Proto Resources & Investments Ltd

ABN 35 108 507 517

And Controlled Entity

Annual Report 2012

CONTENTS

CHAIRMAN'S LETTER

Dear Shareholder

Financial Year 2011/2012 was a busy year for the Company with increased progress on its flagship Barnes Hill nickel project in Tasmania, a host of activity across Proto's exploration tenements in the Northern Territory and Western Australia and more encouraging test results for our exciting waste-stream processing technology.

Following on from the granting of a mining license at Barnes Hill last year, Proto quickly signed up Caterpillar Finance SARL to provide debt and equipment finance for the project.

During this year it has become more apparent that Barnes Hill has the potential to develop an iron project as well as for the nickel development. The iron-rich overburden on the nickel deposit is being tested to see whether a saleable iron product could be produced. Interestingly, Barnes Hill was an early iron ore discovery in 1804, and the Company is now working strenuously to commence early iron ore production from the Barnes Hill mining project.

The Company also announced in November the acquisition of the Kiefenberg project, a nickel cobalt development project located in Saxony, Germany. A mining license has since been issued for the project and a drilling program has been planned.

Extensive ground gravity and geophysicals were conducted on Proto's tenement holdings in the Northern Territory and Western Australia.

This financial year also saw continued development of Proto's majority-owned Barrier Bay technology. The company has recently completed a successful pilot program and an internal report is now being finalised. The next step from here is to establish a demonstration facility to prove that the technology is viable on a commercial scale.

Despite poor market sentiment and tougher than expected conditions for junior miners, Proto has proven itself able to successfully raise capital to fund its operations. We were successful in sourcing funding from a New York-based investment fund. We have been able to joint venture a series of our exploration assets in Western Australia's Doolgunna region, providing important funding to apply to other projects.

Low nickel prices of late has made things difficult, however Proto believes that the current price represents an overshoot on the downside, brought about by temporary macro-economic factors and that the long-term outlook for nickel is still favourable.

Financial Year 2012-2013 is shaping up to be a big year with the Company's target of confirming the feasibility of iron ore production at Barnes Hill, and moving to production as quickly as possible. This will assist in the development of the nickel project. The Company will also continue with its gold copper exploration strategy, with further acquisition opportunities being examined.

These are challenging times, yet with them bring opportunities. Our team continues to maintain focus on developing our core assets in an efficient way. We hope that in the near term this will show economic returns for our investors, our partners, and the communities where we operate.

Ian Campbell
Chairman

CORPORATE GOVERNANCE STATEMENT

The Group is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Group has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Recommendations*.

The Group is pleased to advise that the Group's practices are largely consistent with those ASX guidelines. As consistency with the guidelines has been a gradual process, where the Group did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place during the reporting period, we have identified such policies or committees.

Where the Group's corporate governance practices do not correlate with the practices recommended by the Council, the Group is working towards compliance however it does not consider that all the practices are appropriate for the Group due to the size and scale of Group operations.

To illustrate where the Group has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered. Details of all of the recommendations can be found on the ASX Corporate Governance Council's website at asx.com.au/about/corporate_governance/index.htm.

Recommendation	Section
Recommendation 1.1 Functions of the Board and Management	1.1
Recommendation 1.2 Performance Evaluation of Senior Executives	1.4.10
Recommendation 1.3 Reporting on Principle 1	1.1 and 1.4.10
Recommendation 2.1 Independent Directors	1.2.1
Recommendation 2.2 Independent Chairman	1.2.1
Recommendation 2.3 Role of the Chairman and CEO	1.2.2
Recommendation 2.4 Establishment of Nomination Committee	2.3
Recommendation 2.5 Performance Evaluation Processes	1.4.10
Recommendation 2.6 Reporting on Principle 2	1.2.1, 1.4.10, 2.3 and Directors' Report
Recommendation 3.1 Code of Conduct	5
Recommendation 3.2 Diversity Policy	4
Recommendation 3.3 Diversity Objectives	4
Recommendation 3.4 Diversity Reporting	4
Recommendation 3.5 Reporting on Principle 3	4 and 5
Recommendation 4.1 Establishment of Audit Committee	2.1
Recommendation 4.2 Structure of Audit Committee	2.1.1
Recommendation 4.3 Audit Committee Charter	2.1
Recommendation 4.4 Reporting on Principle 4	2.1
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2 Reporting on Principle 5	1.4.4
Recommendation 6.1 Communications Strategy	1.4.8
Recommendation 6.2 Reporting on Principle 6	1.4.8
Recommendation 7.1 Policies on Risk Oversight and Management	3.1
Recommendation 7.2 Risk Management Reporting	3.1
Recommendation 7.3 Attestations by CEO and CFO	1.4.11
Recommendation 7.4 Reporting on Principle 7	2.1.3 , 1.4.11
Recommendation 8.1 Establishment of Remuneration Committee	2.2
Recommendation 8.2 Structure of Remuneration Committee	2.2
Recommendation 8.3 Executive and Non-Executive Director Remuneration	2.2.4
Recommendation 8.4 Reporting on Principle 8	2.2 and 2.2.4

CORPORATE GOVERNANCE STATEMENT (CONT'D)

1. Board of Directors

1.1 Role of the Board

The Board's role is to govern the Group rather than to manage it. In governing the Group, the Directors must act in the best interests of the Group as a whole. It is the role of senior management to manage the Group in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Group. The Board must also ensure that the Group complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Group.

To assist the Board to carry out its functions, it has developed a Code of Conduct to guide the Directors, the Chairman and other key executives in the performance of their roles.

1.2.1 Composition of the Board

To add value to the Group the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. The names of the Directors and their qualifications and experience are stated in the Directors' Report along with the term of office held by each of the Directors. Directors are appointed based on the specific skills required by the Group and on their decision-making and judgment skills.

The Group recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Ms Kay Philip is a Non-Executive Director and independent director as she meets the following criteria for independence adopted by the Group. The Board recognises that the following criteria are not exhaustive in determining the independence of directors.

An Independent Director is a Non-Executive Director and:

- is not a substantial shareholder of the Group or an officer of, or otherwise associated directly with, a substantial shareholder of the Group;
- has not been employed in an executive capacity by the Group or another group member since incorporation;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Group or another group member, or an employee materially associated with the service provided;
- is not a material supplier or customer of the Group or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Group or other group member other than as a Director of the Group.
- their role is to advise the Group on matters pertaining to their expertise and provide governance in the best interests of the Group. Independent Directors do not participate in day to day operations or management of the Group and its affairs.
- are remunerated based on a set scale relating to the risks undertaken within their roles as Non-Executive Directors. Additional work engagements may be undertaken by independent Directors at commercial rates, however the Group and the Independent Directors must ensure that materiality thresholds are not breached.

Mr Andrew Mortimer is a Managing Director, Ms Lia Darby is a Non-Executive Director and Mr Greg Melick is an Executive Director of the Group and do not meet the Group's criteria for independence. However, their experience and knowledge of the Group makes their contribution to the Board such that it is appropriate for them to remain on the Board. Mr Melick was previously a Non-Executive Director of the Company. The Board identified Mr Melick's experience as invaluable to the current development of the Company and consequently appointed him as an Executive of the Company in the short term. Mr Melick intends to return to his Non-Executive Director role once development at the Company's Barnes Hill project is substantially complete.

1.2.2 Role of the Chairman and CEO

Recommendation 2.3 has been complied with as the Group currently does not have a CEO in place and appointed management is separate from the Chairman's position.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Group. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Group.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- Leadership of the Organisation: overseeing the Group and establishing codes that reflect the values of the Group and guide the conduct of the Board.
- Strategy Formulation: to set and review the overall strategy and goals for the Group and ensuring that there are policies in place to govern the operation of the Group.
- Overseeing Planning Activities: the development of the Group's strategic plan.
- Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Group.
- Monitoring, Compliance and Risk Management: the development of the Group's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Group.
- Group Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Group's occupational health and safety systems to ensure the well-being of all employees.
- Delegation of Authority: delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Group and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Group's registered office.

1.4 Board Policies

1.4.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Group; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the *Corporations Act*, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Group.

1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Group have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.4.4 Continuous Disclosure

The Board has adopted a continuous disclosure policy to ensure that the Group complies with the disclosure requirements of the ASX Listing Rules which is available on the website. The Board has designated the Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the *ASX Listing Rules* the Company immediately notifies the ASX of information:

CORPORATE GOVERNANCE STATEMENT (CONT'D)

- concerning the, that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

1.4.5 Education and Induction

It is the policy of the Group that new Directors undergo an induction process in which they are given a full briefing on the Group. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- access to a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of the Group;
- a synopsis of the current strategic direction of the Group; and
- a copy of the Constitution of the Group.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Group's expense, up to specified limits, to assist them to carry out their responsibilities.

1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Group. Unless there is an exemption under the *Corporations Act* from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

1.4.8 Shareholder Communication

The Group respects the rights of its shareholders and to facilitate the effective exercise of those rights the Group is committed to:

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders, the Group website and the general meetings of the Group;
- giving shareholders ready access to balanced and understandable information about the Group and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Group; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Group also makes available a telephone number and email address for shareholders to make enquiries of the Group and encourages shareholders to visit the Group's website for information.

The Group's policy for shareholder communication is available on the Group's website.

1.4.9 Trading in Company Shares

On 18 April 2011 the Board reviewed and adopted a revised Share Trading Policy to comply with ASX Listing Rule requirements. The Board periodically reminds directors, officers and employees of the prohibition in the Corporations Act 2001 concerning trading in the Company's securities when in possession of "inside information". The Board also periodically reminds directors of their obligations to notify the Company Secretary of any trade in securities to ensure that ASX Listing Rule requirements are met. The Group's policy for trading in Company securities is available on the Group's website.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

1.4.10 Performance Review/Evaluation

It is the policy of the Board to conduct regular evaluation of its performance against appropriate measures. The evaluation process was introduced via the Board Charter adopted 1 February 2007 and was implemented for the financial period ended 30 June 2010. A performance evaluation of senior executives was undertaken during the financial period ended 30 June 2010 in accordance with the Board Charter. The objective of this evaluation is to provide ongoing best practice corporate governance to the Group.

1.4.11 Attestations by CEO and CFO

It is the Board's policy, that the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Group's financial condition prior to the Board signing the Annual Report. However, as at the date of this report the Group does not have a designated CEO or CFO. Due to the size and scale of operations of the Group these roles are performed by the Board as a whole.

2. Board Committees

2.1 Audit Committee

Due to the size and scale of operations of the Group the full Board undertakes the role of the Audit Committee. In the absence of a formal audit committee the board considers the issues that would otherwise be considered by the audit committee. A copy of the Audit Committee Charter is available on the Group's website.

Below is a summary of the role and responsibilities of an Audit Committee.

2.1.1 Role

The Audit Committee is responsible for reviewing the integrity of the Group's financial reporting and overseeing the independence of the external auditors.

As the whole Board only consists of five (5) members, the Group does not have an audit committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues and an audit committee cannot be justified based on a cost-benefit analysis. In the absence of an audit committee, the Board sets aside time to deal with issues and responsibilities usually delegated to the audit committee to ensure the integrity of the financial statements of the Group and the independence of the external auditor.

2.1.2 Audit Committee Charter

The Board has adopted an Audit Committee Charter which sets of the roles and responsibilities, composition, structure and membership requirements. The Board refers to the Audit Committee Charter to ensure they are meeting all the requirements otherwise delegated to an audit committee. A copy of the Audit Committee Charter is available on the Group's website.

2.1.3 Responsibilities

The Audit Committee or as at the date of this report the full Board of the Group reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the members.

The Audit Committee or as at the date of this report the full Board of the Group each year reviews the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

The Audit Committee or as at the date of this report the full Board of the Group is also responsible for establishing policies on risk oversight and management.

2.1.4 Risk Management Policies

The Board's Charter clearly establishes that it is responsible for ensuring there is a good sound system for overseeing and managing risk. Due to the size and scale of operations, risk management issues are considered by the Board as a whole. On 28 September 2011 Mr Andrew Mortimer and Ms Lia Darby (Joint Managing Directors) provided the Board with written assurance that the financial statements are founded on a sound system of risk management and internal compliance. Their statement assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

2.1.5 External Auditor

The Board has adopted a policy setting out criteria for the selection and appointment of an external auditor. A copy of this policy is available on the Group's website.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

2.2 Remuneration Committee

2.2.1 Role

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

As the whole Board only consists of five (5) members, the Group does not have a remuneration committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues.

2.2.2 Responsibilities

The responsibilities of a Remuneration Committee, or the full Board include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the executive officers, reviewing and making recommendations to the Board on the Group's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors, recommendations for remuneration, and making recommendations on any proposed changes and undertaking reviews of the executive officers' performance, including, setting with the Chief Executive Officer goals and reviewing progress in achieving those goals.

2.2.3 Remuneration Policy

Directors' Remuneration was approved at the Board meeting held on 3 August 2011. The Board further resolved to address the current remuneration strategy as and when appropriate.

<u>2.2.3.1 Senior Executive Remuneration Policy</u>

The Group is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executive may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- long term incentives in the form of shares or options in the Company;
- participation in any share/option scheme with thresholds approved by shareholders;
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Group aims to align the interests of senior executives with those of shareholders and increase Group performance. During the year the Non-Director Executives of the Group were Mr Ian Campbell and Ms Kay Philip.

Where shares and options are granted to senior executives the value would be calculated using the Black and Scholes method.

The objective behind using this remuneration structure is to drive improved Group performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

<u>2.2.3.2 Non-Executive Director Remuneration Policy</u>

Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

2.2.4 Current Director Remuneration

Full details regarding the remuneration of Directors, is included in the Directors' Report.

2.3 Nomination Committee

2.3.1 Role

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Group by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

As the whole Board only consists of five (5) members, the Group does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

2.3.2 Responsibilities

The responsibilities of a Nomination Committee, as performed by the full Board, include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee also oversees management succession plans including the CEO and his/her direct reports and evaluates the Board's performance and make recommendations for the appointment and removal of Directors. Currently the Board as a whole performs this role.

2.3.3 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Group. Given the size of the Group and the business that it operates, the Group aims at all times to have at least one Director with experience appropriate to the Group's target market. In addition, Directors should have the relevant blend of personal experience in accounting and financial management and Director-level business experience.

3. Risk Management

3.1 Risk Management Policies

The Group's risk management strategy policy states that the Board as a whole is responsible for the oversight of the Group's risk management and control framework. The objectives of the Group's risk management strategy are to:

- identify risks to the Group,
- balance risk to reward,
- ensure regulatory compliance is achieved; and
- ensure senior management, the Board and investors understand the risk profile of the Group.

The Board monitors risk through various arrangements including:

- regular board meetings;
- share price monitoring;
- market monitoring; and
- regular review of financial position and operations.

The Board requires that each major transaction proposed to the Board for decision is accompanied by a risk assessment.

The Group's risk management strategy was formally reviewed by the Board on 26 May 2010 and was considered the Group's risk management strategy sound for addressing and managing risk. A copy of the strategy is available on the Group's website.

4. Diversity

The Company recognises and respects the value of diversity at all levels of the organisation.

The Company is committed to setting measurable objectives for attracting and engaging women at the Board level, in senior management and across the whole organisation.

As at the date of this report, the Company has the following proportion of women appointed:

- to the Board – 40%
- to senior management – 0%
- to the organisation as a whole – 33%

The Company's objective is to promote a culture which embraces diversity through ongoing education, succession planning, director and employee selection and recognising skills are not gender specific. Targets for proportion of women appointed are presented below:

- to the Board – 40%
- to senior management – 33%
- to the organisation as a whole – 33%

5. Code of Conduct

The Board adheres to and is responsible for enforcing the Code of Conduct set out in this Corporate Governance Statement.

The Group is committed to:

- applying the Group's funds efficiently to provide above average and sustainable return to shareholders through capital appreciation; and
- adopting high standards of occupational health and safety, environmental management and ethics.

The Board through the Managing Director monitors the Group's compliance with the Code of Conduct periodically. The Code of Conduct was reviewed by the Board on 29 August 2010 to ensure it reflects the standards of behaviour and practices necessary to maintain confidence in the Group's integrity.

The Code of Conduct applies to all the directors and employees of the Group who must comply with all legal obligations and the Group policies.

The Board and the executives are obligated to avoid situations of real or apparent conflict of interest between them as individuals and as Directors or employees of the Group. If a situation where a conflict of interest arises the Managing Director is to be notified; the matter will then be considered and the appropriate steps taken to avoid a repetition.

Any breach of Corporate Governance is to be reported directly to the Managing Director.

Corporate Responsibility

The Group complies with all legislative and common law requirements that affect its business, particularly environmental regulations, native title and cultural heritage laws.

A copy of the Company's Code of Conduct is available on the Group's website.

DIRECTORS' REPORT

Your directors present the following report on Proto Resources & Investments Limited and its controlled entity (referred to hereafter as "the Group") for the financial year ended 30 June 2012.

DIRECTORS

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

- Ian Campbell (Chairman, Director)
- Andrew Kenneth Bruce Mortimer (Managing Director)
- Aziz (Greg) Melick (Executive Director)
- Lia Melissa Darby (Non-Executive Director)
- Patricia Kay Philip (Non-Executive Director)

Unless noted above, all directors have been in office since the start of the financial year to the date of this report.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

- Kent Hunter

Details of Mr Hunter's experience are set out below under 'Information on Directors'.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were exploring for precious and base metals.

There were no other significant changes in the nature of the Group's principal activities during the financial year.

OPERATING RESULTS

The consolidated loss of the Group after providing for income tax amounted to $4,457,890 (2011: $3,918,266).

FINANCIAL POSITION

The net assets of the Group from 30 June 2011 to 30 June 2012 have decreased by $50,836.

The directors believe the Group has sufficient cash or near cash resources to carry out its near term exploration activities as previously advised to shareholders.

DIVIDENDS PAID OR RECOMMENDED

No dividends have been paid, and the directors do not recommend the payment of a dividend for the financial year ended 30 June 2012.

DIRECTORS' REPORT (CONT'D)

REVIEW OF OPERATIONS

1. Introduction

The period from July 2011 to June 30 2012 marked an important period for Proto Resources & Investments Ltd ("Proto", "the Company") as the Barnes Hill project moved closer to production. Proto is pleased with the progress being made on the Barnes Hill project and looks forward to developing a solid and sustainable multi-mineral production facility at its flagship project. A pivotal milestone achieved during the period was the appointment of Caterpillar Inc. (NYSE: CAT) as the equipment supplier and debt financier for the project. Caterpillar will provide mining equipment and Caterpillar Financial SÀRL ("Caterpillar Financial") in Zurich will manage the financing of the Barnes Hill project. On 7 June 2012 Proto extended its arrangement with Caterpillar Finance SARL to allow for the incorporation of an increased mining rate of 500,000 tonnes per annum at the Barnes Hill project into the Definitive Feasibility Study ("DFS"). The DFS was released subsequent to the reported period and resulted, with the incorporation of the increased mining rate, in substantial enhancements to the project's economics. Also during the period, the Development Application ("DA") and Development Proposal and Environmental Management Plan ("DPEMP") for the Barnes Hill project were lodged. Concurrently, bulk sample leaching tests of Barnes Hill ore confirmed both the rate of nickel recovery and the acid consumption of the ore.

As Proto announced during the period, part of the area of Australia's first iron ore mine, would be re-opened as part of the Barnes Hill development. Upgraded ironstone caprock at Barnes Hill will greatly increase the overall operating cash flow for the project with the results of testwork confirming the project's ability to produce a saleable iron product using magnetic separation. Work is continuing on the process testwork for the upgrading and sale of this ferruginous caprock and is running alongside testwork on the limonitic iron species also found at Barnes Hill.

The innovative Barrier Bay processing technology currently being developed by Proto's 51%-owned subsidiary, Barrier Bay Pty Ltd ("Barrier Bay") was also materially advanced during the period. The first commercial Barrier Bay pilot operated on a batch system, with the five-stage process broken down into five components. The design of an integrated cell was completed to allow the reconstruction of the pilot plant to operate on a continuous production basis.

Also during the period Proto announced its expectation for near-term resolution of the new license applications lodged in Germany in late 2011. These are the Nossen application covering the Großschirma tin prospect in addition to anomalous gold and base metals results, and the Kiefernberg application that covers nickel-cobalt mineralisation as defined by historical drilling. Kiefernberg has now been granted subsequent to the end of the reporting period. One drill hole intersecting the Großschirma tin mineralization that sits in the Nossen application area has been retrieved and verified from German Democratic Republic ('GDR') records. This hole, Grsm 2/77, returned assays of 0.55% Sn over 2m (from 706.0 m), 4m @ 0.15% Sn (from 722m) and 4m @ 0.13% Sn (from 772.0 m). The Kiefernberg application hosts known nickel-cobalt mineralisation that was the subject of extensive exploration by the GDR with 1,270 holes having been completed to varying depths. Proto considers that Kiefernberg represents an excellent opportunity to replicate the plant that has been designed for its flagship Barnes Hill project.

