01
MOOSEHEAD PTY LIMITED	300,000	1.51
GEBA PTY LTD <GEBA FAMILY A/C>	283,335	1.43
NUMBER 7 INVESTMENTS PTY LTD <SUPERANNUATION FUND A/C>	250,000	1.26
JOHN DENOON AND ASSOCIATES PTY LTD	212,976	1.07
Total	**15,706,262**	**79.10**
Remainder	**4,149,643**	**20.90**
Grand Total	**19,855,905**	**100.00**

ADDITIONAL INFORMATION

DIRECTORS
Mr Nicholas Curtis Non-Executive Chairman
Mr Matthew James Managing Director
Mr Harold Wang Non-Executive Director
Mr Emmanuel Correia Non-Executive Director
Mr Michael Wolley Non-Executive Director

COMPANY SECRETARY
Mr Shane Hartwig

REGISTERED OFFICE
Level 24,
56 Pitt Street,
Sydney NSW 2000

PRINCIPAL PLACE OF BUSINESS
Level 24,
56 Pitt Street,
Sydney NSW 2000

AUDITORS
Hall Chadwick
Level 29, 31 Market Street
Sydney NSW 2000

SHARE REGISTRY
Computershare Limited
Level 3
60 Carrington Street
Sydney NSW 2000

LAWYERS
Allens
G P O Box 50
Sydney NSW 2001