On the exploration front, Proto's Northern Territory assets remained an important focus. This work culminated in diamond core hole (LBD-3) targeting a 500m by 500m bedrock conductor at the Lindeman's Bore project. LBD-3 was completed to a depth of 466.6m and intersected three mineralised zones of geological interest between 385-430m, including a 20m section of quartz/carbonate stringers in foliated and chloritic mafic rock that contained pyrite and chalcopyrite from 385m. In addition, an intrusive intersected at around 370m bore a strong resemblance to an interpreted felsic intrusive that hosted the anomalous gold zone of LBD-1. Quartz veining immediately above this is also of geological interest. Following the end of the period, Proto announced the completion of detailed ground-based magnetic and gravity surveys at Lindeman's Bore in order to optimise placement of the fourth hole (LBD-4) which is now planned.

At the Waterloo project, Proto and its joint venture partner, Peak Mining and Exploration Limited, completed a semi-regional gravity programme. The survey consisted of approximately 900 gravity stations at between 500-1000m spacing. Several discrete gravity anomalies of potential interest were identified along a major structure. In addition, Proto announced a research sponsorship including the linked professional secondment of leading volcanologist Dr Mike Widdowson. Dr Widdowson, together with a PhD student jointly funded by The Open University, UK, commenced a program of work which will culminate in sophisticated geochemical analysis including sulphur isotope analysis and Ar/Ar dating. The secondment will support the integrated database of structural geology, geochemistry and geophysical anomalies which will be drawn upon to site upcoming drilling in the Northern Territory.

DIRECTORS' REPORT (CONT'D)

Proto's Doolgunna Projects in Western Australia's Yerrida Basin were also advanced during the period. These projects, situated within the historical Glengarry Basin, build on Proto's belief that a significant portion of the broader region is prospective for Sandfire-style mineralisation. Detailed aerial magnetic and radiometric surveys were completed with a number of magnetic and uranium anomalies identified. On 29 June 2012, the Company entered into an agreement with Victory Mines Limited ("Victory") whereby Victory will acquire from Proto a 70% interest in the Great Doolgunna tenement (E51/1455) and 50% interest in the Station Bore tenement (E69/2872).

Proto did not conduct significant fieldwork across its other exploration projects, including the Barnes Hill West Project, Waite Kauri, and Tibooburra (where Proto retains rights to alluvials). As a result, these projects are not included in this review of work performed during the period. The market will be informed of the future work planned for these projects in due course.

The economic climate of financial year 2012 was particularly difficult but generally and specifically for Proto Resources. This was caused by a poor overall market and a particularly tough market for nickel prices. While Proto is seeking to diversify its exposure with developments in iron ore and gold copper, the nickel price did affect Proto's economic performance as the nickel chart shows (see diagram). From September 2010, the nickel price tracked from $25,000 per tonne to $29,000 per tonne before gradually dropping to $17,000 per tonne during 2011. While nickel recovered to $22,000 per tonne in early 2012, it then slid to $15,000 per tonne by the middle of 2012. As at the end of September 2012, the nickel is sitting slightly above $18,000 per tonne. While the nickel price is recovering, the price decrease in nickel has affected Proto adversely. It is clear with the September actions of the American federal reserve and the Japanese central bank that there is to be another significant round of quantitative easing similar to the second round of easing that occurred in September 2010. This quantitative easing is very positive for Proto as when quantitative easing was commenced in September 2010, Proto's share price rose from well under 0.02 cents per share to over 0.08 cents per share within five months from low to high. Proto is even closer to mining production than in 2010 and as such the company is confident that the company share price will appreciate from its current all time low. Further, there has been strong share price gains in other nickel companies, subsequent to the end of financial year 2012 which demonstrates market interest in Australia nickel juniors. It is important to note though, that the recent determined action by the American federal reserve and the Japanese central bank demonstrates the substantial global need for economic repair. As a result, it is clear that the financial year 2012 showed worsening global economic performance that partly warranted these recent central bank interventions. As such, Proto believes that the most challenging economic circumstances are behind the global economy and that there should be a reasonable period of favourable economic conditions with firmer and hopefully higher metal prices for Proto to commence its mining production at Barnes Hill.

Graph 1 – Nickel price history (source: http://www.lme.com/nickel_graphs.asp)

2. Barnes Hill Project, Tasmania (Nickel Laterite and Iron Ore)

2.1 Project Overview

Located in northern Tasmania, the Barnes Hill project contains three related laterite deposits known as Barnes Hill, Mt Vulcan and Scott's Hill. Barnes Hill is being developed under a 50% joint venture agreement with Metals Finance Limited ("Metals Finance"). After the grant of the mining licence, completion of the DFS and appointment

DIRECTORS' REPORT (CONT'D)

of Caterpillar Inc. as the equipment supplier and debt financier Barnes Hill is on track for first product to be mined at the project in 2013. Barnes Hill sits on granted mining lease 1872P/M which is over EL172006 that is also held by Proto.

Proto is currently fine-tuning the processing route at Barnes Hill and expects to produce saleable nickel, cobalt, iron and magnesium products. Proto is applying an innovative processing technology to Barnes Hill which is being developed by Barrier Bay – a company in which Proto is the major shareholder. The technology will reduce the expected vehicle movements, reagent usage and the spent ore dam footprint. Testwork to date shows potential for significant savings through acid recycling alone. In addition to producing nickel, cobalt, iron and magnesium products from the Barnes Hill lateritic ore, Proto is also investigating the potential to monetise the iron rich overburden which 'caps' the limonite and saprolite ore. Iron results achieved at Barnes Hill include 16 m @ 43.1% Fe (from surface) and 10 m @ 42.1% Fe (from surface).

2.2 Activity July 2011 – June 2012

2.2.1 Exploration and Development

Progressing the Barnes Hill nickel-cobalt-iron project towards production remained Proto's key focus during the period. Major achievements included the appointment of Caterpillar Inc. as the equipment supplier to Barnes Hill and the conclusion of a financing arrangement with Caterpillar Financial in Zurich. The commitment letter is to deliver a debt finance facility consisting of a Senior Secured Project Loan ("Project Loan") along with a Subordinated Loan ("Subloan") that together will provide up to US$36m in financing, being 60% of total project costs, as required to construct and commission operations. On 7 June 2012, Proto announced that following positive discussions with Caterpillar Financial the financing agreement for the Barnes Hill Project in Tasmania had been extended until September 30th, 2012 to allow for the completion of the updated DFS. The updated DFS incorporated a substantial increase in the throughput for the Barnes Hill project, from 250,000tpa to 500,000tpa. This has greatly increased the attractiveness of the project's economics. Proto's arrangement with Caterpillar Financial covers the Barnes Hill project and notes Caterpillar Financial's ability to finance Proto's future nickel projects as well. Aside from the debt finance, Caterpillar ("Caterpillar", NYSE: CAT) will also provide earthmoving and transport equipment for the project.

The DFS was completed on schedule at the end of June 2012 (as announced by Metals Finance on 2 July 2012). This was preceded on 6 February 2012 by an update of the DFS which noted the estimated capital cost of Barnes Hill, incorporating the increased 500,000 tonnes per annum throughput, as being just $98 million, with projected total revenues of more than $1.1 billion over its full life.

The 500,000tpa flow sheet for the Barnes Hill project will be based on the Dow Chemical (Australia) ("Dow") Ion Exchange Resin ("IER") separation technology being pioneered by Metals Finance at their Lucky Break nickel laterite project in Queensland (see Figure 1 below). On 14 October 2011 Metals Finance announced completion of a letter of intent with Dow, a global leader in speciality chemicals and advanced materials. Dow is contributing technical know-how and process engineering input associated with the use of its IER technology that facilitates production of nickel under lower cost atmospheric operating conditions. Metals Finance is using this same resin technology on the Barnes Hill feasibility studies.

Figure 1 – Dow Chemical selective nickel low-pH Ion Exchange Resin

Advancing the iron potential of Barnes Hill remained a key focus during the period. First mining of the iron oxide caprock is targeted to commence within less than a year of completion of the final beneficiation work and grant of final approvals. Barnes Hill has been commercially mined in the past for both iron ore and chromite, and a local historian has recently made public research strongly suggesting that Barnes Hill was both Australia's first iron ore and metallic mine having been discovered in 1804 by Lieutenant Colonel William Patterson. The Barnes Hill development contains several distinct classes of iron ore species that are hosted across the domains of the nickel laterite resource and reserve already defined at Barnes Hill. These include (1) an ironstone cap that sits in the uppermost layers, and two forms of limonitic iron ore, being (2) a higher iron grade less friable limonite with a relatively lower clay content and (3) a lower grade more friable limonite with a higher content of orange/yellow ochreous clay that is the main host of nickel at Barnes Hill. This material has already been drill tested through the 641 drill holes that Proto has completed at Barnes Hill as well as the 73 historic drill holes.

As announced on 16 February 2012, Proto commenced analytical work on the upgrading of limonitic iron ore found at Barnes Hill. Proto also concurrently undertook testwork on the ironstone cap that lies above the limonite across parts of Barnes Hill. This ironstone cap is potentially an economically strong proposition given the negligible incremental mining costs involved, as the majority of the iron ore would, by necessity, need to be moved for the mining of the nickel laterite deposit. The iron caprock material is a lump mixture of haematite-goethite-limonite up to approximately 30cm in size. Proto has been encouraged to undertake testwork as aircore drill holes BHA140, 552 and 553 delivered assays of Fe_2O_3 up to 61.2% within the upper few metres of the holes. Proto has already drilled an area containing 3,040,076 tonnes of this caprock and expects to release a JORC-compliant resource once beneficiation testwork is completed.

Towards the end of 2011 Proto's geological team collected selective representative samples from previously drilled material from the aircore and diamond programs performed in 2010 and 2011. Furthermore, in October 2011 Proto also collected two tonnes of bulk sample from two specific sites. Tasfreight in Launceston then shipped a bulka-bag containing Fe-samples (approximately 150kg) from Proto's field office in Beauty Point to Robbins Metallurgical Services in Queensland, where testwork was undertaken with guidance from specialists at Metals Finance's Queensland headquarters. Results of these bulk samples were released subsequent to the period end, finding that a good quality magnetite product of average 61% Fe can be produced through Low Intensity Magnetic Separation ("LIMS"). The results also confirmed that there is scope to produce a larger volume of product through Wet High Intensity Magnetic Separation ("WHIMS") with work on this possibility continuing.

On 29 September 2011, Proto announced that the DA and DPEMP to approve mining had been lodged. The DA will be assessed by the West Tamar Council who will consider planning impacts, while the DPEMP will be assessed by the Board of the Environment Protection Authority, Tasmania ("EPA") under the Environmental Management and Pollution Control Act 1994 (Tas) and associated regulations. The EPA will also manage the assessment under the Environment Protection and Biodiversity Conservation Act 1999 (Cth) under referral from the Commonwealth Department of Sustainability, Environment, Water, Population and Communities ("SEWPAC").

Proto also acquired an option to purchase 105 ha of private land adjacent to the mine site during the period to add to conservation reserves. This land includes 87 ha of native habitat to offset the impact of mining. Under the terms of the Mining Lease, only 65 ha of area will be being utilised for mining and processing at any point with ongoing rehabilitation of mined areas to be undertaken on a rolling basis. This will create a situation where the offsets surpass the impacted area at all times during the operation of the mine. In addition, Proto also advanced pre-mining environmental management activities at Barnes Hill. The Company completed construction of the first of two enclosures to protect local populations of Tetratheca gunnii from wallaby grazing (see Figure 2 below).

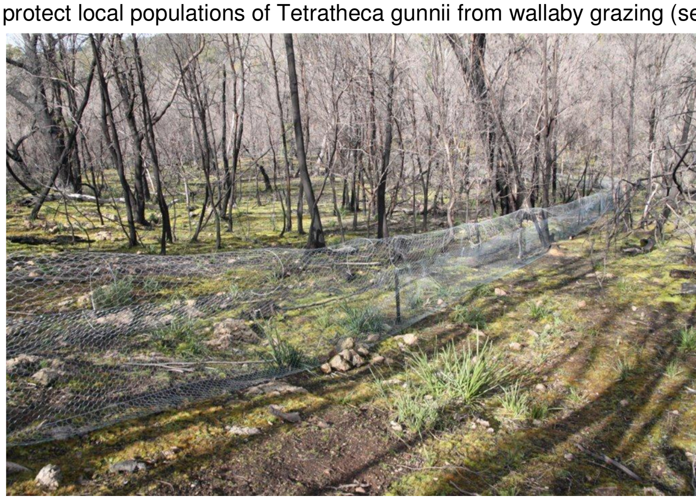

Figure 2 – Enclosure to protect Tetratheca gunnii from wallaby grazing

Also during the period, Proto completed the collection and transportation of bulk samples of Barnes Hill saprolite ore to the Australian BioRefining Pty Ltd facilities in northern New South Wales. In total 26 bulka bags were collected and shipped. The ore was collected through trench excavation and sampling of nickeliferous ultramafic (serpentinite) saprolite from selected sites at the north and south pit locations at Barnes Hill. This material was used for further leach and nickel processing testing.

2.2.2 Technology Commercialisation

Proto is pleased with the level of progress of the Barrier Bay processing technology. A significant amount of laboratory and bench scale test work on the technology has been completed, with the results now having been pulled together into a single interpretative study. The work to date has concluded:

- Laboratory testwork shows clear advantages for the technology as an enabling technology for nickel laterite processing. While the primary function of the process is the regeneration and recovery of sulphuric acid, a range of significant benefits result from this.

DIRECTORS' REPORT (CONT'D)

- The process also favours recovery of the contained metals as oxide/hydroxide products that adhere to a cathode and hence facilitate solid liquid separation at very high solid: liquid ratios, hence minimising or removing conventional solid liquid separation processes. The incorporation of Ion Exchange into the circuit results in a high value nickel product and subsequently allows satisfactory recovery of a primarily iron component, and a second primarily magnesium component that represent a significant additional economic benefit.
- The laboratory work has provided a valid basis for Barrier Bay to commission a preliminary Independent Technical Review ("ITR") of the results to date, and the technology's potential for commercial application. This has been carried out by a widely regarded metallurgical consultant based in Tasmania, who will continue to perform an overview role as the technology progresses.

The Barrier Bay processing technology passed through several significant milestones during the period culminating in the completed design of an integrated cell allowing the pilot plant to operate on a continuous production basis. The first commercial Barrier Bay pilot was designed for the treatment of third party material from Western Australia and was consequently built with the five-stage process broken down into five distinct components that were operated under batch production methods, one for each stage as follows, that form part of the wider flow sheet shown in Figure 3:

- Stage 1 – Reduction of Fe^{3+} to Fe^{2+}
- Stage 2 – Ion Exchange (extraction of nickel and cobalt)
- Stage 3 – Extraction of FeO and Fe_2O_3 (mixed iron oxide product)
- Stage 4 – Extraction of mixed hydroxide product ("MHP")
- Stage 5 – Extraction of $Mg(OH)_2$ (magnesium hydroxide)

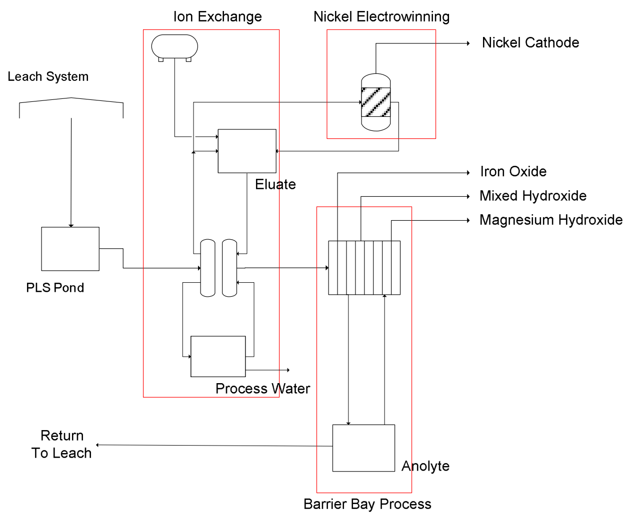

Figure 3 – Process flow diagram of the reconstructed pilot plant

As announced on 20 December 2011 the Barrier Bay technology comprising the four stages listed above (other than stage 2 which comprises the IER technology being developed by Metals Finance and Dow) will now take place in one integrated cell. This new cell (Figure 4 below), consisting of 22 individual cells, will allow the pilot plant to operate on a continuous production basis. With the completion of this reconfiguration the pilot plant has commenced operation.

DIRECTORS' REPORT (CONT'D)

Figure 4 – The new cell designed for the Barnes Hill flowsheet moving into position

Another key milestone completed during the period was the acceptance of the second batch of anion exchange membranes supplied by General Electric ("GE", NYSE: GE) after extensive quality control testing. The membranes are of key importance to the Barrier Bay process as they provide a means for sulphuric acid to accumulate in one half of the cell (the anolyte) and for water to accumulate in the other half of the cell (the catholyte) to enable recycling of both.

3. Lindeman's Bore, NT (Nickel Sulphide, Gold and PGEs)

3.1 Project Overview

Proto holds strategic tenure in the Antrim Plateau Volcanics ("APV") of the Northern Territory considered prospective for Norilsk's style copper-nickel mineralisation. Proto believes that the Continental Flood Basalts in the Antrim Plateau Volcanics of the Northern Territory of Australia may be an analogue to the Siberian Igneous Province of Russia and hence also prospective for a nickel-copper-palladium super system. Proto has engaged in research joint ventures with leading vulcanologists from the Queensland University of Technology and The Open University, UK in advancing the geological understanding of this underexplored province.

The Lindeman's Bore project is located 380km south-west of Katherine, near the community of Kalkarindji. Proto holds 80% of EL25307, with 20% held by private prospectors. Proto earned its interest through the completion of two deep diamond drill holes in the vicinity of the bulls-eye magnetic anomaly. Prior to the reported period, Proto announced that it had entered upon a Joint Venture over its Lindeman's Bore project (and Waterloo project) with Peak Mining and Exploration Limited.

The initial target identified at Lindeman's Bore was a circular bulls-eye magnetic anomaly located near the centre of an antiform. In June 2009 Proto drilled a first diamond hole aimed at this target, LBD-1, to a depth of 751 metres. Drill-hole LBD-1 provided new geological insight by intersecting the Inverway Metamorphics and identified mineralisation of 24m @ 4.92g/t Ag from 32m including 4m @ 16.15g/t Ag, 5m @ 0.13g/t Au from 380m and 6m @ 0.03% Co & 0.05% Cu. This was followed by LBD-2 that also intersected elevated levels of base metals.

3.2 Activity July 2011 – June 2012

On 4 November 2011 Proto released the results of ground electromagnetic surveys completed on Lindeman's Bore. Two FLTEM ground surveys were completed at the Lindeman's Bore project area during September-October 2011 by Outer Rim Exploration Services Pty Ltd. Assessment of the FLTEM survey data confirmed the presence of a broad, deep bedrock type anomaly. Initial modelling of this FLTEM anomalism indicated that the associated bedrock source had a large area (size >500x500m), and was situated at a reasonably significant depth (~250-400m from surface). Proto announced commencement of LBD-3 on 13 December 2011 to test this target in joint venture with Peak Mining who provided funding for the drilling campaign. On 12 April 2012, Proto announced the completion of LBD-3 completed to a final vertical depth below surface of 466.6m. The results of LBD-3 have led Proto to conclude that it had hit the western margins of a hydrothermal system prospective for gold and copper. Proto believes that the high-temperature core of the hydrothermal system may be mineralized at a higher grade, hence Proto plans to drill a fourth hole to test this potential.

Proto was highly encouraged by the results of LBD-3 which encountered various geological units of the Inverway Metamorphic Formation, consisting of mafic and meta-sedimentary stratigraphy. As reported, initial logging of LBD-3 suggested that three mineralised zones of geological interest were encountered, these three zones are summarised as follows:

DIRECTORS' REPORT (CONT'D)

- quartz/carbonate stringers containing trace amounts of pyrite and chalcopyrite developed within a foliated and chloritic mafic rock unit (385-405m depth);
- stringers of pyrite and trace amounts of chalcopyrite developed within a foliated and partly silicified black shale rock unit (405-419m depth, see Figure 5);
- minor pyrite and chalcopyrite stringer development in a foliated and banded, haematite-magnetite-chlorite meta-sedimentary rock unit (419-430m depth).

Figure 5 –Pyrite and chalcopyrite in stingers and on joint planes in black shale rock at 415.4m

In addition, the core returned, at approximately 370m, a strong resemblance to an intrusive intersected in the anomalous gold zone of LBD-1 from 424-431m. Quartz veining was observed immediately above this zone in LBD-3.

Significant assays from LBD-3 are provided in Table 1. In summary, anomalous levels of Au and Cu were intersected with elevated intervals of 0.16ppm Au, from 341-347m and 0.012ppm Au and 432.4ppm Cu over 19m from 404-423m. Higher zones of copper from this zone included 0.13% Cu and 0.18% Cu from 416m-417m and 420m-421m. Also, of interest are elevated levels of phosphorous (e.g. 5,715ppm P from 341-372m) and Ba (e.g. 8,680ppm Ba from 343-344m) associated with the quartz carbonate veining.

Table 1 – Summary of Significant Intersections LBD-3

From (m)	To (m)	Interval (m)	Au (ppm)	Cu (ppm)	Ag (ppm)	Zn (ppm)	Pb (ppm)	P (ppm)	Ba (ppm)
341	**347**	**16**	0.16	5.2	0.23	15.5	16.9	6,962	3,105
341	342	1	0.90	10.6	0.16	24	22.6	720	2,590
343	344	1	0.05	8.6	0.45	20	17.3	7,290	8,680
341	**372**	**31**	0.037	13.6	0.41	40.5	13.9	5,715	933
380	**381**	**1**	0.11	31.6	0.01	62	12.5	2,500	960
386	**404**	**18**	0.004	243	0.25	65.2	10.3	4,239	91.7
404	**423**	**19**	0.012	432.4	1.16	63.2	23	2,805	348
415	417	2	0.16	814	1.36	121	22.8	2,780	310
416	417	1	0.024	0.13%	1.98	104	30.9	5,040	70
416	**433**	**17**	0.009	410.8	0.91	98	22.6	4,756	113
420	421	1	0.01	0.18%	5.05	73	67.5	6,680	180

Following the end of the period, Proto announced the completion of detailed ground-based magnetic and gravity surveys at Lindeman's Bore in order to optimise placement of the fourth hole (LBD-4) which is now planned.

4. Waterloo, NT (Nickel Sulphide, Copper and PGEs)

4.1 Project Overview

DIRECTORS' REPORT (CONT'D)

The Waterloo project is situated approximately 350km Southwest of Katherine, Northern Territory Australia and is held in Joint Venture with Peak Mining and Exploration Limited. Situated approximately 80km southeast of Kununurra in the Kimberley region of the Northern Territory the Waterloo project sits within the extensive APV and comprises two granted exploration licenses (EL27416 and EL27420). Proto's exploration target at Waterloo is for Norilsk style Ni-Cu-PGE mineralisation within mafic feeders to the APV.

The Waterloo project area has been the subject of various exploration programmes since the 1960's. The majority of this exploration has been for diamonds due to the areas close proximity to the Argyle Diamond Mine (located 75km west of the project) and the Bow River diamond mining area (located 40 km west of the project area). Historic exploration work completed by Metals Exploration NL & Freeport Australia Inc. between 1968 and 1970 included stream sediment samples taken across the western part of the project area which identified areas of anomalous copper.

4.2 Activity July 2011 – June 2012

On 18 October 2011, Proto announced the finalisation of a research sponsorship including the linked professional secondment of leading volcanologist Dr Mike Widdowson to further exploration on Proto's Northern Territory tenements. Dr Widdowson is to be seconded to Proto as part of an exploration collaboration that will include the funding of a dedicated PhD project focused on the Waterloo project area. The research project is entitled: "Architecture, chemostratigraphy, and economic prospectivity of the Central Kalkarindgi flood basalt province, Australia".

In order to support the work that Dr Widdowson is undertaking, Proto agreed with The Open University ("OU") to jointly fund a postgraduate student in the period from 1 October 2011 to 30 September 2014. In addition to funding 50% of student costs, the OU will also fund 50% of analytical costs that will directly contribute to Proto's exploration of the Waterloo area. The PhD project will include two, month-long, field reconnaissance and sample collection expeditions, and extensive geochemical analyses to be performed at the OU (ICP-MS and Ar/Ar dating work), the Queensland University of Technology ("QUT") (XRF), and Leeds University (sulphur isotope analyses). These detailed analyses will aid in determining the economic potential of the flood basalt succession, the likelihood of crustal sill complexes, and the potential for the presence of associated mineralisation.

On 4 October 2011, Proto announced that a team from QUT led by Dr David Murphy had completed a research expedition over the Company's Waterloo project. As part of the winter 2011 field trip a series of stratigraphic traverses to the south of the previously mapped area in the vicinity of Riedel shears to the east and west of the Blackfellow Creek Fault were conducted. All stratigraphic traverses were extensively sampled for petrological and geochemical investigation.

Also in the second half of 2011, Proto completed an extensive ground gravity survey program over the Company's Waterloo project. The survey consisted of approximately 900 gravity stations acquired at between 500-1000m spacing by Atlas Geophysics Pty Ltd with preliminary results considered encouraging. The results clearly demarcated the major structural suture/conduit present at Waterloo. This structure, the Blackfellow Creek Fault, is orientated in a NE-SW direction and is considered a long lived structure that may possibly have acted as a vent for Cambrian aged basalt magmatism. Historical data shows copper mineral occurrences along or close to this structure and these copper occurrences may be due to structural remobilisation of copper from within the Antrim Plateau Basalts. Several discrete gravity anomalies are present along the Blackfellow Creek structure and are to be investigated further in 2012-13.

5. Wave Hill, NT (Nickel Sulphide and PGEs)

5.1 Project Overview

The Wave Hill project is located to the east and southeast of the Lindeman's Bore project, approximately 380km south-west of Katherine in the Northern Territory and held in joint venture with Peak Mining and Exploration Limited.

Previous work at Wave Hill includes a ZTEM airborne geophysical survey. The ZTEM survey was the first large scale commercial use of this new system in Australia. 918 line kilometres of ZTEM were flown over the project areas at line spacings of 1km. Results from the ZTEM survey delineated several anomaly trends sub parallel and perpendicular to the flight lines. The most prominent anomaly (A-trend) correlated well with an elongated magnetic anomaly that is believed to be at relatively shallow depth (<200m). 2D inversion relating to this A-trend showed weakly conductive features below this magnetic anomaly that could be responding to structural controls.

5.2 Activity July 2011 – June 2012

As announced on the 12 July 2011, final processing and 3D compilation of ZTEM results obtained at Wave Hill have now been completed. The additional analysis was undertaken following the positive initial data announced on 20 April 2011, and has provided a clearer indication of the most promising targets. This work was followed up through ground geophysics prior to the end of 2011. However, results were disappointing and Proto has not taken further action. Subsequent to the end of the period, Proto has allowed the Wave Hill licenses to expire and will not be continuing work on the project.

DIRECTORS' REPORT (CONT'D)

6. Kiefernberg, Germany (Nickel Laterite, Cobalt and Iron)

6.1 Project Overview

The Granulite Mountains area is situated in Saxony, Germany located approximately 50km west of Dresden. The licence is considered prospective for nickel, cobalt, copper, chrome, silver and gold. Proto has applied for licenses covering known mineralisation within the area.

The application areas contain the Kiefernberg mineralisation, a former nickel mine as well as several other mineralised areas. The Kiefernberg mineralisation has had substantial drilling completed by the GDR's former Communist Government. Historical drilling included over 1200 drill holes at tight drill spacing of less than 30x30m with drill hole samples assayed at 0.5m intervals. Given the extensive previous work already conducted it should be possible to rapidly define a JORC compliant resource at Kiefernberg through the completion of the necessary confirmatory geological work.

6.2 Activity July 2011 – June 2012

On November 2, 2011 Proto announced it had entered an option to purchase the Granulite Mountains license in Saxony, Germany from Deutsche Rohstoff AG. However, under due diligence license standing did not meet requirements, and Proto was able to withdraw from the agreement. Instead, Proto has subsequently applied for licenses over the attractive areas of the Granulite Mountains in its own right. The Kiefernberg project in particular has the potential to become Proto's second nickel-cobalt development. Preliminary mineralogical data suggests that material is similar to Barnes Hill, and if this is confirmed, it would use the same technology as Proto's flagship Barnes Hill Project in Northern Tasmania. The economic aspects of the processing circuit and engineering already completed are well suited to Kiefernberg, which shares similar characteristics to Barnes Hill in terms of proximity to roads, water and electricity. Kiefernberg has subsequently been granted for a three year term following the end of the reporting period.

Kiefernberg hosts a known nickel-cobalt mineralisation that was the subject of extensive exploration by the GDR. The Kiefernberg application area was the subject of very substantial drilling, with 1270 holes having been completed to varying depths. The previous exploration of the lateritic nickel mineralisations located at Kiefernberg took place in two major stages: the first during 1947-1953 and the second stage from 1961-1965. Figure 6 shows areas that were drilled during the exploration phases. The first stage of work for Proto at Kiefernberg will be to complete confirmatory exploration required to allow the extensive historical geological work for use in a JORC-compliant resource estimation.

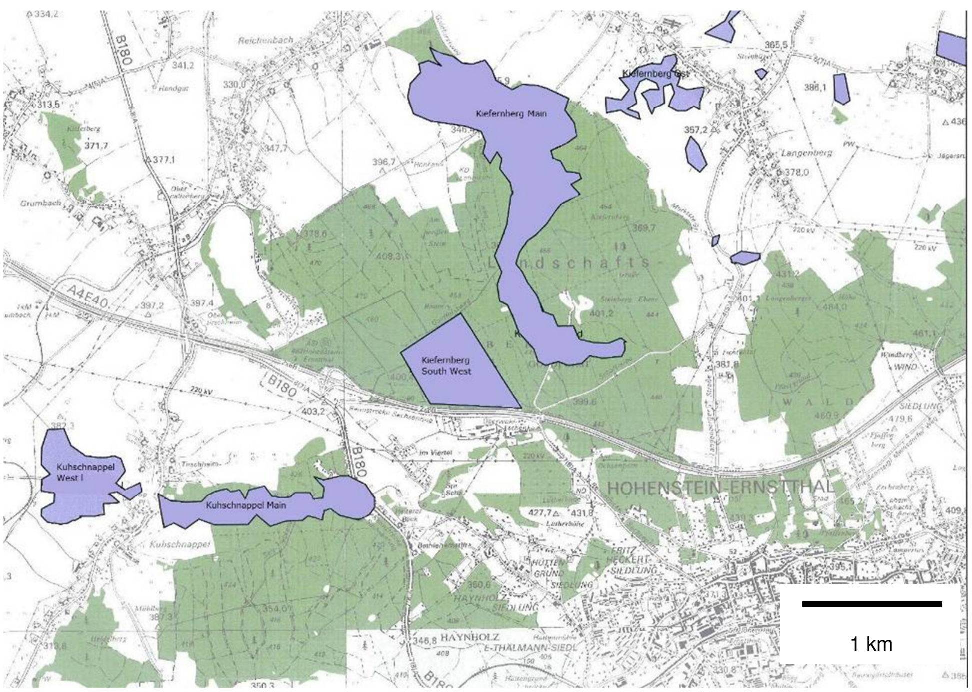

Figure 6 – Sites of Previous Exploration and Mining around the Kiefernberg Mineralisation

The second new license applications lodged in Germany in late 2011 was the Nossen application covering the Großschirma tin prospect and sites of anomalous gold and base metals results. The main target at Nossen is a previously drilled tin occurrence called Großschirma that locates in a major schistosity-conformable shear zone in a sequence of metamorphics. The mineralised sequence consists of chloritic schists, altered marbles and pyritic

DIRECTORS' REPORT (CONT'D)

rocks dipping 70 degrees NNW, having a thickness of up to 300m. In this sequence, single layers have a known Sn grade of up to 0.5%, and past drilling and underground intersections have confirmed mineralisation over thicknesses of 1–4m. The strike of the prospective sequence has been traced on the surface by soil and rock geochemistry and shallow drilling over a distance of about 5km. To date only one drill hole intersecting the mineralization has been retrieved and verified from the GDR records. This hole, Grsm 2/77, returned assays of 0.55% Sn over 2 m (from 706.0 m), 4m @ 0.15% Sn (from 722m) and 4m @ 0.13% Sn (from 772.0 m).

7. Doolgunna Project, WA

7.1 Project Overview

Proto's exploration holdings in the Doolgunna region are located within the Palaeoproterozoic-aged Yerrida Basin. The Company considers that its Doolgunna projects may contain rock units analogous to those that host known Cu-Au and Pb mineral deposits within the Yerrida and nearby Bryah Basins. In particular, Proto believes that a significant portion of the broader region is prospective for mineralisation such as that discovered in the region by companies including Sandfire Resources Sipa Resources Limited (ASX: SRI), Ventnor Resources Ltd (ASX: VRX) and Dourado Resources Limited (ASX: DUO).

7.2 Activity July 2011 – June 2012

Proto received grant of the five licenses it applied for in 2010 during the second half of 2011. Projects granted during the period are as follows: Casey project (E51/1457), Great Doolgunna project (E51/1455), Mt Killara project (E53/1580), Magellan North (E53/1581) and Station Bore (E69/2872). These projects, in relation to major resources and mines in the region, are depicted in Figure 7 below. In the latter half of the reported period Proto conducted detailed aerial magnetic and radiometric surveys over its Doolgunna projects with results also shown in Figure 7 below.

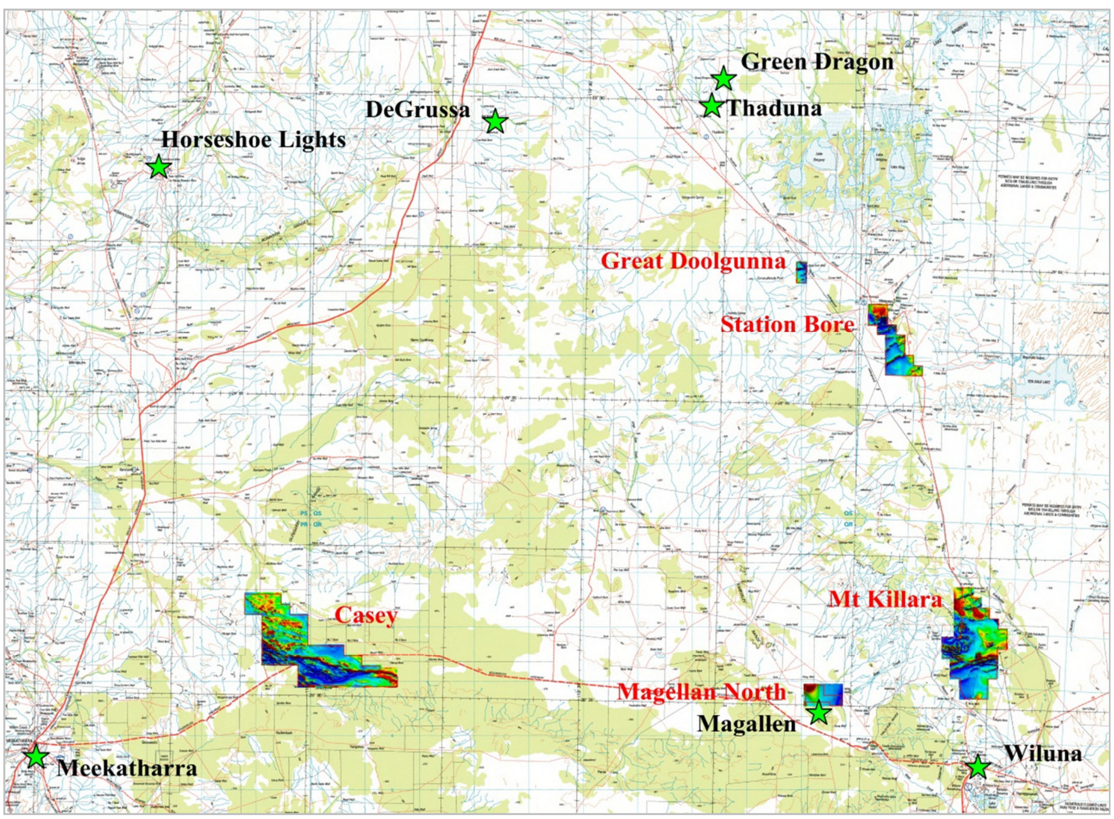

Figure 7 – Yerrida Basin Geophysics Survey Coverage

Highlights from the airborne surveys are outlined below:

- The Magellan North project is situated immediately to the north of the Magellan Lead Mine and is considered prospective for further base metal discoveries. Airborne magnetics revealed deep seated magnetic anomalies in the basement Archaean sequence. The radiometeric data showed a potential ~NE-SW trending corridor that contains known base metal mineralisation.

DIRECTORS' REPORT (CONT'D)

- The Mt Killara is located 10km north of the township of Wiluna and contains mapped volcanics of the Killara Formation. Radiometeric data delineated anomalous uranium in the vicinity of the Archaean/Proterozoic unconformity.
- The Great Doolgunna project adjoins Great Western Exploration Limited's (ASX: GTE) Doolgunna Project. Previous work, undertaken by the Geological Survey of Western Australia and Great Western Exploration, has defined a broad polymetallic geochemical soil anomaly to the immediate east of the tenement. Airborne magnetics demonstrated magnetic lineaments apparently striking ~NE-SW.
- The Casey Project lies 55km northeast of Meekatharra and covers a portion of the southwest margin of the Yerrida Basin. The magnetics indicated a complex mixed geological package of Proterozoic/Archaean units. The Archaean/Proterozoic unconformity is most likely a shear zone with an anomalous uranium response associated with this unconformity.
- The Station Bore Project covers part of the Mibbeyean drainage system. The magnetics showed Proterozoic dyke units striking ~NE-SW. There is a NNW-SSE striking feature on the eastern margin of the tenement which could represent a potential unconformity/structural boundary in addition to a strong magnetic anomaly in the north. The radiometric data demarcated strong anomalous uranium responses associated with the drainage.

Following these results, a program of geochemical sampling and geological mapping is being planned to target base metals, copper-gold and uranium.

On 29 June 2012, the Company entered into an agreement with Victory Mines Limited ("Victory") whereby Victory will acquire from Proto a 70% interest in the Great Doolgunna tenement (E51/1455) and 50% interest in the Station Bore tenement (E69/2872). The acquisition will also allow Victory Mines to earn up to approximately a 63.75% interest in the Clara Hills tenements (E04/1533, E04/2026, E04/2142 and ELA04/2060). Also, subsequent to the reported period Proto lodged an application to expand its Mt Killara project.

8. Argyle Corridor and Ord Basin East (Copper, Gold and PGEs)

On 16 March 2012, Proto announced that it had entered into a six month option agreement to acquire a 70% interest in a substantial ground holding in the Ord Basin of the Northern Territory and Western Australia. The agreement is between Uramin Pty Ltd over ELA80/4387 in Western Australia and adjoining ELA24079 and ELA9784 held by Kimberley Mining Pty Ltd in the Northern Territory (see Figure 8). In total the ground holdings cover an area of 1648km^2. All three tenements have considerable synergies with Proto's existing extensive landholding in the Northern Territory with Proto's Waterloo and Lindeman's Bore Projects located respectively to the north and east of ELA's 24079 and 9784. Once the option is exercised, Proto will not only have a commanding position in the Northern Territory in exploring for Norilsk-Talnakh type Ni-Cu deposits but will also expand its potential for Keeweenawan Cu style mineralisation.

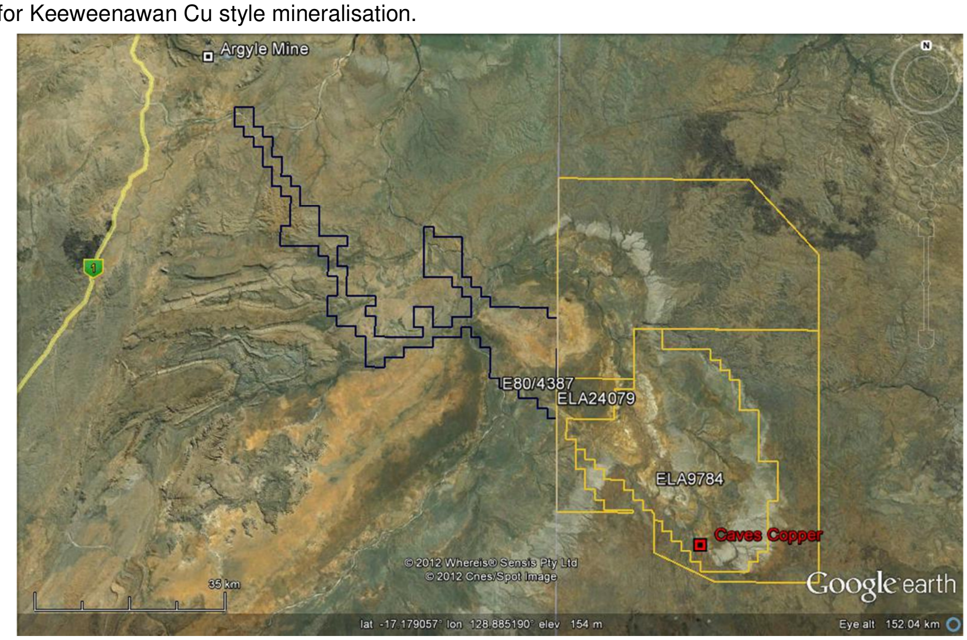

Figure 8 – Location of E80/4387 and ELA's 24079 and 9784

The three tenements cover the Panton sub-basin of the Ord Basin; a sequence of marine shelf limestone and shale of the late Cambrian Negri subgroup which in turn is overlain by intertidal and fluvial sands of the Elder subgroup.

DIRECTORS' REPORT (CONT'D)

The sediments overlie an early Cambrian basement of tholeiitic basalt of the Antrim Plateau Volcanics. The basalts are extensive across this part of northern Australia but are thickest in this area, suggesting that the Ord Basin may have developed over a major eruptive centre associated with extension and rifting, enhancing the potential for Norilsk-Talnakh style Cu-Ni mineralisation. The emphasis on this area has been confirmed by work performed by Proto's specialist vulcanologist, Dr Mike Widdowson, who is currently under secondment to Proto from the Open University in the United Kingdom.

The genesis of the Panton sub-basin with attendant inter-cratonic extensional tectonics, rifting, graben formation, major basic volcanism and reactive rock types provide the potential for a number of styles of mineralisation. In addition to the potential for Norilsk-Talnakh style Cu-Ni mineralisation, the juxtaposition of the thick sequence of Antrim Plateau Volcanics in contact with reactive rock types such as the limestone and sulphidic shales of the Negri subgroup adjacent to major structures such as the Negri Fault provide the potential for analogues of the Keeweenawan Cu deposits in the northern USA.

This potential has been demonstrated historically by a number of exploration companies including Metals Exploration NL, Amoco Minerals Australia Ltd and CRA Exploration Ltd amongst others. Copper mineralisation in the form of native copper filling vesicles in basalt flow tops and as secondary copper within limestone and shale sequences has been noted in numerous locations within the Panton sub-basin. To date none of these occurrences has proved economic although significant grades were reported by Metals Exploration NL from the Caves Prospect that locates within ELA9784, which returned drill hole assays of 2.0% Cu over 33 feet from both vesicle-filling and disseminated and veinlet malachite and chalcocite mineralisation within the basalt of the Antrim Plateau Volcanics. Similar mineralisation was reported by Amoco Minerals from the Bigley Springs prospect where drill intercepts of 1m @ 0.62%Cu, 2m @ 1.7% Cu and 5m @ 0.62% Cu were reported. These anomalies and the extensions of these surveys into untested but prospective stratigraphy provide an immediate focus for future exploration.

Competent Persons Statement

The information in this release that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Carl Swensson, who is a Member of the Australasian Institute of Mining & Metallurgy. Mr Swensson is a director of Swensson Integrated Resource Management Services and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Swensson consents to the inclusion in the release of the matters based on his information in the form and context in which it appears.

DIRECTORS' REPORT (CONT'D)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

1. On 22 July 2011, the Company announced the cancellation of moving strike options held by Macquarie. At the date of the announcement, Macquarie held 74,085,294 unexercised options over ordinary shares, of which 7,750,000 were subsequently converted in accordance with the option deed. The cancellation was effected 23 August 2011 at which time the remaining 66,335,294 options held by Macquarie were cancelled.

2. On 25 July 2011, the Company announced it had been awarded Mining Lease 1872 P/M for the Barnes Hill Project by the Hon. Bryan Green who is Tasmania's Deputy Premier and Minister for Energy and Resources. The Mining Lease is an important milestone in the Company's project development.

3. On 26 July 2011, the Company announced the issue of 1,200,000 ordinary shares as consideration for corporate and investor relations services to be received by the Company in the USA during the months of July – December 2011.

4. On 26 July 2011, the Company announced the issue of 750,000 ordinary shares upon conversion of options held by Macquarie.

5. On 28 July 2011, the Company announced the issue of 750,000 ordinary shares upon conversion of options held by Macquarie.

6. On 4 August 2011, the Company announced the issue of 3,000,000 ordinary shares upon conversion of options held by Macquarie.

7. On 10 August 2011, the Company applied for additional shares in associate company Barrier Bay Pty Ltd. The result of this transaction was to move the Company's shareholding in Barrier Bay from 49% to 51%, effectively securing a controlling interest in Barrier Bay.

8. On 16 August 2011, the Company announced that it had concluded and signed an arrangement for Caterpillar to become the equipment supplier and debt financer of the Barnes Hill nickel-cobalt-iron-magnesium joint venture. Caterpillar has entered into an agreement to deliver a fully underwritten financing package by 31 April 2012. The commitment letter is to deliver a debt finance facility consisting of a Senior Secured Project Loan along with a Subordinated Loan, which will together deliver up to USD $36M in financing. On 7 June 2012, the Company announced the extension of the financial mandate until 30 September 2012 to allow for the completion of the updated definitive feasibility study.

9. On 16 August 2011, the Company announced that Andrew Mortimer would hand over the Chairman's position to Ian Campbell to allow the Managing Director to focus on achieving production at Barnes Hill.

10. On 17 August 2011, the Company announced the issue of 750,000 ordinary shares upon conversion of options held by Macquarie.

11. On 18 August 2011, the Company announced the issue of 1,000,000 ordinary shares upon conversion of options held by Macquarie.

12. On 22 August 2011, the Company announced the issue of 500,000 ordinary shares upon conversion of options held by Macquarie.

13. On 23 August 2011, the Company announced the issue of 1,000,000 ordinary shares upon conversion of options held by Macquarie.

14. On 30 August 2011, the Company announced the issue of 14,285,714 ordinary shares with 7,142,857 attaching options exercisable at $0.05 on or before 1 September 2014 via a private placement to raise $500,000.

15. On 1 September 2011, the Company announced the expiry of 23,650,555 options with an exercise price of $0.20.

16. On 6 September 2011, the Company announced the issue of 199,624 ordinary fully paid shares to Mr Ashley Hood in lieu of wages.

17. On 6 September 2011, the Company's option over the Granulitgebirge exploration project in Germany lapsed unexercised.

18. On 14 September 2011, the Company announced the issue of 1,428,571 shares with 714,826 attaching options exercisable at $0.05 on or before 1 September 2014 and 1,428,571 attaching options exercisable at $0.035 on or before 12 September 2018.

19. On 23 September 2011, the Company announced the issue of 21,000,000 ordinary shares with a one-for-two attaching option to raise $700,000 before costs. A total of 10,500,000 attaching options were issued, exercisable at $0.05 on or before 1 September 2014.

DIRECTORS' REPORT (CONT'D)

20. On 29 September 2011, the Company announced the issue of 1,400,000 fully paid ordinary shares and 8,300,000 options exercisable at $0.05 on or before 31 December 2011.

21. On 2 November 2012, the Company announced the acquisition of the Klefernberg Project

22. On 12 December 2011, the Company announced the issue of 34,668 fully paid ordinary shares upon conversion of options.

23. On 3 January 2012, the Company announced the expiry of 149,651,795 options exercisable at $0.05 on or before 31 December 2011.

24. On 4 January 2012, the Company issued 44,189 fully paid ordinary shares on the conversion of options.

25. On 17 January 2012, the Company issued 15,890,909 fully paid ordinary shares and 7,945,454 option exercisable on or before 1 September 2014 pursuant to a private placement.

26. On 17 January 2012, the Company issued 235,285,351 options at an exercise price of $0.05 on or before 1 September 2014.

27. On 31 January 2012, the Company issued 1,000,000 fully paid ordinary shares in lieu of cash for corporate finance services.

28. On 31 January 2012, the Company issued 500,000 fully paid ordinary shares and 250,000 options at an exercise price of $0.05 on or before 1 September 2014 pursuant to a private placement.

29. On 31 January 2012, the Company issued 10,090,908 fully paid ordinary shares and 5,045,454 options at an exercise price of $0.05 on or before 1 September 2014 pursuant to a private placement.

30. On 31 January 2012, the Company announced 2 $0.25 options were converted.

31. On 15 February 2012, the Company issued 16,800,000 fully paid ordinary shares and 8,400,000 options exercisable at $0.05 on or before 1 September 2014.

32. On 14 March 2012, the Company issued 250,000 fully paid ordinary shares and 125,000 options exercisable at $0.05 on or before 1 September 2014.

33. On 16 March 2012, the Company announced that it had entered in to an option agreement to acquire 70% of the Argyle Corridor and Ord Basin East on the Western Australia/ Northern Territories border.

34. On 19 March 2012, the company announced the issue of 3,650,909 options exercisable at $0.05 on or before 1 September 2014 to raise $14,604.

35. On 22 March 2012, the Company announced the issue of 350,000 fully paid ordinary shares due under an employment contract.

36. On 5 April 2012, the Company issued 13,000,000 fully paid ordinary shares to placement participants.

37. On 10 April 2012, the Company issued 4,500,000 fully paid ordinary shares to placement participants.

38. On 9 May 2012, the Company announced the commencement of on the OTCQX; the world's largest electronic marketplace for OTC-traded equities.

39. On 18 May 2012, the Company issued 12,055,555 fully paid ordinary shares to placement participants.

40. On 31 May 2012, the Company issued 9,833,337 fully paid ordinary shares to placement participants.

41. On 6 June 2012, the Company issued 6,421,875 fully paid ordinary shares plus 42,363,161 attaching options exercisable at $0.05 on or before 1 September 2014 to current and prior placement participants.

42. On 22 June 2012, the Company issued 9,460,318 fully paid ordinary shares and 3,888,889 attaching options exercisable at $0.05 on or before 1 September 2014 to current and prior placement participants. In addition the Company issued 5,571,429 fully paid ordinary shares and 20,428,571 options exercisable at $0.05 on or before 1 September 2014 as payment for services provided to the Company.

EVENTS AFTER THE REPORTING PERIOD

1. On 5 July 2012, the Company announced that on 29 June 2012 an agreement was entered into with Victory Mines Limited whereby Victory would acquire from Proto up to approximately a 63.75% interest in the Clara Hills tenements (E04/1533, E04/2026, E04/2142 and ELA04/2060, a 70% interest in the Great Doolgunna tenement (E51/1455) and 50% interest in the Station Bore tenement (E69/2872).

2. On 9 July 2012, the Company issued 5,555,556 fully paid ordinary shares and 5,555,556 attaching options exercisable at $0.05 on or before 1 September 2014 to placement participants.

3. On 11 July 2012, the Company issued 1,000,000 fully paid ordinary shares to placement participants.

DIRECTORS' REPORT (CONT'D)

4. On 3 August 2012, the Company issued 9,696,154 fully paid ordinary shares to placement participants.

5. On 7 August 2012, the Company issued 25,100,000 fully paid ordinary shares as payment for services.

6. On 14 August 2012, the Company announced it had entered into an option agreement to acquire a 50% interest in a nickel project located in Kukes, northern Albania. Proto will receive a 12 month option for issuing 3 million shares to the original vendors plus 1 million shares to a consulting company that will provide management services. To earn the interest, Proto will need to spend EUR120,000 on the Kukes project over the 12 month option period.

7. On 16 August 2012, the Company issued 12,550,000 options exercisable at $0.05 on or before 1 September 2014 as payment for services to the Company.

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

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Further information, other than as disclosed this report, about likely developments in the operations of the Group and the expected results of those operations in future years has not been included in this report as disclosure of this information would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL ISSUES

The Group's operations are subject to significant environmental regulation under the law of the Commonwealth and State in relation to discharge of hazardous waste and materials arising from any mining activities and development conducted by the Group on any of its tenements. To date the Group has only carried out exploration activities and there have been no known breaches of any environmental obligations.

The directors have considered the National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the directors have determined that the NGER Act will have no effect on the Group for the current or subsequent financial year. The directors will reassess this position as and when the need arises.

INFORMATION ON DIRECTORS

Andrew Mortimer, BA LLB (Sydney) MAUSIMM	Managing Director
	Andrew Mortimer has a legal and mining background but moved full-time to the mining and mining finance industries in 2003, after being involved part-time for over a decade. Through his work as head of corporate advisory firm Superstructure International Pty Ltd, Chief Corporate Officer for the Mallee Gold Corporation and a director of SA Capital Funds Management Limited. Mr Mortimer has forged relationships with many of Australia's resource companies. He has also assisted with the ASX listing of several exploration companies of Proto Resource's size. Mr Mortimer was instrumental in founding Proto Resources & Investments Ltd and in sourcing its projects and management. Mr Mortimer holds a BA and LLB from Sydney University and is a Member of the Australian Institute for Mining and Metallurgy.
Interest in Shares and Options	28,611,514 Ordinary Shares 3,000,000 $0.05 share options expiring 1 September 2014 2,765,002 $0.25 share options expiring 31 December 2013
Directorships held in other listed entities	Global Metals Exploration NL (26 February 2007 to present)

DIRECTORS' REPORT (CONT'D)

Lia Darby BA(Hons) LLB (Hons)	Non-Executive Director
	Lia Darby is admitted to practice law in the Supreme Court of NSW but now works full-time as a mining company executive. Ms Darby also has a marketing and publishing background from her work in a legal publishing house and on other publications. Since 2003 Ms Darby has worked with Mr Mortimer in a corporate advisory role listing mining securities and assisting listed companies on both the ASX and London's Alternative Investment Market. Ms Darby was instrumental along with Mr Mortimer in founding Proto and developing its projects and operations. Ms Darby holds a BA and LLB from Sydney University and is the Managing Director of Global Metals Explorations NL, an ASX listed company.
Interest in Shares and Options	4,688,828 Ordinary Shares 2,621,667 $0.25 share options expiring 31 December 2013
Directorships held in other listed entities	Global Metals Exploration NL (26 February 2007 to present) Condor Blanco Mines Limited (10 June 2010 to 16 April 2012)
Aziz Gregory Melick, AO,RFD, S.C.	Executive Director
	Mr Melick is a graduate of the University of Sydney (BA LLB) and is a barrister with chambers in Hobart, whose experience includes mining investigation, occupational health and safety and corporate law. He has considerable experience in advising and working with governments. Mr Melick has extensive human resources and financial management experience with over 45 years in the Army Reserve and currently serving as Major General at the Australian Defence Force Headquarters. He is a director and former Chairman of the Australian Wine Consumers' Co-Operative and Chairman of St. John Ambulance (Tas) Inc. Mr Melick is actively involved with assistance provided to the Barnes Hill project in Tasmania.
Interest in Shares and Options	2,268,019 Ordinary Shares 2,551,065 $0.05 share options expiring 1 September 2014 1,033,334 $0.25 share options expiring 31 December 2013
Directorships held in other listed entities	None
Ian Campbell	Chairman, Director
	Ian Campbell brings a deep knowledge of the Australian regulatory environment with a particular focus on industry and the environment. Mr Campbell has worked at the highest levels of government both nationally and internationally. In 2007 Mr Campbell retired from Federal politics after a distinguished career spanning 17 years in the Australian Senate. He was a member of the Cabinet and the Expenditure Review Committee from 2004. During his time as Parliamentary Secretary to the Treasurer Mr Campbell initiated the Corporate Law Economic Reform Program (CLERP) which heralded sweeping pro-market changes to business law. These reforms covered Takeovers (including the new Takeovers

DIRECTORS' REPORT (CONT'D)

	Panel provisions), Fundraising, Accounting (including the introduction of IFRS and the Financial Reporting Council), and Financial Markets. Mr Campbell represented Australia at the Annual meetings of the IMF and at the Board of Governors of the World Bank in 2002-3. Mr Campbell is a member of the Boards of ASG Group, and Solco, a solar energy Company. He is Chairman of the Princess Margaret Hospital Foundation and Enerji Ltd (a waste heat recovery company) and on the Advisory Board of Australian-based international geothermal developer Green Rock Energy Limited.
Interest in Shares and Options	1,000,000 $0.25 share options expiring 31 December 2013
Directorships held in other listed entities	ASG Group Limited (12 June 2007 to present) Enerji Limited (19 November 2009 to present)
Patricia Kay Philip, ONM; BSc; Grad Dip App Geophys; Grad Dip App Finance, SF Fin	Non-Executive Director
	Ms Philip is a Geophysicist whose background embraces project acquisition, financial analysis of resource projects and companies, and mining exploration and management. Ms Philip has worked in the securities industry, conducting courses in Australia and SE Asia. She also has experience in the financial markets, involving capital raisings. Ms Philip is an Honorary Associate in the School of Physics at the University of Sydney, and has been a Director of a number of listed and unlisted companies in the financial and oil and gas sectors. Ms Philip is a Member of the Australian Institute of Physics (AIP), Member Australian Society of Explorations Geophysicists (ASEG), Senior Fellow of the Financial Services Institute of Australia (SF FINSIA), Member of Association of International Petroleum Negotiators (AIPN) and Secretary of the Australian-French Association for Science and Technology (AFAS). Ms Philip was decorated by the French Government in 2005 with the award of Chevalier de L'Ordre National du Merite for facilitating collaboration between French and Australian scientists. Ms Philip is a non-executive director providing Geophysical advice and project assistance to the Company.
Interest in Shares and Options	2,842,919 Ordinary Shares 1,250,000 $0.25 share options expiring 31 December 2013 800,000 $0.05 share options expiring 1 September 2014
Directorships held in other listed entities	Austex Oil Limited (1 March 2006 to present) (Chair remuneration committee)

Company Secretary

Mr Kent Hunter is a Chartered Accountant with over 16 years' corporate and company secretarial experience. He has been involved in the listing of over 20 companies on ASX in the past 9 years. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a director of Cazaly Resources Limited, Western Manganese Limited, Stratum Metals Limited and Carbon Conscious Limited and is company secretary of two other ASX listed entities.

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each director of Proto Resources & Investments Ltd, and controlled entities and for the executives receiving the highest remuneration.

1. Employment Agreements
There are no current employment agreements between the Company and its employees.

2. Remuneration policy
The Group's remuneration policy has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. Currently those long-term incentives include shares and options acquired by the executives prior to the Stock Exchange listing of the Company. The board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

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

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and are entitled to the issue of share options. The remuneration committee reviews executive packages annually by reference to the consolidated Group's performance, executive performance and comparable information from industry sectors.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's shareholders' value. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

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

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the Group and expensed, or capitalised to exploration expenditure if appropriate. Options, if given to directors and executives in lieu of remuneration, are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the consolidated group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the employee share option plan.

3. Performance-based remuneration

There is currently no performance-based remuneration policy in place.

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (CONT'D)

4. Details of remuneration:

The remuneration for each key management personnel of the Group during the year was as follows:

2012 Key Management Person	**Short-term Benefits**				**Post-employment Benefits**	**Other Long-term Benefits**	**Share based Payment**		**Total**	**Total Remune-ration Represented by Share based Payment**	**Performance Related**
	Cash, salary & commissions	**Cash profit share**	**Non-cash benefit**	**Other**	**Super-annuation**	**Other**	**Equity**	**Options**			
	$	$	$	$	$	$	$	$	$	%	%
Directors											
Andrew Mortimer	285,990	-	-	-	25,659	-	-	-	311,649	-	-
Lia Darby	134,740	-	-	-	12,150	-	-	-	146,890	-	-
Kay Philip	50,000	-	-	-	6,750	-	-	-	56,750	-	-
Greg Melick (i)	165,000	-	-	44,952	20,250	-	-	-	230,202	-	-
Ian Campbell	87,500	-	-	-	7,875	-	-	-	95,375	-	-
Executives											
Kent Hunter (ii)	-	-	-	128,656	-	-	-	-	128,656	-	-
Ashley Hood (iii)	-	-	-	95,506	-	-	8,584	-	104,090	8.25	-
Pierre Richard (iv)	154,567	-	-	15,000	13,911	-	-	-	183,478	-	-
	877,797	-	-	284,114	86,595	-	8,584	-	1,257,090	0.68	-

(i) During the year, $44,952 was paid or due to be paid to Greg Melick for consultancy services provided to the Group (2011: $32,500).

(ii) During the year, $128,656 was paid or due to be paid to Mining Corporate Pty Ltd for corporate consultancy services provided to the Group by Mr. Kent Hunter (2011: $121,635).

(iii) During the year, $104,090 was paid or due to be paid to 26 One 73 Minerals Pty Ltd for consultancy services provided to the Group by Ashley Hood (2011: $57,327).

(iv) During the year, $15,000 was paid or due to be paid to Monclar Pty Ltd for consultancy services provided to the Group by Mr Pierre Richard (2011: $55,000).

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (CONT'D)

4. Details of remuneration (cont'd)

2011

Key Management Person	Short-term Benefits				Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Total Remuneration Represented by Share based Payment	Performance Related
	Cash, salary & commissions	Cash profit share	Non-cash benefit	Other	Super-annuation	Other	Equity	Options			
	$	$	$	$	$	$	$	$	$	%	%
Directors											
Andrew Mortimer	215,670	-	-	-	19,035	-	-	-	234,705	-	-
Lia Darby	139,170	-	-	-	12,150	-	-	-	151,320	-	-
Kay Philip	20,835	-	-	-	1,875	-	-	-	22,710	-	-
Greg Melick (i)	25,000	-	-	32,500	-	-	-	-	57,500	-	-
Ian Campbell	50,000	-	-	-	4,500	-	-	-	54,500	-	-
Executives											
Kent Hunter (ii)	-	-	-	121,635	-	-	-	-	121,635	-	-
Ashley Hood (iii)	-	-	-	57,327	-	-	4,088	-	61,415	6.7	-
Pierre Richard (iv)	94,654	-	-	55,000	8,474	-	55,000	-	213,128	27.2	-
	545,329	-	-	266,462	46,034	-	59,088	-	916,913	-	-

(i) During the year, $32,500 was paid or due to be paid to Greg Melick for consultancy services provided to the Group (2010: Nil).

(ii) During the year, $121,635 was paid or due to be paid to Mining Corporate Pty Ltd for corporate consultancy services provided to the Group by Mr. Kent Hunter

(iii) During the year, $57,327 was paid or due to be paid to 26 One 73 Minerals Pty Ltd for consultancy services provided to the Group by Ashley Hood (2010: $111,552).

(iv) During the year, $55,000 was paid or due to be paid to Monclar Pty Ltd for consultancy services provided to the Group by Mr Pierre Richard (2010: $16,000).

DIRECTORS' REPORT (CONT'D)

5. Shareholdings

Number of Shares held by Key Management Personnel

Key Management Person	Balance 01.07.2011 No.	Received as Compensation No.	Net Change Other No.	Balance 30.6.2012 No.	Vested %
Directors					
Andrew Mortimer	21,816,133	-	6,795,381	28,611,514	100%
Lia Darby	4,688,828	-	-	4,688,828	100%
Kay Philip	1,253,335	-	1,589,584	2,842,919	100%
Greg Melick	1,910,630	-	357,389	2,268,019	100%
Ian Campbell	--	-	-	-	-
Executive					
Ashley Hood	65,000	199,624	(65,000)	199,624	100%
Pierre Richard	1,600,000	-	(1,500,000)	100,000	100%
Kent Hunter	-	-	-	-	-
Total	**31,333,926**	**199,624**	**7,177,354**	**38,710,904**	**100%**

6. Options

Number of Options held by Key Management Personnel - $0.20 Options Expiring 31 August 2011

Key Management Person	Balance 1.7.2011 No.	Received as Compensation No.	Net Change Other* No.	Balance 30.6.2012 No.	Vested %
Andrew Mortimer	1,150,000	-	(1,150,000)	-	100%
Lia Darby	920,000	-	(920,000)	-	100%
Kay Philip	375,000	-	(375,000)	-	100%
Greg Melick	-	-	-	-	-
Ian Campbell	-	-	-	-	-
Executive					
Ashley Hood	375,000	-	(375,000)	-	100%
Pierre Richard	-	-	-	-	-
Kent Hunter	-	-	-	-	-
Total	**2,820,000**	**-**	**(2,820,000)**	**-**	**100%**

* All Options expired unexercised.

DIRECTORS' REPORT (CONT'D)

Number of Options held by Key Management Personnel - $0.25 Options Expiring 31 December 2013

Key Management Person	Balance 1.7.2011	Received as Compensation	Net Change Other	Balance 30.6.2012	Vested
	No.	No.	No.	No.	%
Andrew Mortimer	2,765,002	-	-	2,765,002	100%
Lia Darby	2,621,667	-	-	2,621,667	100%
Kay Philip	1,250,000	-	-	1,250,000	100%
Greg Melick	1,000,000	-	33,334	1,033,334	100%
Ian Campbell	1,000,000	-	-	1,000,000	100%
Executive					
Ashley Hood	-	-	-	-	-
Pierre Richard	-	-	-	-	100%
Kent Hunter	-	-	-	-	-
Total	**8,636,669**	**-**	**33,334**	**8,670,003**	**100%**

Number of Options held by Key Management Personnel - $0.05 Options Expiring 31 December 2011

Key Management Person	Balance 1.7.2011	Received as Compensation	Net Change Other*	Balance 30.6.2012	Vested
	No.	No.	No.	No.	%
Andrew Mortimer	3,016,379	-	(3,016,379)	-	100%
Lia Darby	4,653,828	-	(4,653,828)	-	100%
Kay Philip	1,321,490	-	(1,321,490)	-	100%
Greg Melick	1,969,168	-	(1,969,168)	-	100%
Ian Campbell	-	-	-	-	-
Executive					
Ashley Hood	-	-	-	-	100%
Pierre Richard	13,334	-	(13,334)	-	100%
Kent Hunter	510,000	-	(510,000)	-	100%
Total	**11,484,199**	**-**	**(11,484,199)**	-	**100%**

* All Options expired unexercised.

DIRECTORS' REPORT (CONT'D)

Number of Options held by Key Management Personnel - $0.05 Options Expiring 1 September 2014

Key Management Person	Balance 1.7.2011	Received as Compensation	Net Change Other*	Balance 30.6.2012	Vested
	No.	No.	No.	No.	%
Andrew Mortimer	-	-	3,000,000	3,000,000	100%
Lia Darby	-	-	-	-	100%
Kay Philip	-	-	800,000	800,000	100%
Greg Melick	-	-	2,551,065	2,551,065	100%
Ian Campbell	-	-	-	-	-
Executive			-		
Ashley Hood	-	-	-	-	100%
Pierre Richard	-	-	-	-	100%
Kent Hunter	-	-	-	-	100%
Total	**-**	**-**	**6,351,065**	**6,351,065**	**100%**

* All acquisitions represent acceptance of entitlements in non-renounceable entitlement offer pursuant to prospectus dated 17 January 2012.

7. Options issued as part of remuneration for the year ended 30 June 2012

On 29 September 2011, 300,000 options exercisable at $0.05 on or before 31 December 2011 were issued to employee Mr Hugh Minson and have since expired.

No other options were issued to employees or Key management personnel as part of remuneration.

This is the end of the audited remuneration report.

DIRECTORS' REPORT (CONT'D)

MEETINGS OF DIRECTORS

During the financial year, 8 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

			Committee Meetings			
	Directors' Meetings		Audit Committee		Remuneration/ Nomination Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Andrew Mortimer	8	8	-	-	-	-
Lia Darby	8	8	-	-	-	-
Kay Philip	8	8	-	-	-	-
Greg Melick	8	6	-	-	-	-
Ian Campbell	8	7	-	-	-	-

INDEMNIFYING AND INSURANCE OF OFFICERS

The Group has entered into deeds of indemnity with each director whereby, to the extent permitted by the Corporations Act 2001, the Group agreed to indemnify each director against all loss and liability incurred as an officer of the Group, including all liability in defending any relevant proceedings.

The Group has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Group, other than conduct involving a wilful breach of duty in relation to the Group. The disclosure of the amount of the premium is prohibited by the insurance policy.

OPTIONS

At the date of this report, the unissued ordinary shares of Proto Resources & Investments Ltd under option are as follows:

Date of Expiry	Exercise Price	Number under Option
31 December 2013	$0.25	51,727,808
28 February 2013	$0.08	5,000,000
28 February 2013	$0.10	3,500,000
28 February 2013	$0.125	2,000,000
1 September 2014	$0.05	369,417,457
12 September 2018	$0.35	1,428,571

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

DIRECTORS' REPORT (CONT'D)

During the year ended 30 June 2012, the following ordinary shares of Proto Resources & Investments Ltd were issued on the exercise of options:

Exercise Date	Exercise Price	Number of Shares Issued
26/07/2011	$ 0.040	750,000
28/07/2011	$ 0.038	750,000
4/08/2011	$ 0.034	1,000,000
4/08/2011	$ 0.034	1,000,000
4/08/2011	$ 0.034	1,000,000
17/08/2011	$ 0.036	750,000
18/08/2011	$ 0.036	1,000,000
22/08/2011	$ 0.037	500,000
23/08/2011	$ 0.036	500,000
23/08/2011	$ 0.036	500,000
12/12/2011	$ 0.050	34,668
3/01/2012	$ 0.050	44,189
25/01/2012	$ 0.025	2
	Total	**7,828,859**

Since the year ended 30 June 2012 and prior to the date of this report, no ordinary shares of Proto Resources & Investments Ltd have been issued on the exercise of options.

PROCEEDINGS ON BEHALF OF THE GROUP

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

The Group was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

No non-audit services were provided by the external auditors during the year ended 30 June 2012.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on the next page of the directors' report.

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

Andrew Mortimer
Managing Director
Dated this 30th day of September 2012

Independent Auditor's Report

To the Members of Proto Resources and Investments Limited

Bentleys
THINKING AHEAD

Bentleys Audit & Corporate (WA) Pty Ltd
Level 1, 12 Kings Park Road
West Perth WA 6005
Australia
PO Box 44
West Perth WA 6872
Australia
ABN 33 121 222 802
T +61 8 9226 4500
F +61 8 9226 4300
bentleys.com.au

We have audited the accompanying financial report of Proto Resources and Investments Limited ("the Company") and Controlled Entities ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 30 June 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration 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 and fair presentation of the financial report 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 Standards AASB 101: *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. These Auditing 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 followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

a. The financial report of Proto Resources and Investments Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company and 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*;

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the company incurred a net loss of $4,457,890 during the year ended 30 June 2012. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the company to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in directors' report of 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 Proto Resources and Investments Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Bentleys

BENTLEYS
Chartered Accountants

CHRIS WATTS CA
Director

DATED at PERTH this 30th day of September 2012

Bentleys
THINKING AHEAD

Bentleys Audit & Corporate (WA) Pty Ltd
Level 1, 12 Kings Park Road
West Perth WA 6005
Australia
PO Box 44
West Perth WA 6872
Australia
ABN 33 121 222 802
T +61 8 9226 4500
F +61 8 9226 4300
bentleys.com.au

To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the audit of the financial statements of Proto Resources and Investments Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

Bentleys

BENTLEYS
Chartered Accountants

CHRIS WATTS CA
Director

DATED at PERTH this 30th day of September 2012

DIRECTORS' REPORT (CONT'D)

This page has intentionally been left blank.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
Revenue and other income	2	554,458	240,302
Compliance and regulatory expense		(303,064)	(134,131)
Consultancy and brokers fees		(1,243,443)	(593,412)
Directors fees		(530,822)	(322,017)
Employee benefit expense		(276,189)	(309,924)
Share based payments	23	(329,820)	(204,273)
Occupancy expense		(108,908)	(102,830)
Travel and accommodation		(345,672)	(237,101)
Finance costs		(1,776)	(9,401)
Realised loss on financial assets		(277,573)	(22,253)
Unrealised loss on financial assets		(821,466)	(51,692)
Exploration costs written off	14	(22,214)	(982,339)
Exploration costs		(19,317)	(66,818)
Computer expense		(46,225)	(75,365)
Audit fees		(37,248)	(53,200)
Marketing and public relations		(200,604)	(413,837)
Impairment of goodwill		(14,672)	-
Other costs		(433,335)	(301,879)
Provision for doubtful debts		-	(151,575)
Share of net loss of associate accounted for using the equity method	28	-	(126,521)
Loss before income tax expense	3	(4,457,890)	(3,918,266)
Income tax expense	4	-	-
Loss for the year		(4,457,890)	(3,918,266)
Other comprehensive income/(loss)			
Net loss on revaluation of available for sale financial assets		(82,027)	(3,321)
Total other comprehensive income/(loss) for the year, net of tax		**(82,027)**	**(3,321)**
Total comprehensive income/(loss) for the year, attributable to members of the parent entity		(4,539,917)	(3,921,587)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

	Note	2012 $	2011 $
Loss Attributable to:			
Members of the parent		(4,450,992)	(3,918,266)
Non-controlling interest		(6,898)	-
		(4,457,890)	(3,918,266)
Total comprehensive income / (loss):			
Attributable to:			
Entity holder of parent		(4,533,019)	(3,921,587)
Non-controlling interest		(6,898)	-
		(4,539,917)	(3,921,587)
Loss Per Share			
Basic and diluted loss per share (cents per share)	7	0.95	1.14

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Note	2012 $	2011 $
ASSETS			
CURRENT ASSETS			
Cash	8	175,916	688,537
Trade and other receivables	9	356,924	314,357
Held for trading financial assets	10	1,084,465	1,754,519
Available for sale financial assets	11	212,390	57,331
Other assets	12	14,902	202,513
TOTAL CURRENT ASSETS		**1,844,597**	**3,017,257**
NON-CURRENT ASSETS			
Trade and other receivables	9	2,949	45,000
Available for sale financial assets	11	144,889	447,667
Investments accounted for using the equity method	28	-	8,044
Exploration assets	14	7,887,554	6,149,847
Plant and equipment	16	44,014	62,759
Other assets	12	89,632	89,632
TOTAL NON-CURRENT ASSETS		**8,169,038**	**6,802,949**
TOTAL ASSETS		**10,013,635**	**9,820,206**
CURRENT LIABILITIES			
Trade and other payables	17	839,796	677,531
Provisions	18	8,626	3,289
Other liabilities	19	76,663	-
TOTAL CURRENT LIABILITIES		**925,085**	**680,820**
TOTAL LIABILITIES		**925,085**	**680,820**
NET ASSETS		**9,088,550**	**9,139,386**
EQUITY			
Issued capital	21	28,270,440	24,761,149
Reserves	22	5,715,753	4,826,035
Accumulated losses		(24,898,788)	(20,447,798)
Equity attributable to member		9,087,405	9,139,386
Non-controlling interest		1,145	-
TOTAL EQUITY		**9,088,550**	**9,139,386**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Note	Issued Capital	Option reserve	Share based payment reserve	Financial Asset Reserve	Accumulated losses	Non-Controlling Interest	Total
		$	$	$	$	$	$	$
Balance at 1 July 2010		**19,626,475**	**-**	**4,684,769**	**(12,713)**	**(16,529,531)**	**-**	**7,769,000**
Loss for the year		-	-	-	-	(3,918,266)	-	(3,918,266)
Other Comprehensive Income/(Loss)		-	-	-	(3,321)	-	-	(3,321)
Total Comprehensive Income/(Loss)		-	-	-	(3,321)	(3,918,266)	-	(3,921,587)
Transactions with owners directly recorded in equity								
Shares issued during the year		5,443,669	-	-	-	-	-	5,443,669
Less: Transaction costs arising from issue of shares		(308,996)	-	-	-	-	-	(308,996)
Options issued during the year		-	15,000	142,300	-	-	-	157,300
Balance at 30 June 2011		**24,761,148**	**15,000**	**4,827,069**	**(16,034)**	**(20,447,797)**	**-**	**9,139,386**
Balance at 1 July 2011		**24,761,148**	**15,000**	**4,827,069**	**(16,034)**	**(20,447,797)**	**-**	**9,139,386**
Loss for the year		-	-	-	-	(4,450,992)	(6,898)	(4,457,890)
Other Comprehensive Income/(Loss)		-	-	-	(82,027)	-	-	(82,027)
Total Comprehensive Income/(Loss)		-	-	-	(82,027)	(4,450,992)	(6,898)	(4,539,917)
Transactions with owners directly recorded in equity								
Shares issued during the year		3,672,914	-	-	-	-	-	3,672,914
Less: Transaction costs arising from issue of shares		(163,622)	-	-	-	-	-	(163,622)
Options issued/(expired) during the year		-	955,745	16,000	-	-	-	971,745
Non-controlling interest on acquisition of Barrier Bay		-	-	-	-	-	8,044	8,044
Balance at 30 June 2012		**28,270,440**	**970,745**	**4,843,069**	**(98,061)**	**(24,898,789)**	**1,146**	**9,088,550**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		**(3,145,390)**	**(2,324,459)**
Payments for exploration and evaluation expenditure		(1,872,591)	(2,116,789)
Interest received		19,179	47,464
Dividends received		2,551	3,747
Other revenue		26,038	4,713
Reimbursement of expenses from a related party		147,500	-
Research and development rebate		259,190	88,013
Net cash used in operating activities	26	(4,563,523)	(4,297,311)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments		(773,746)	(1,541,241)
Net cash acquired on acquisition of a subsidiary	32	(827)	-
Proceeds from sale of investments		486,692	778,724
Proceeds from sale of tenements		100,000	-
Payment for options over exploration projects		-	(117,331)
Loan to other entities		(65,000)	(345,195)
Net cash receipts from related entities		126,826	-
Loan repaid by other entities		15,000	31,000
Payments for equity accounted investment		-	(245,000)
Purchase of plant and equipment		(8,542)	(76,359)
Net cash used in investing activities		(119,597)	(1,515,402)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		3,367,375	5,373,581
Payment of transaction costs associated with capital raising		(168,622)	(308,995)
Proceeds from issue of options		971,746	15,000
Net cash provided by financing activities		4,170,499	5,079,586
Net increase/ (decrease) in cash held		(512,621)	(733,127)
Cash at beginning of financial year	8	688,537	1,421,664
Cash at end of financial year	8	**175,916**	**688,537**

The accompanying notes form part of these financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Proto Resources and Investments Ltd and controlled entities ("Proto Resources" "Consolidated Group" or "Group"). Proto Resources is a listed public Company, incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report.

Group's financial and presentation currency is denominated in Australian Dollars ($).

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented, unless otherwise stated.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

Accounting Policies

a) **Going Concern**

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a net loss for the year of $4,457,890 (2011: $3,918,266) and net cash outflows from operating activities of $4,563,523 (2011: $4,297,311).

As at 30 June 2012, the Group had a cash balance of $175,916 (2011: $688,537) and a working capital position of $919,512 (2011: $2,336,437). Included in the working capital balance is $1,084,465 of held for trading financial assets.

The Group have exploration and expenditure commitments which fall within the next 12 months of $714,931 (2011: $371,535).

The Group has a facility agreement with Caterpillar Financial SARL of USD$36m (subject to the conditions precedent as disclosed in note 25) in relation to the funding of the Barnes Hill Nickel Project which expires on 30 September 2012. The facility remains undrawn and the Group has not been issued an extension as at the date of this report.

The ability of the Group to continue as a going concern is principally dependent upon the ability of the Group to secure funds by raising capital from equity markets and managing cashflow in line with available funds. These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern. In the event the above matters are not achieved, the Group will be required to raise funds for working capital from debt or equity sources.

The directors have prepared a cash flow forecast, which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Based on the cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate. In particular, given the Group's history of raising capital to date, the directors are confident of the Group's ability to raise additional funds as and when they are required.

Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

a) **Principles of Consolidation**

Subsidiaries

A controlled entity is any entity Proto Resources has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 13 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

No controlled entities have entered or left the consolidated group during the year.

Associates

Associates are all entities over which the group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the parent company using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Group's share of its associate's post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) **Income Tax**

The income tax expense (revenue) 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 calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore 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 directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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, based on tax rates enacted or substantively enacted at reporting date. 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 legally enforceable right of set-off exists, 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.

Proto Resources has not formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities.

c) Plant and Equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis.

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 cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable

Depreciation

The depreciable amount of all fixed assets and capitalised lease assets is depreciated on a straight-line basis over their useful lives 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
Office equipment	33%
Leased fixtures and fittings	33%
Field equipment	33% - 40%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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 re-valued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

d) **Exploration and Evaluation Expenditure**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped 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 carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility 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 clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

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.

e) **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) **Financial Instruments**

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

a) the amount at which the financial asset or financial liability is measured at initial recognition;

b) less principal repayments;

c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and

d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through 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 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.

- Financial assets at fair value through profit and 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, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance valuation 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 the carrying value being included in profit or loss.

- 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.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- 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.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets).

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

- Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be 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.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets). They are subsequently measured at fair value with changes in fair value (ie gains and losses) recognised in other comprehensive income.

- Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Derivative Instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the statement of comprehensive income unless they are designated as hedges. The Group currently has no derivate instruments.

Fair Value

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

Impairment

At each reporting date the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is 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 either discharged, cancelled or expire. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Guarantees

Where material, financial guarantees issued, which 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 guarantee is subsequently measured at the higher of the best estimate of the obligation 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.The Group has not currently provided any guarantees.

g) **Impairment of Assets**

At the end of each reporting date, 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, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

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

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.

h) **Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within 12 months year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

The Group operates 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 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.

i) **Provisions**

Provisions are recognised when the 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.

j) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less.

k) **Revenue**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

All revenue is stated net of the amount of goods and services tax (GST).

l) **Borrowing Costs**

All borrowing costs are recognised as expense in the period in which they are incurred.

m) **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. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

n) **Comparative Figures**

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

o) Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate. Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

p) **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report 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 Group.

Environmental Issues

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation, and the directors understanding thereof. At the current stage of the Group's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

p) **Critical Accounting Estimates and Judgments (Cont'd)**

Exploration and Evaluation Expenditure

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. These costs are carried forward in respect of an area that has not at balance sheet date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in note 1(d).

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 23.

For equity transactions with consultants and other employees, the fair value reflects the value attributable to services where applicable. Where there is no quantifiable value of services the value of options is calculated using the Black and Scholes option pricing model.

q) **Adoption of New and Revised Accounting Standards**

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;
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

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.

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, 117, 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

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.

– 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, AASB 101, AASB 124, AASB 134, AASB 1049 & 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

	2012 $	2011 $
NOTE 2: REVENUE AND OTHER INCOME		
Other Revenue		
- Interest revenue	19,179	52,176
	19,179	**52,176**
Other Income		
- Office reimbursement	147,500	87,500
- Proceeds from sale of tenement -	100,000	-
- Research & Development rebate	259,190	88,013
- Other	28,589	12,613
	535,279	**188,126**
Total revenue and other income	**554,458**	**240,302**

NOTE 3: LOSS FOR THE YEAR

The loss from ordinary activities before income tax has been determined after:

	2012 $	2011 $
Expenses		
Finance costs:		
- other	1,776	9,401
Total finance costs	**1,776**	**9,401**
Rental expense on operating leases		
- minimum lease payments	-	78,317
Depreciation of plant and equipment	27,827	29,072
Salaries (administration)	174,844	252,684
Superannuation	101,346	54,885
Other losses		
Unrealised loss on financial assets	(499,002)	(51,692)
Realised loss on financial assets	(277,573)	(22,253)
	(776,575)	**(73,945)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

	2012 $	2011 $
NOTE 4: INCOME TAX EXPENSE		
a. The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
Income tax as reported in the statement of comprehensive income	-	-
b. Reconciliation of income tax expense to prima facie tax payable:		
Loss from ordinary activities before income tax expense	(4,457,890)	(3,918,266)
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2011: 30%)	(1,337,367)	(1,175,480)
Increase in income tax due to:		
- Non-deductible expenses	157,144	63,149
- Current year tax losses not recognised	1,019,799	1,124,630
- Temporary difference on investment in associate not recognised	-	95,837
- Movement in unrecognised temporary difference	304,494	-
Decrease in income tax expense due to		
- Non-assessable income	(77,757)	(26,404)
- Revaluation of investment through equity	-	(996)
- Excess franking credits converted to tax losses	-	-
- Deductible equity raising costs	(66,313)	(80,736)
Income tax attributable to operating loss	-	-
c. Recognised deferred tax assets:		
Tax losses	2,246,925	1,868,471
Other investments	-	204,355
Accruals	11,224	30,437
Plant and equipment	5,681	1,747
Other Provisions	53,848	-
Employee provisions	2,588	987
Previously expensed capital raising costs	-	412
Total deferred tax asset	2,320,266	2,106,409
Less: set off of deferred tax liabilities	(2,320,266)	(2,106,409)
Net deferred tax asset	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 4: INCOME TAX EXPENSE (CONT'D)

	2012 $	2011 $
d. Recognised deferred tax liabilities:		
Capitalised exploration expenditure	(2,320,266)	(2,106,409)
Less: set off of deferred tax assets	2,320,266	2,106,409
Total deferred tax liabilities	**-**	**-**

	2012	2011
Deferred tax assets have not been recognised in respect of the following:		
Deductible temporary differences	748,622	251,117
Tax revenue losses	4,165,351	3,513,985
Tax capital losses	128,288	128,288
	5,042,261	**3,893,390**

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2012 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;

  no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the loss and exploration expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

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

Names and positions held of Group's key management personnel in office at any time during the year are :

Ian Campbell	Chairman, Director
Andrew Mortimer	Managing Director
Lia Darby	Non-Executive Director
Patricia Kay Philip	Non-Executive Director
Aziz Greg Melick	Executive Director
Kent Hunter	Company Secretary
Ashley Hood	Geologist
Pierre Richard	Chief Operating Officer

a) **Remuneration of Key Management Personnel**

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

	2012	**2011**
	$	**$**
Short-term employee benefits	1,161,911	811,791
Post-employment benefits	86,595	46,034
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	8,584	59,088
	1,257,090	**916,913**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

b. **Options and Rights Holdings**

Number of 25c Options Expiring 31st December 2013 Options Held by Key Management Personnel

	Balance 1.7.2011 No.	Granted as Compen-sation No.	Net Change Other No.	Balance 30.6.2012 No.	Vested
Directors					
Andrew Mortimer	2,765,002	-	-	2,765,002	100%
Lia Darby	2,621,667	-	-	2,621,667	100%
Kay Philip	1,250,000	-	-	1,250,000	100%
Greg Melick	1,000,000	-	33,334	1,033,334	100%
Ian Campbell	1,000,000	-	-	1,000,000	100%
Executive					
Ashley Hood	-	-	-	-	-
Pierre Richard	-	-	-	-	-
Kent Hunter	-	-	-	-	-
Total	**8,636,669**	**-**	**33,334**	**8,670,003**	**100%**

* Other refers to options attaching to shares subscribed for in the non-renounceable entitlement offers to shareholders during the year and on-market transactions

	Balance 1.7.2010 No.	Granted as Compen-sation No.	Net Change Other No.	Balance 30.6.2011 No.	Total Vested and exercisable 30.6.2011 No.
Directors					
Andrew Mortimer	2,415,002	-	350,000	2,765,002	2,765,002
Lia Darby	2,621,667	-	-	2,621,667	2,621,667
Kay Philip	1,250,000	-	-	1,250,000	1,250,000
Greg Melick	1,033,334	-	(33,334)	1,000,000	1,000,000
Ian Campbell	1,000,000	-	-	1,000,000	1,000,000
Executive					
Ashley Hood	-	-	-	-	-
Pierre Richard	83,334	-	(83,334)	-	-
Kent Hunter	-	-	-	-	-
Total	**8,403,337**	**-**	**233,332**	**8,636,669**	**8,636,669**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

b. **Options and Rights Holdings**

Number of 5c Options Expiring 31st December 2011 Options Held by Key Management Personnel

Key Management Person	Balance 1.7.2011	Received as Compensation	Net Change Other*	Balance 30.6.2012	Vested
	No.	No.	No.	No.	%
Andrew Mortimer	3,016,379	-	(3,016,379)	-	100%
Lia Darby	4,653,828	-	(4,653,828)	-	100%
Kay Philip	1,321,490	-	(1,321,490)	-	100%
Greg Melick	1,969,168	-	(1,969,168)	-	100%
Ian Campbell	-	-	-	-	-
Executive					
Ashley Hood	-	-	-	-	100%
Pierre Richard	13,334	-	(13,334)	-	100%
Kent Hunter	510,000	-	(510,000)	-	100%
Total	**11,484,199**	**-**	**(11,484,199)**	-	**100%**

* All Options expired unexercised.

	Balance 1.7.2010	Granted as Compen-sation	Net Change Other	Balance 30.6.2011	Total Vested and exercisable 30.6.2011
	No.	No.	No.	No.	No.
Directors					
Andrew Mortimer	5,703,865	-	(2,687,486)	3,016,379	3,016,379
Lia Darby	4,653,828	-	-	4,653,828	4,653,828
Kay Philip	2,221,490	-	(900,000)	1,321,490	1,321,490
Greg Melick	1,969,168	-	-	1,969,168	1,969,168
Ian Campbell	-	-	-	-	-
Executive					
Ashley Hood	1,550,016	-	(1,550,016)	-	-
Pierre Richard	1,283,334	-	(1,270,000)	13,334	13,334
Kent Hunter	510,000	-	-	510,000	510,000
Total	**17,891,701**	**-**	**(6,407,502)**	**11,484,199**	**11,484,199**

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

b. **Options and Rights Holdings**

Number of Options held by Key Management Personnel - $0.20 Options Expiring 31 August 2011

Key Management Person	Balance 1.7.2011	Received as Compensation	Net Change Other*	Balance 30.6.2012	Vested
	No.	No.	No.	No.	%
Andrew Mortimer	1,150,000	-	(1,150,000)	-	100%
Lia Darby	920,000	-	(920,000)	-	100%
Kay Philip	375,000	-	(375,000)	-	100%
Greg Melick	-	-	-	-	-
Ian Campbell	-	-	-	-	-
Executive					
Ashley Hood	375,000	-	(375,000)	-	100%
Pierre Richard	-	-	-	-	-
Kent Hunter	-	-	-	-	-
Total	**2,820,000**	**-**	**(2,820,000)**	**-**	**100%**

* All Options expired unexercised.

	Balance 1.7.2010	Granted as Compen-sation	Net Change Other	Balance 30.6.2011	Total Vested and exercisable 30.6.2011
	No.	No.	No.	No.	No.
Directors					
Andrew Mortimer	1,275,000	-	(125,000)	1,150,000	1,150,000
Lia Darby	920,000	-	-	920,000	920,000
Kay Philip	375,000	-	-	375,000	375,000
Greg Melick	-	-	-	-	-
Ian Campbell	-	-	-	-	-
Executive					
Ashley Hood	375,000	-	-	375,000	375,000
Pierre Richard	-	-	-	-	-
Kent Hunter	-	-	-	-	-
Total	**2,945,000**	**-**	**(125,000)**	**2,820,000**	**2,820,000**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

Number of Options held by Key Management Personnel - $0.05 Options Expiring 1 September 2014

Key Management Person	Balance 1.7.2011	Received as Compensation	Net Change Other*	Balance 30.6.2012	Vested
	No.	No.	No.	No.	%
Andrew Mortimer	-	-	3,000,000	3,000,000	100%
Lia Darby	-	-	-	-	100%
Kay Philip	-	-	800,000	800,000	100%
Greg Melick	-	-	2,551,065	2,551,065	100%
Ian Campbell	-	-	-	-	-
Executive			-		
Ashley Hood	-	-	-	-	100%
Pierre Richard	-	-	-	-	100%
Kent Hunter	-	-	-	-	100%
Total	**-**	**-**	**6,351,065**	**6,351,065**	**100%**

* All acquisitions represent acceptance of entitlements in non-renounceable entitlement offer pursuant to prospectus dated 17 January 2012.

c. **Shareholdings**

Number of Shares held by Key Management Personnel

	Balance 1.7.2011	Received as Compen-sation	Options Exercised	Net Change Other	Balance 30.6.2012	Total held in escrow 30.6.2012
	No.	No.	No.	No.	No.	No.
Directors						
Andrew Mortimer	21,816,133	-	-	6,795,381	28,611,514	-
Lia Darby	4,688,828	-	-	200,000	4,888,828	-
Kay Philip	1,253,335	-	-	1,589,584	2,842,919	-
Greg Melick	1,910,630	-	-	357,389	2,268,019	-
Ian Campbell	-	-	-	-	-	-
Executive						
Ashley Hood	65,000	199,624	-	(65,000)	199,624	-
Pierre Richard	1,600,000	-	-	(1,500,000)	100,000	**-**
Kent Hunter	-	-	-	-	-	**-**
Total	**31,333,926**	**199,624**	**-**	**7,176,978**	**38,910,904**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

	Balance 1.7.2010 No.	Received as Compen-sation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2011 No.	Total held in escrow 30.6.2011 No.
Directors						
Andrew Mortimer	22,821,133	-	-	(1,005,000)	21,816,133	-
Lia Darby	6,688,828	-	-	(2,000,000)	4,688,828	-
Kay Philip	1,253,335	-	-	-	1,253,335	-
Greg Melick	3,610,630	-	-	(1,700,000)	1,910,630	-
Ian Campbell	-	-	-	-	-	-
Executive						
Ashley Hood	396,016	65,000	-	(396,016)	65,000	-
Pierre Richard	1,200,000	1,000,000	-	(600,000)	1,600,000	-
Kent Hunter	-	-	-	-	-	-
Total	**35,969,942**	**1,065,000**	**-**	**(5,701,016)**	**31,333,926**	**-**

NOTE 6: AUDITORS' REMUNERATION

	2012 $	2011 $
Remuneration of the auditor of the Group for:		
— auditing or reviewing the financial report	36,300	53,200
	36,300	**53,200**

NOTE 7: LOSS PER SHARE

a. Loss used to calculate basic EPS	4,457,890	3,918,266
	No.	**No.**
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	471,340,786	344,097,635

NOTE 8: CASH AND CASH EQUIVALENTS

	2012 $	2011 $
Cash at bank	175,916	688,537
	175,916	**688,537**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 9: TRADE AND OTHER RECEIVABLES

	2012 $	2011 $
CURRENT		
Sundry (a)	104,239	19,608
GST receivable (a)	174,428	159,522
Related party receivables	1,447	84,246
Unsecured loan to:		
- Related parties (b)	65,557	21,281
- Unrelated entity - gross(c)	162,400	181,147
- Unrelated entity – provision for impairment (c)	(151,147)	(151,447)
Total current trade and other receivables	**356,924**	**314,357**
NON-CURRENT		
Unsecured loan to unrelated entity(b)	2,949	45,000
Total non-current trade and other receivables	**2,949**	**45,000**

(a) Expected to be settled within 30 days;

(b) Non-interest bearing with no set term of repayment, expected to be settled within 12 months if current and in excess of 12 months if non-current;

(c) This amount is bearing interest at 10% per annum and was due to be repaid on 31 March 2011

NOTE 10: HELD FOR TRADING FINANCIAL ASSETS

Financial assets at fair value through profit or loss are all held for trading and include the following:

	2012 $	2011 $
Australian listed shares	1,044,320	1,642,854
Australian listed options	40,145	111,665
Unlisted investments, at cost	-	-
	1,084,465	**1,754,519**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 11: AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets include the following classes of financial assets:

	2012	2011
	$	$
CURRENT		
Option to acquire exploration project (a)	60,000	57,331
Unlisted investments, at cost (c)	152,390	-
	212,390	**57,331**

	2012	2011
	$	$
NON-CURRENT		
Option to acquire exploration project (a)	-	60,000
Receivable balance denominated in shares (b)	59,889	130,667
Unlisted investments, at cost (c)	85,000	257,000
	144,889	**447,667**

(a) In 2011, the Group acquired 80% option of the Clara Hill exploration project in Western Australia. Options are carried at cost at 30 June 2011 and are non-refundable.

The Clara Hill option expires in September 2013.

On 29 June 2012, the Group entered into an agreement with Victory Mines Limited ("Victory") whereby Victory will acquire up to approximately 63.75% interest in the Clara Hills tenements.

Additional information in relation to these option arrangements is included at note 24.

(b) The receivable balance denominated in shares relates to a loan that was made to a non-related party during the year. As the balance was advanced and is receivable in a certain number of listed company's shares, the Group's receivable balance is exposed to fluctuations in the listed company's share price. The value of the receivable recorded is based on the closing bid price of the listed company's shares at 30 June 2012.

Movements in the fair value of the receivable balance have been taken to the financial asset reserve within equity, because the Group does not have control over the shares and is therefore unable to realise any gains or losses in relation to the shares. When the receivable is settled and the shares are transferred back to the Group, the balance in the financial asset reserve, representing net gain or loss between advancement and settlement date, will be transferred to unrealised losses in the statement of comprehensive income.

(c) The fair value of unlisted financial assets cannot be reliably measured. As a result, all unlisted investments are reflected at cost, and assessed for impairment when such indicators arise. Refer to note 31 for risks associated with financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 12: OTHER ASSETS

	Note	2012	2011
CURRENT		**$**	**$**
Prepayments to directors	30 (i)(j)	-	130,920
Prepayments to consultants		14,902	71,593
		14,902	**202,513**
NON CURRENT			
Security deposits – lease		88,423	88,423
Security deposits - tenements		1,209	1,209
		89,632	**89,632**

NOTE 13: CONTROLLED ENTITIES

a. **Controlled Entities**

	Country of Incorporation	Percentage Owned	
Parent Entity:		**2012**	**2011**
Proto Resources & Investments Ltd	Australia	100%	100%
Barrier Bay	Australia	51%	-

NOTE 14: EXPLORATION ASSETS

	2012	2011
	$	**$**
Exploration expenditure capitalised		
- Exploration and evaluation phase	**7,887,554**	**6,149,847**
A reconciliation of the carrying amount of exploration and evaluation expenditure is set out below;		
- Carrying amount at the beginning of the year	6,149,847	5,025,847
- Additional costs capitalised during the year	1,759,921	2,106,339
- Costs written off during the year	(22,214)	(982,339)
- Shares/options issued to acquire exploration rights	-	-
Carrying amount at the end of the year	**7,887,554**	**6,149,847**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 15: EXPLORATION ASSETS (CONT'D)

The value of the Group's interest in exploration expenditure is dependent upon:

- the continuance of the Group's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

The Group's exploration properties may be subjected to claim(s) under native title, or contain sacred sites, or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration restrictions, mining restrictions and/or claims for compensation. At this time, it is not possible to quantify whether such claims exist, or the quantum of such claims.

NOTE 16: PLANT AND EQUIPMENT

	2012 $	2011 $
At cost	196,087	187,545
Accumulated depreciation	(152,073)	(124,786)
Impairment	-	-
Total Property, Plant and Equipment	**44,014**	**62,759**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Office Equipment $	Leased Fixtures and Fittings $	Field Equipment $	Total $
Balance at 1 July 2010	**12,038**	**3,434**	**-**	**15,472**
Additions	6,214	-	70,145	76,359
Disposals	-	-	-	-
Depreciation	(12,570)	(1,713)	(14,789)	(29,072)
Impairment	-	-	-	
Balance at 30 June 2011	**5,682**	**1,721**	**55,356**	**62,759**
Additions	8,542	-	-	8,542
Disposals	-	-	-	-
Depreciation	(3,934)	(1,721)	(21,632)	(27,287)
Impairment	-	-	-	-
Balance at June 2012	**10,290**	**-**	**33,724**	**44,014**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 17: TRADE AND OTHER PAYABLES	**2012 $**	**2011 $**
CURRENT		
Trade and other payables	839,796	677,531
	839,796	**677,531**

Trade creditors are expected to be paid on 30 day terms.

NOTE 18: PROVISION	**2012 $**	**2011 $**
Provision for Annual Leave	8,626	3,289

A provision has been recognised for employee benefits relating to annual leave for employees.

NOTE 19: OTHER LIABILITIES

	2012 $	**2011 $**
CURRENT		
Settlement of purchase of shares	7,099	-
Other	69,564	-
	76,663	-

NOTE 20: PARENT ENTITY DISCLOSURES

	2012 $	**2011 $**
Financial Position		
Assets		
Current assets	1,842,260	3,017,257
Non-current assets	8,192,081	6,802,949
Total assets	**10,034,341**	**9,820,206**
Liabilities		
Current liabilities	925,087	680,820
Non-current liabilities	-	-
Total liabilities	**925,087**	**680,820**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 20: PARENT ENTITY DISCLOSURES (Cont'd)

	2012 $	2011 $
Equity		
Issued capital	28,270,440	24,761,149
Reserves	5,715,753	4,826,035
Accumulated losses	(24,876,939)	(20,447,798)
Total Equity	**9,109,254**	**9,139,386**
Financial Performance		
Loss for the year	(4,429,141)	(3,918,266)
Other comprehensive income / (loss)	(82,027)	(3,321)
Total comprehensive income / (loss)	**(4,511,168)**	**(3,921,587)**

Commitments for expenditure

Parent entity commitments are identical to the consolidated entity's commitments as disclosed at note 24.

Guarantees

The parent entity has not entered into any guarantees in the current or previous financial year.

Contingencies

Parent entity contingencies are identical to the consolidated entity's contingencies as disclosed at note 25.

Loans and receivables

Loans are provided by the Parent entity to its controlled entities for their respective activities. The recoverability of receivables and investments in subsidiaries is dependent upon the successful commercial application of these projects or the sale to third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 21: ISSUED CAPITAL

	2012 No.	2011 No.	2012 $	2011 $
Fully paid ordinary shares with no par value	**554,832,696**	**407,337,026**	**28,270,440**	**24,761,149**
Ordinary shares				
At the beginning of reporting period	**407,337,026**	263,321,574	**24,761,149**	19,626,475
Shares issued during the year				
1,200,000 Shares issued for Investor relations advice deemed price of $0.05 per share	1,200,000	-	60,000	-
750,000 Shares issued in relation to Options exercised at $0.04 per share	750,000	-	30,000	-
750,000 Shares issued for Investor Relations advice at $0.038 per share	750,000	-	28,500	-
1,000,000 Shares issued for Option conversion at $0.034 per share	1,000,000	-	34,000	-
1,000,000 Shares issued for Option conversion at $0.034 per share	1,000,000	-	34,000	-
1,000,000 Shares issued for Option conversion at $0.034 per share	1,000,000	-	34,000	-
750,000 Shares issued for Option conversion at $0.035 per share	750,000	-	26,250	-
1,000,000 Shares issued for Option conversion at $0.036 per share	1,000,000	-	36,000	-
500,000 Shares issued for Option conversion at $0.037 per share	500,000	-	18,500	-
500,000 Shares issued for Option conversion at $0.036 per share	500,000	-	18,000	-
500,000 Shares issued for Option conversion at $0.036 per share	500,000	-	18,000	-
14,285,714 Shares issued for Option conversion at $0.035 per share	14,285,714	-	500,000	-
199,624 Shares issued to employee Ashley Hood	199,624	-	7,985	-
1,428,571Shares issued to Sunrise Securities	1,428,571	-	50,000	-
21,000,000 Shares issued per private placement at $0.035 per share	21,000,000	-	735,000	-
1,400,000 Shares issued to RM Services for Option conversion at $0.05 per share	1,400,000	-	70,000	-
34,668 Shares issued to Private investors in Placement conversion at $0.05 per share	34,668	-	1,733	-
15,890,909 Shares issued to MWPR conversion at $0.022 per share	15,890,909	-	349,600	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 21: ISSUED CAPITAL (CONT'D)				
	2012 No.	2011 No.	2012 $	2011 $
44,189 Shares issued for Option conversion at $0.05 per share	44,189	-	2,209	-
500,000 Shares issued to private investors in a private Placement conversion at $0.022 per share	500,000	-	11,000	-
1,000,000 Shares in lieu of cash for corporate finance services	1,000,000	-	25,000	-
10,090,908 Shares issued to Private investors in Placement conversion at $0.022 per share	10,090,908	-	222,000	-
2 Shares issues to Axino capital conversion at $0.025 per share	2	-	1	-
16,800,000 Shares issued to Private investors in Placement conversion at $0.022 per share	16,800,000	-	369,600	-
250,000 Shares issued to Placement participants valued at $5,500	250,000	-	5,500	-
350,000 Shares issued to Private investors in Placement conversion at $0.021 per share	350,000	-	7,350	-
13,000,000 Shares issued to Private investors in Placement	13,000,000	-	260,000	-
4,500,000 shares issued to Hugh Minson – employment contract conversion at $0.020 per share	4,500,000	-	90,000	-
Shares issued to Private investors in Placement conversion at $0.018 per share	12,055,555	-	217,000	-
Shares issued to Private investors in Placement	9,833,337	-	177,000	-
Shares issued to Private investors in Placement at $0.018 per share	6,421,875	-	115,593	-
Payment for services provided to the Company	5,571,429	-	119,092	-
Payment for services provided to the Company	3,888,889	-	18,807	-
796,016 shares issued at $0.025 each to Entitlement issue shortfall	-	796,016	-	19,900
2 shares issued at $0.25 each pursuant to exercise of options	-	2	-	-
11 shares issued at $0.05 each pursuant to exercise of options	-	11	-	1
75,000,000 shares issued at $0.023 to placement AXINO	-	75,000,000	-	1,725,000
4,617,639 shares issued at $0.023 to placement subscribers	-	4,617,639	-	106,206
1,400,000 shares issued at $0.05 to MWPR	-	1,400,000	-	74,199

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 21: ISSUED CAPITAL (CONT'D)

	2012 No.	2011 No.	2012 $	2011 $
15,500,000 shares issued at $0.06 to placement subscribers	-	15,500,000	-	930,000
15,500,000 shares issued at $0.06 to placement subscribers	-	15,500,000	-	930,000
1,700,000 shares issued at $0.05 each pursuant to exercise of options	-	1,700,000	-	85,000
2,000,000 shares issued at $0.06 to placement subscribers	-	2,000,000	-	120,000
2,000,080 shares issued at $0.05 pursuant to the exercise of options	-	2,000,080	-	100,004
9,834 shares issued at $0.05 pursuant to the exercise of options	-	9,834	-	492
221,668 shares issued at $0.05 pursuant to the exercise of options	-	221,668	-	11,083
2,000 shares issued at $0.05 pursuant to the exercise of options	-	2,000	-	100
10,000,000 shares issued at $0.06 to placement subscribers	-	10,000,000	-	600,000
1,000,000 shares issued at $0.053 pursuant to the exercise of options- Macquarie Tranche 1	-	1,000,000	-	53,000
1,250,000 shares issued at $0.056 pursuant to the exercise of options- Macquarie Tranche 2	-	1,250,000	-	70,000
250,000 shares issued at $0.045 pursuant to the exercise of options- Macquarie Tranche 3	-	250,000	-	11,250
250,000 shares issued at $0.042 pursuant to the exercise of options- Macquarie Tranche 4	-	250,000	-	10,500
750,000 shares issued at $0.040 pursuant to the exercise of options- Macquarie Tranche 5	-	750,000	-	30,000
1,000,000 shares issued at $0.045 pursuant to the exercise of options- Macquarie Tranche 6 & 8	-	1,000,000	-	45,000
2,500,000 shares issued at $0.05 pursuant to the exercise of options- Macquarie Tranche 9, 10 & 11	-	2,500,000	-	125,000
250,000 shares issued at $0.051 pursuant to the exercise of options- Macquarie Tranche 12	-	250,000	-	12,750
15,734 shares issued at $0.05 pursuant to the exercise of options	-	15,734	-	787
500,000 shares issued at $0.047 pursuant to the exercise of options- Macquarie Tranche 13 & 14	-	500,000	-	23,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 21: ISSUED CAPITAL (CONT'D)	2012 No.	2011 No.	2012 $	2011 $
2,000,000 shares issued at $0.045 pursuant to the exercise of options- Macquarie Tranche 15, 16 & 17	-	2,000,000	-	90,000
300,000 shares issued at $0.049 pursuant to the exercise of options- Macquarie Tranche 18	-	300,000	-	14,700
300,000 shares issued at $0.051 pursuant to the exercise of options- Macquarie Tranche 19	-	300,000	-	15,300
300,000 shares issued at $0.047 pursuant to the exercise of options- Macquarie Tranche 20	-	300,000	-	14,100
4,134 shares issued at $0.05 pursuant to the exercise of options	-	4,134	-	207
2,500,000 shares issued at $0.047 pursuant to the exercise of options- Macquarie Tranche 21	-	2,500,000	-	117,500
1 share issued at $0.25 pursuant to the exercise of options	-	1	-	-
500,000 shares issued at $0.046 pursuant to the exercise of options- Macquarie Tranche 22	-	500,000	-	23,000
500,000 shares issued at $0.05 pursuant to the exercise of options- Macquarie Tranche 23	-	500,000	-	25,000
1,000,000 shares issued at $0.055 to Pierre Richard as per employment contract	-	1,000,000	-	55,000
33,333 shares issued in lieu of cash consulting fees	-	33,333	-	1,000
65,000 shares issued to Ashley Hood in lieu of cash consulting fees	-	65,000	-	4,088
Less Transaction costs arising from issue of shares net of tax	-	-	(163,622)	(308,993)
At reporting date	**554,832,696**	**407,337,026**	**28,270,440**	**24,761,149**

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 21: ISSUED CAPITAL (CONT'D)

Options

At 30 June 2012 the following options over unissued ordinary shares were outstanding:

1. 351,311,901 (30 June 2011: nil) options exercisable at $0.05 by 1 September 2014
2. 51,727,806 (30 June 2011: 51,727,808) options exercisable at $0.25 each by 31st December 2013;
3. 5,000,000 (30 June 2011: 5,000,000) options exercisable at $0.08 each by 28 February 2013;
4. 3,500,000 (30 June 2011: 3,500,000) options exercisable at $0.10 each by 28 February 2013; and
5. 2,000,000 (30 June 2011: 2,000,000) options exercisable at $0.125 each by 28 February 2013.
6. 1,428,571 (30 June 2011: nil) options exercisable at $0.035 by 12 September 2018.

For further details regarding options issued, exercised, lapsed and outstanding at year end, refer to note 23 for share based payments.

Capital risk management

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

The Group's capital includes ordinary share capital and financial liabilities, supported by financial assets.

Due to the nature of the Group's activities, being mineral exploration, it does not have ready access to credit facilities, with the primary source of funding being equity raisings. Accordingly, the objective of the Group's capital risk management is to balance the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. This is achieved by maintaining appropriate liquidity to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

	2012	2011
	$	$
Cash and cash equivalents	175,916	688,537
Current trade and other receivables	356,924	314,357
Financial assets at fair value through profit and loss	1,084,465	1,754,519
Available for sale financial assets	212,390	57,331
Other assets	14,902	202,513
Trade and other payables	(839,796)	(677,530)
Provisions	(8,626)	(3,289)
Other liabilities	(76,663)	-
Working capital position	**919,512**	**2,336,438**

NOTE 22: RESERVES

Share Based Payment Reserve

The share based payment reserve records items recognised as expenses on valuation of share options issued in consideration for the acquisition of tenements, consulting and other services.

Financial Asset Reserve

The financial asset reserve records revaluation of financial assets.

Option Reserve

The option reserve records cash proceeds received for options over ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 23: SHARE BASED PAYMENTS

Share based payments made during the 2012 financial year were as follows:

(i) On 6 September 2012 the Company issued 199,624 shares to Ashley Hood in lieu of wages. The value of the unpaid wages was $7,985;

(ii) 14 September 2011 the Company issued 1,428,571 shares to consultants in exchange for consulting services provided. The value of these shares is $50,000. A further 714,826 options exercisable at $0.05 before 1 September 2012 and 1,428,571 options exercisable at $0.35 on or before 12 September 2018 valued at $74,884 were also issued;

(iii) On 29 September 2011 the Company issued 300,000 options exercisable at $0.05 on or before 31 December 2011 valued at $719 to Hugh Minson in accordance with his employment contract;

(iv) On 31 January 2012, the Company issued 1,000,000 shares as consideration for consulting services provided to the Company. The value of these shares is $25,000;

(v) On 22 March 2012 the Company issued 350,000 shares at an issue price of $0.021 valued at $7,350 to Hugh Minson in accordance with his employment contract;

(vi) 26 June 2012 the Company issued 5,571,429 shares to consultants in exchange for consulting services provided. The value of these shares is $100,285. A further 20,428,571 options exercisable at $0.05 before 1 September 2014 valued at $43,520 were issued;

(vii) On 26 July 2011 the Company issued 1,200,000 shares to consultants in exchange for consulting services. The value of these shares is $60,000; and

(viii) On 22 June 2012 the Company issued 3,888,889 shares to consultants in exchange for consulting services. The value of these shares is $54,444.

Share based payments made during the 2011 financial year were as follows:

(ix) On 21 December 2010 the Company issued 4,500,000 options exercisable at $0.05 on or before 31 December 2011 to consultants in exchange for consulting services. The value of these options is $76,500 and of this amount $19,282 is recorded as a prepayment at 30 June 2011;

(x) On 23 December 2010 the Company issued 1,400,000 shares to consultants in exchange for consulting services provided. The value of these shares is $74,200;

(xi) On 27 June 2011 the Company issued 1,000,000 shares to Pierre Richard in accordance with his employment contract. The value of these shares is $55,000;

(xii) On 27 June 2011, the Company issued 65,000 shares to Ashley Hood as consideration for consulting services provided to the Company. The value of these shares is $4,088 and this amount is recorded within capitalised exploration expenditure at 30 June 2011; and

(xiii) On 27 June 2011, the Company issued 33,333 shares and 4,700,000 options to consultants in exchange for consulting services. The values are $1,000 and $65,800, respectively. $16,823 of the value of the 4,700,000 options issued is recorded as a prepayment at 30 June 2011.

The total value of share based payments made during the year is $461,161. Share based payment expense recorded at 30 June 2012 is $329,820. The value of share based payments issued during the year does not agree to share based expense recorded during the year due to the timing of the services received from the vendors to which the share based payments were issued and the capitalisation of a portion of the values of share based payment expense as set out above.

Proto Resources & Investments Ltd has an employee share option plan. On 29 September 2011 the Company issued 300,000 options exercisable at $0.05 on or before 31 December 2011 to Hugh Minson in accordance with his employment contract, the options have now expired. No further options to employees were issued pursuant to this plan.

The value of shares and options reflects the value attributed to services where applicable. Where there is no quantifiable value for services received, shares and options are assigned a value based on their market prices. All shares and options issued during 2012 or 2011 had available market prices and therefore the use of the Black-Scholes valuation method was not required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 23: SHARE BASED PAYMENTS (CONT'D)

All options granted are options to acquire ordinary shares in the Company, which confer a right of one ordinary share for every option held.

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

Included within share based payments expense in the statement of comprehensive income is $nil (2011: $133,195) which relates to remuneration of directors and key management personnel.

	2012	2011
	$	$
NOTE 24: CAPITAL AND LEASING COMMITMENTS		
Non-cancellable operating lease expense commitments		
Future operating lease commitments not provided for in the financial statements and payable:		
Not longer than one year	-	67,227
One to five years	-	-
Greater than five years	-	-
	-	**67,227**

The Group leases an office in Sydney under a non-cancellable property lease, which expired April 2012 however the Group continues to lease the premises on a monthly basis.

The lease allows for subletting of all lease areas.

As at 30 June 2012 the Group had two bank guarantees in place relating to lease rentals for the Sydney offices totalling $37,544 (2011: $37,544).

Other commitments

Agreement with Victory

On 29 June 2012, the Group entered into an agreement with Victory whereby Victory will acquire from Proto up to approximately a 63.75% interest in the Clara Hills tenements (E04/1533, E04/2026, E04/2142 and ELA04/2060), 70% interest in the Great Doolgunna tenement (E51/1455) and 50% interest in the Station Bore tenement (E69/2872).

NOTE 24: CAPITAL AND LEASING COMMITMENTS (CONT'D)

Consideration for the sale is on the following terms:

As at the date of the Victory prospectus (4 July 2012)	$100,000 cash paid as reimbursement of costs incurred on the tenements 2,000,000 ordinary fully paid shares in Victory issued (being part consideration for an option to acquire an interest in the Clara Hills tenements)
On admission to ASX	1,000,000 ordinary fully paid shares in Victory (being final consideration for an option to acquire an interest in the Clara Hills Tenements 1,000,000 ordinary fully paid shares in Victory (being consideration to acquire a 70% interest in the Great Doolgunna and Station Bore tenements) 2,000,000 ordinary fully paid shares in Victory and 2,000,000 options exercisable at 20 cents on or before the date 5 years from ASX quotation of Victory (being consideration for the use of Proto's office facilities, exploration equipment and staff for the period pre-IPO)
Within 60 days of ASX admission	$100,000 cash (being consideration for the use of Proto's office facilities, exploration equipment and staff for the period pre-IPO)
Within 6 months of ASX admission (after completion of services)	2,000,000 ordinary fully paid shares in Victory and 2,000,000 options exercisable at 20 cents on or before the date 5 years from ASX quotation of Victory (being consideration for the use of Proto's office facilities, exploration equipment and staff for the period post-IPO.

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the relevant authorities. These obligations are subject to re-negotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report. The actual expenditures to date on tenements have exceeded the minimum expenditure requirements specified by the relevant authorities during the current tenement grant periods.

	2012	2011
	$	$
Not longer than one year	714,931	371,535
Longer than one year, but no longer than five years	1,427,550	1,180,988
Longer than five years	456,260	494,461
	2,598,741	**2,046,984**

If the Group decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the Statement of Financial Position may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

The ultimate recoupment of costs carried forward for exploration and evaluation is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

NOTE 25: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As announced on 16 August 2011, the Company has entered into a facility agreement with Caterpillar Financial SARL in relation to the funding of the Barnes Hill nickel project in Tasmania which expires on 30 September 2012. The total finance amount to be provided to the Company under the facility is USD $36,000,000. Should all conditions precedent be met, including securing equity funding of USD $24,000,000 and drawdowns of the loan commence; the Company is obligated to pay the following fees:

- An upfront fee of 2.5%, or $750,000, in relation to the total Project Loan of which 50% is payable on the execution of the facility agreement and 50% is payable upon the earlier of the first drawdown of the loan; the decision not to proceed; arrangement of alternate financing with another party; or 6 months from the execution of the facility agreement.
- A commitment fee of 1.5% per annum of the un-drawn down Project Loan. The maximum amount payable per annum assuming the full balance of the Project Loan is not drawn down is $450,000.
- An upfront fee of 2.5%, or $400,000, in relation to the total Subordinated Loan of which 50% is payable on the execution of the facility agreement and 50% is payable upon the earlier of the first drawdown of the loan; the decision not to proceed; arrangement of alternate financing with another party; or 6 months from the execution of the facility agreement.
- A commitment fee at an amount yet to be negotiated in relation to the Subordinated Loan.
- The Company must pay the finance provider a monthly fee of USD $10,000 in arrears commencing upon signing of the Mandate Letter in August 2011 and ceasing upon signature of Project and Subordinated Loan documents or termination of the agreement with the financier. Of the amount payable, a maximum aggregate amount of USD $100,000 will be deducted from the upfront fees payable on signature date.
- The Company must issue the financier 4,000,000 warrants at a strike price of AUD $0.075. The expiry date of these warrants has not yet been set.
- In September 2011, the Company must pay the financier USD $15,000 in relation to travel expenses incurred by the financier in August 2011.
- Any legal or other expenses incurred in relation to the negotiation and finalisation of the agreement are to be paid by the borrower.

In the opinion of the directors there were no other contingent liabilities at 30 June 2012 (2011: none), and the interval between 30 June 2012 and the date of this report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 26: CASH FLOW INFORMATION

		2012 $	2011 $
a.	**Reconciliation of Cash Flow from Operations with Loss after Income Tax**		
	Loss after income tax	(4,457,890)	(3,918,266)
	Cash flows excluded from loss attributable to operating activities		
	Non-cash flows in loss		
	Depreciation	27,287	29,072
	Impairment of receivable	20,000	-
	Impairment of goodwill	14,672	-
	Unrealised loss on investments	821,466	51,692
	Realised (gain)/loss on sale of investments	277,573	22,253
	Write off - exploration expenditure	22,214	982,339
	Write off - other	125,704	6,403
	Share based payments	329,820	251,394
	Provision for doubtful debts	-	151,447
	Share of loss of associate	-	126,521
	Exploration expenditure	(1,872,591)	(2,049,971)
	Changes in assets and liabilities;		
	(Increase)/decrease in trade and other receivables	7,433	(12,706)
	(Increase)/decrease in prepayments	1,169	175,012
	Increase/(decrease) in trade payables and accruals	119,620	(112,501)
	Increase/(decrease) in financial liabilities	-	-
	Cashflow from operations	**(4,563,523)**	**(4,297,311)**

b. **Non-cash Financing and Investing Activities**

2012 and 2011 share and option issues

Refer to note 23 for details of share based payments made during the years ending 30 June 2012 and 30 June 2011.

Part repayment of prepaid directors fees via issuance of shares in an investment in Available for sale investment. The value of transfer amounts to $59,239.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 26: CASH FLOW INFORMATION (CONT'D)

2011 other non-cash transactions

(i) In April 2011, 5,444,444 shares in Global Nickel Investments NL were loaned to HSBC. The value of the shares at the time of advancement was $161,700 and the value of the shares receivable at year end is $130,667.

(ii) In June 2011, a $41,000 loan balance receivable from an unrelated entity was settled through the receipt of shares to the value of the loan balance; and

(iii) In June 2011, a $60,000 loan balance receivable from an unrelated entity was settled through the receipt of a convertible note to the value of the loan balance.

2012 other non-cash transactions

There were no other non-cash transactions during the 2012 year.

None of the above transactions are recorded in the statement of cash flows.

c. **Credit Standby Arrangements with Banks**

	2012	2011
	$	$
Credit facility	139,000	100,000
Amount utilised	(37,544)	-
	101,456	**100,000**

The credit facility relates to an undrawn lease facility.

NOTE 27: OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of one geographical segment being Australia, and four business segments being treasury, Barnes Hill, Lindeman's Bore and Other tenements..

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 27: OPERATING SEGMENTS (CONT'D)

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of assets and other non-recurring items of revenue or expense
- administrative expenses
- minor receivable and payables

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 27: OPERATING SEGMENTS (CONT'D)

(a) Segment performance

Year Ended 30 June 2012	**Exploration – Barnes Hill**	**Exploration – Lindeman's Bore**	**Exploration – Other**	**Treasury**	**Total Operations**
	$	**$**	**$**	**$**	**$**
Revenue					
Interest revenue	-	-	-	19,179	19,179
Research and development rebate	259,190	-	-		259,190
Other	-	-	100,000	28,589	128,589
Total segment revenue	**259,190**	**-**	**100,000**	**47,768**	**406,958**
Reconciliation of segment revenue to group revenue					
Office Reimbursement					147,500
Total group revenue					**554,452**
Segment net profit before tax	**259,190**	**-**	**100,000**	**47,768**	**406,958**
Reconciliation of segment result to net profit (loss) before tax					
Amounts not included in segment result but reviewed by the board:					
- loss on share trading	-	-	-	(277,573)	(277,573)
- net fair value loss financial assets	-	-	-	(821,466)	(821,466)
- exploration expenditure written off	-	-	(22,214)	-	(22,214)
- directors fees	-	-	-	-	(530,822)
- consulting and broking fees	-	-	-	-	(1,243,443)
- finance costs	-	-	-	(1,776)	(1,776)
Unallocated items:					
- Employee expense					(276,189)
- Share based payments					(329,820)
- Computer expense					(46,225)
- Travel expense					(345,672)
- Share registry expense					(69,515)
- Rent expense					(108,908)
- Exploration cost					(19,317)
- Audit fees					(37,248)
- Marketing & public relations					(200,604)
- Other					(534,056)
Net loss before tax from continuing operations					**(4,457,890)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 27: OPERATING SEGMENTS (CONT'D)

(a) Segment performance (cont'd)

Year Ended 30 June 2011	**Exploration – Barnes Hill**	**Exploration – Lindeman's Bore**	**Exploration – Other**	**Treasury**	**Total Operations**
	$	**$**	**$**	**$**	**$**
Revenue					
Interest revenue	-	-	-	52,176	52,176
Research and development rebate	-	-	-	88,013	88,013
Other	-	-	-	3,747	3,747
Total segment revenue	**-**	**-**	**-**	**143,936**	**143,936**
Reconciliation of segment revenue to group revenue					
Office Reimbursement					87,500
Unallocated revenue					8,866
Total group revenue					**240,302**
Segment net profit before tax	**-**	**-**	**-**	**143,936**	**143,936**
Reconciliation of segment result to net profit (loss) before tax					
Amounts not included in segment result but reviewed by the board:					
- loss on share trading	-	-	-	(22,253)	(22,253)
- net fair value loss financial assets	-	-	-	(21,257)	(21,257)
- exploration expenditure written off	(104,454)	-	(877,885)	-	(982,339)
- directors fees	-	-	-	-	(322,017)
- consulting fees	-	-	-	-	(593,412)
Unallocated items:					
- Employee expense					(309,923)
- Share based payments					(204,273)
- Computer expense					(75,365)
- Travel expense					(237,101)
- Share registry expense					(42,148)
- Rent expense					(102,830)
- Exploration cost					(66,818)
- Audit fees					(53,200)
- Marketing & public relations					(413,837)
- Other					(711,795)
Net loss before tax from continuing operations					**(3,918,266)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 27: OPERATING SEGMENTS (CONT'D)

(b) Segment assets

As at 30 June 2012	Exploration – Barnes Hill	Exploration – Lindeman's Bore	Exploration – Other	Treasury	Total Operations
	$	$	$	$	$
Segment assets	4,827,397	1,453,926	1,606,231	1,617,660	9,505,214
Segment asset increases/(decreases) for the period:					
- capital expenditure	525,484	535,928	676,241	-	1,737,707
- cash	-	-	-	(512,621)	(512,621)
- financial assets at fair value through profit and loss	-	-	-	(670,054)	(670,054)
- investment accounted for using equity method	-	-	-	(8,044)	(8,044)
- available for sale financial assets	-	-	-	(147,719)	(147,719)
	525,484	535,982	676,241	(1,338,438)	399,269

Reconciliation of segment assets to total assets

Other assets	508,421
Total group assets	**10,013,635**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 27: OPERATING SEGMENTS (CONT'D)

(b) Segment assets

As at 30 June 2011	Exploration – Barnes Hill	Exploration – Lindeman's Bore	Exploration - Other	Treasury	Total Operations
	$	$	$	$	$
Segment assets	4,301,913	917,944	929,990	2,956,098	9,105,945
Segment asset increases/(decreases) for the period:					
- capital expenditure	1,359,533	70,179	446,965	-	1,876,677
- financial assets at fair value through profit and loss	-	-	-	482,779	482,779
- available for sale financial assets	-	-	-	504,998	504,998
	1,359,533	70,179	565,803	978,777	2,864,454
Reconciliation of segment assets to total assets					
Other assets					714,261
Total group assets					**9,820,206**

(c) Segment liabilities

As at 30 June 2012	Exploration – Barnes Hill	Exploration – Lindeman's Bore	Exploration – Other	Treasury	Total Operations
	$	$	$	$	$
Segment liabilities	**52,925**	**-**	**132,220**	**140,554**	**325,699**
Reconciliation of segment liabilities to total liabilities					
Other liabilities	-	-	-	-	599,387
Total liabilities from continuing operations					**925,086**

As at 30 June 2011	Exploration – Barnes Hill	Exploration – Lindeman's Bore	Exploration – Other	Treasury	Total Operations
	$	$	$	$	$
Segment liabilities	**156,477**	**5,183**	**45,650**	**-**	**207,310**
Reconciliation of segment liabilities to total liabilities					
Other liabilities	-	-	-	-	473,510
Total liabilities from continuing operations					**680,820**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 28: INVESTMENT IN ASSOCIATE

	2012	2011
Movements in carrying amounts	**$**	**$**
Carrying amount at the beginning of the financial year	8,044	-
Shares in associate acquired during the year	-	245,000
Share of loss after income tax	-	(126,521)
Impairment of investment	-	(110,435)
Elimination on consolidation of entity	(8,044)	-
Carrying amount at the end of the financial year	-	8,044

Summarised financial information of associate

The group's share of the assets, liabilities, revenues, and losses of its associate are as follows:

As at 30 June 2011	Ownership interest	Assets $	Liabilities $	Revenues $	Loss $
Barrier Bay Pty Ltd	49%	8,044	-	-	126,521

Barrier Bay Pty Ltd is an Australian company whose principal activity is the development of a technology that turns the cost items of nickel laterite processing into revenue streams.

NOTE 29: EVENTS AFTER THE REPORTING PERIOD

1. On 9 July 2012, the Company issued 5,555,556 fully paid ordinary shares and 5,555,556 attaching options exercisable at $0.05 on or before 1 September 2014 to placement participants.

3. On 11 July 2012, the Company issued 1,000,000 fully paid ordinary shares to placement participants.

4. On 3 August 2012, the Company issued 9,696,154 fully paid ordinary shares to placement participants.

5. On 7 August 2012, the Company issued 25,100,000 fully paid ordinary shares as payment for services to the Company.

6. On 14 August 2012, the Company announced it had entered into an option agreement to acquire a 50% interest in a nickel project located in Kukes, northern Albania. Proto will receive a 12 month option for issuing 3 million shares to the original vendors plus 1 million shares to a consulting company that will provide management services. To earn the interest, Proto will need to spend EUR120,000 on the Kukes project over the 12 month option period.

7. On 16 August 2012, the Company issued 12,550,000 options exercisable at $0.05 on or before 1 September 2014 as payment for services to the Company.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 30: 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.

Transactions with related parties:

a. During the previous year, the Group purchased shares in Global Metals Exploration NL (a company for which Mr Mortimer and Ms Darby are directors and formerly Global Nickel Investments NL) amounting to $nil (2011: 109,915). The total value of the Group's investment in Global Metals Exploration NL at 30 June 2012 is $114,457 (2010: $246,475).

b. During the year, the Group has purchased shares in SA Capital Funds (a company for which Mr Mortimer is a director) amounting to $Nil (2011: $Nil). The total value of the Group's investment in SA Capital Funds at 30 June 2012 is $90,000 (2011: $90,000).

c. During the year, the Group traded shares in Enerji Limited (a company for which Mr Campbell is a director) purchasing $36,000 (2011: $36,000) and selling all its stock by year end. The total value of the Group's investment in Enerji Limited at 30 June 2012 is $nil (2010: $28,000).

d. During the year, the Group has purchased shares in Condor Blanco Mines Limited (a company of which Ms Darby and Dr Richard were directors until 16 April 2012) amounting to $19,000 (2011 $50,000). The total value of the Group's investment in Condor Blanco Mines Limited at 30 June 2012 is $147,000 (2011: $231,000).

e. During the year, the Group has purchased shares in Ridley Resources Limited (a company of which Mr Hood is a director) amounting to $nil (2011: $42,000). The total value of the Group's investment in Ridley Resources Limited at 30 June 2012 is $nil (2011: $21,000).

f. During the year, the Group charged Global Metal Exploration NL (a company for which Mr Mortimer and Ms Darby are directors and formerly Global Nickel Investments NL) for use of company office and administration services amounting to $66,000 (2011: $60,000). At 30 June 2012, the Group has a balance of $5,500 included within trade and other receivables in relation to these charges.

g. During the year, the Group charged Condor Blanco Mines Limited (a company for which Ms Darby and Dr Richard were directors until 16 April 2012) for use of company office and administration services amounting to $66,000 (2011: $20,000). At 30 June 2012, the Group has a balance of $38,500 included within trade and other receivables in relation to these charges.

h. During the financial year ASIC fees totalling $nil (2011: $775) were paid on behalf of entities of which Mr Mortimer and/or Ms Darby are directors. Of the $775 paid in 2011, $490 was written off and $285 was transferred to Mr Andrew Mortimer's loan account.

i. Prepayment of directors fees to Andrew Mortimer at year end amounted to $nil (2011: $55,139).

   Of the 30 June 2011 balance, $30,139 was repaid to the Group post year end and the remaining $25,000 was settled via the transfer of $25,000 worth of shares in an unlisted entity from Mr Mortimer to the Group.

j. Prepayment of directors fees to Lia Darby at year end amounted to $nil (2011: $75,781).

   The 30 June 2011 prepayment amount was repaid to the Group post year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 30: RELATED PARTY TRANSACTIONS

k. During the 2012 year the Group advanced a total of $83,726 (2011: $12,544) to Global Metals Exploration NL (a company of which Mr Mortimer and Ms Darby as directors and formerly Global Nickel Investments NL). Of the 2011 balance, $36,856 was repaid during the year leaving a balance due to the Group of $49,840 at 30 June 2011.

l. During the 2012 year the Group advanced a total of $11,205 (2011: $64,117) to Condor Blanco Mines Limited (a company of which Ms Darby and Dr Richard were directors until 16 April 2012). Of the 2012 balance, $2,923 was repaid during the year leaving a balance due to the Group of $11,252 at 30 June 2011.

m. Included within trade and other receivables at 30 June 2012 is an amount due from Ms Darby in the amount of $7,794 (2011: $7,794). Included within trade and other payables includes an amount of $28,974 (2011: receivable $285).

n. During the 2012 year the Group paid a total of $4,726 (2011: $65,660) to SA Capital Funds (a company of which Mr Mortimer is a director) as consideration for services received.

o. During the 2012 year the Group advanced a total of $nil (2011: $40,339) to Mt Vetter Pty Ltd (a company of which Ms Darby's father is a director). The 2011 balance was settled in June 2011 through the receipt of shares in Mt Vetter Pty Ltd to the value of $41,000.

p. During the 2011 year the Group advanced a total of $134 to Clev-a-Gardens (a company of which Ms Darby's father is a director). The total amount is not recoverable and was consequently written off.

q. During the 2012 year the Group charged Superstructure International Pty Ltd (a company of which Mr Mortimer and Ms Darby as directors) for use of company office and administration services amounting to $33,000 (2011: $7,500). the Group has a balance of $33,000 included within trade and other receivables in relation to these charges.

r. During the 2012 year the Group advanced a total of $10,783 (2011: $7,262) to Superstructure International Pty Ltd (a company of which Mr Mortimer and Ms Darby as directors). A total of, $12,262 was repaid during the year leaving a balance due to the Group of $2,000 at 30 June 2012.

s. At 30 June 2012, the Group held 9,689,058 (2011: 3,250,000) options over ordinary shares in Global Metals Exploration NL (a company of which Mr Mortimer and Ms Darby are directors and formerly Global Nickel Exploration NL). The total value of these options at 30 June 2012 is $9,689 (2011: $18,000).

t. During the 2012 year the Group paid Superstructure International Pty Ltd (a company of which Ms Darby's father is a director) $15,000 (2011: $33,000) for consultancy services provided to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 31: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, listed and unlisted investments, and accounts receivable and payable.

The Board of Directors has overall responsibility for the oversight and management of the Group's exposure to a variety of financial risks (including market risk, credit risk and liquidity risk).

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group does not speculate in the trading of derivative instruments.

Aggregate net fair values agrees to the carrying amounts of financial assets and financial liabilities at balance date.

MARKET RISK

i. Interest rate risk

The Group's exposure to market interest rates relates to cash deposits held at variable rates. The Board constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions.

Interest rate sensitivity analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and equity prices. The tables indicates the impact of how profit and equity values reports at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

At 30 June 2012, the effect on loss and equity as a result of changes in the interest rate, with all other variable remaining constant is not material

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 31: FINANCIAL RISK MANAGEMENT (CONT'D)

At 30 June 2012, the effect on loss and equity as a result of changes in the interest rate, with all other variable remaining constant is not material

Financial instruments held by the Group bear interest at the following rates:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate		Non-Interest Bearing	
	2012 %	2011 %	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
Financial Assets								
Cash and cash equivalents	4.4	4.2	175,916	516,495	-	-	-	172,042
Loans and receivables	-	-	-	-	-	29,700	359,873	329,657
Other Assets	4.2	4.2	89,632	89,632	-	-	-	-
Investments	-	-	-	-	-	-	1,441,744	2,113,876
Total Financial Assets	**-**	**-**	**265,548**	**606,127**	**-**	**29,700**	**1,804,211**	**2,615,575**
Financial Liabilities								
Trade and other payables	-	-	-	-	-	-	839,796	677,531
Total Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**839,796**	**677,531**

ii. Price Risk

The Group's is exposed to equity securities price risk. This arises from investments held by the Group and classified on the statement of financial position as current financial assets at fair value through profit and loss. The Group is not exposed to commodity price risk.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio which is done in accordance with the limits set by the Group.

The majority of the Group's equity investments are publicly traded and are included on the ASX 200 Index.

The table below summarises the impact of increases/decreases of the index on the Group's post tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 10% (201 – 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 31: FINANCIAL RISK MANAGEMENT (CONT'D)

	Impact on Post-Tax Profit/(Loss)		Impact on Equity	
Index	**2012 $**	**2011 $**	**2012 $**	**2011 $**
ASX 200	108,447	179,519	108,447	179,519

The price risk for the unlisted securities is immaterial in terms of possible impact on profit or loss or total equity. It has therefore not been included in the sensitivity analysis.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties.

Credit risk related to balances with banks and other financial institutions is managed by the board. The board's policy requires that surplus funds are only invested with counterparties with a Standard & Poor's rating of at least AA-. All of the Group's surplus funds are invested with AA Rated financial institutions.

The credit risk for counterparties included in cash and cash equivalents is detailed below:

	2012 $	**2011 $**
Financial assets:		
Cash and cash equivalents		
- AA rated counterparties	265,548	606,127

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group.

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

LIQUIDITY RISK

The responsibility with liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. The Group's policy is to ensure that it has sufficient cash reserves to carry out its planned exploration activities over the next 12 months.

Financial instrument composition and maturity analysis:

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the Consolidated Statement of Financial Position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

NOTE 31: FINANCIAL RISK MANAGEMENT (CONT'D)

30 June 2012	Less than 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Total contractual cashflow	Carrying amount
Financial Assets						
Cash and Cash equivalents	175,916	-	-	-	175,916	175,916
Other assets	89,632	-	-	-	89,632	89,632
Loans and receivables	356,924	-	2,949	-	359,873	359,873
Investments	1,296,855	-	144,889	-	1,441,744	1,441,744
Total Financial Assets	**1,919,327**	**-**	**147,838**	**-**	**2,067,165**	**2,067,165**
Financial Liabilities						
Trade and other payables	839,796	-	-	-	839,796	839,796
Total Financial Liabilities	**839,796**	**-**	**-**	**-**	**839,796**	**839,796**

30 June 2011	Less than 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Total contractual cashflow	Carrying amount
Financial Assets						
Cash and cash equivalents	688,537	-	-	-	688,537	688,537
Other assets	89,632	-	-	-	89,632	89,632
Loans and receivables	314,357	-	45,000	-	510,804	359,357
Investments	1,811,850	-	447,667	-	2,259,517	2,259,517
Total Financial Assets	**2,904,376**	**-**	**492,667**	**-**	**3,548,490**	**3,397,043**
Financial Liabilities						
Trade and other payables	677,531	-	-	-	677,531	677,531
Total Financial Liabilities	**677,531**	**-**	**-**	**-**	**677,531**	**677,531**

Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

i. Net Fair Values

The net fair values of:

- Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.
- Other assets and other liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments.

NOTE 31: FINANCIAL RISK MANAGEMENT (CONT'D)

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial Assets				
Financial assets at fair value through profit or loss:				
Listed equity securities - shares	1,040,834	-	-	1,040,834
Listed equity securities – options	43,631	-	-	43,631
Receivable denominated in listed equity securities	-	-	-	-
Available for sale financial assets:				
Unlisted equity securities – shares & trust	-	-	133,529	133,529
Unlisted equity securities – SA Capital	-	-	78,750	78,750
Options to acquire exploration projects	-	-	60,000	60,000
Unlisted equity securities – convertible note	-	-	85,000	85,000
Total	**1,084,465**	**-**	**357,279**	**1,441,744**

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial Assets				
Financial assets at fair value through profit or loss:				
Listed equity securities - shares	1,642,618	-	-	1,642,618
Listed equity securities – options	111,666	-	-	111,666
Receivable denominated in listed equity securities	130,667	-	-	130,667
Available for sale financial assets:				
Unlisted equity securities – shares	-	-	66,000	66,000
Unlisted equity securities – SA Capital	-	-	90,000	90,000
Options to acquire exploration projects	-	-	117,331	117,331
Unlisted equity securities – convertible note	-	-	60,000	60,000
Total	**1,884,951**	**-**	**333,331**	**2,218,282**

The Group intends to hold the investments in unlisted entities over the medium or long term with at least 12 months horizon, unless a liquidation event is required.

NOTE 32: BUSINESS COMBINATION

(a) Summary of acquisition

On 26 August 2011 the parent entity acquired 2% of the issued share capital of Barrier Bay Pty Ltd, moving Proto's total shareholding in Barrier Bay from 49% to 51% and giving Proto control over Barrier Bay.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration (refer to (b) below):

	$
Cash paid prior to 30 June 2011	327,500
Cash paid during the period	15,000
Total purchase consideration	**342,500**

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair and carrying value $
Cash	14,174
Trade receivables	2,242
Total assets	16,416
Total liabilities	-
Net assets acquired	**16,416**

	$
Purchase consideration	342,500
Less: provision for impairment of investment in Barrier Bay recorded prior to 30 June 2011	(319,456)
Carrying value of investment at acquisition date	23,044
Less: 51% of net assets acquired	(8,372)
Goodwill	**14,672**

(i) Acquired receivables
The fair value and gross value of acquired trade receivables is $2,242. At acquisition date, the full balance of trade receivables was expected to be collectible.

(ii) Revenue and profit contribution
The acquired business contributed revenues of nil and losses of $7,826 from acquisition date to 31 December 2011.

(iii) Non-controlling interests
In accordance with the accounting policy set out in note 1, the group elected to recognize the non-controlling interests in Barrier Bay Pty Ltd at its proportionate share of the acquired net identifiable assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 (CONT'D)

(iv) Goodwill
The goodwill arising on the acquisition of Barrier Bay Pty Ltd of $14,672 was impaired in full at 31 December 2011 due to Barrier Bay having negative operating cash flows for the period and the uncertainty surrounding the timing of when the Company may become cash flow positive. The impairment of $14,672 is included within administration expenses in the Statement of Comprehensive Income.

NOTE 32: BUSINESS COMBINATION (CONT'D)

(b) Purchase consideration – cash inflow

	Consolidated
	$
Cash purchase consideration during the period	15,000
Cash balances acquired	(14,174)
Net outflow of cash on acquisition of subsidiary	**826**

Corporate Directory

PRINCIPAL REGISTERED OFFICE

Proto Resources & Investments Ltd
Suite 1901, 109 Pitt St,
Sydney, NSW 2000
Tel: 02 9225 4000 Fax: 02 9232 5359
Email: info@protoresources.com.au
Web: www.protoresources.com.au

DIRECTORS AND SENIOR MANAGEMENT

Ian Campbell – Chairman
Andrew Mortimer –Managing Director
Aziz (Greg) Melick – Executive Director
Lia Darby – Non-Executive Director
Patricia Kay Philip – Non-Executive Director

Ashley Hood – Chief Operating Officer
Pierre Richard – Chief Development Officer
Carl Swensson – Consultant Geologist

SHARE REGISTRAR

Advanced Share Registry
150 Stirling Hwy, Nedlands WA 6009
Tel: 08 9389 8033 Fax: 08 9389 7871
Web: www.advancedshare.com.au

AUDITORS

Bentleys
Level 1, 12 Kings Park Road, West Perth WA 6005

LAWYERS

Price Sierakowski
Level 24, St Martins Tower,
44 St Georges Terrace, Perth WA 6000

STOCK EXCHANGE CODES – PRW/PRWO/PRWOA

Glossary of abbreviations and technical terms

Abbreviations

ASIC means Australian Securities and Investments Commission.
ASX means ASX Limited (the Australian Securities Exchange) (ACN 008 624 691).
Company means Proto Resources & Investments Ltd (ACN 108 507 517).
Proto means Proto Resources & Investments Ltd (ACN 108 507 517).
Tenement means an Exploration Licence, Prospecting Licence, Mining Lease or any other form of mineral licence or title held or applied for by the Company

Technical Terms

Adelaidean Old term for rocks aged 580 to 1400 Ma.
aeromagnetic Airborne survey of the Earth's magnetic field.
alluvial Derived from river deposition (for example, river sands)
altered/alteration Change of composition by reaction with hydrothermal solutions.
amphibolite Igneous rock consisting of the minerals amphibole and plagioclase with little or no quartz.
anomaly Value or feature higher, lower or different to that expected or to the norm.
Archaean Oldest division of the Precambrian Era. Older than 2500 Ma.
Au Chemical symbol for the element gold.
basement Generally refers to Precambrian igneous and metamorphic rocks. Oldest rocks in an area.
base metal A metal commonly used in industry by itself rather than in alloys e.g. copper, lead, zinc.
basic An igneous rock which is low in silica, generally less than 55% e.g. basalt.
bed A layer of strata in sedimentary rocks often formed in a horizontal orientation.
bedrock Hard layer of igneous or metamorphic rocks beneath a near-surface layer of generally younger unconsolidated sediment.
Biotite common rock forming mineral in most igneous rocks.
breccia A rock fragmented into angular fragments within a finer grained matrix.
bullseye Description of a roughly circular high intensity magnetic anomaly.
Calc-silicate A rock containing mainly calcium-bearing silicate minerals such as diopside and wollastonite.
Cainozoic The geological Era that follows the Mesozoic (sometimes called Tertiary).
Cambrian Major division of the geological time scale from approx. 542ma to 488ma.
Co Chemical symbol for the element cobalt.
colluvial Deposits derived from deep soil formation on the land surface.
conglomerate A rock containing many rounded pebbles or cobbles, often formed by rivers.
core Cylindrical rock sample generally produced by diamond drilling.
cover Generally a near surface blanket of sediments that 'cover up' basement.
craton A large, stable and generally old part of the Earth's crust.
Cretaceous The last period of the Mesozoic Era, when much of the globe was under water.
crust Outer layer of the surface of the Earth.
Cu Chemical symbol for the element copper.
Devonian The geological period before the Carboniferous.
diamond drilling Drilling method using a diamond bit to cut a cylindrical hole; core is taken.
E East.
EL Exploration Licence.
EM Electromagnetic geophysical survey method.
fault Fracture in a rock sequence where one side has moved relative to the other.
Fe Chemical symbol for the element iron.
Felsic Descriptive of light coloured rocks containing an abundance of feldspars and quartz.
fold A bend in strata or in any planar structure.
Gabbro A group of dark-coloured, basic intrusive igneous rocks composed principally of basic plagioclase and clinopyroxene with or without olivine and orthopyroxene.
geochemistry Study of chemical properties of rocks and applications to mineral exploration.
geophysics Study of physical properties of rocks, the Earth and exploration activities.
geosyncline A large linear trough in which a thick succession of sediments accumulated.
Geotherm/GEOTHERM US Geological survey computerised information system.
Gneiss A foliated rock formed by regional metamorphism.
goldfield A large discrete area containing multiple clusters of gold mines.

gossan Weathered near-surface portion of a sulphide-rich deposit consisting essentially of a mass of hydrated iron oxides from which ore minerals have been removed.
grade A measurement or estimate of the quantity of an element in a sample.
granite A plutonic felsic igneous rock composed of quartz, feldspar and mica.
Granulite A medium to coarse-grained metamorphic rock that has experienced high temperature metamorphism, and is composed mainly of feldspars.
Gravity Measurement of the earth's gravitational attraction, reflecting density of underlying rocks.
g/t Abbreviation for grams per tonne, equivalent to parts per million.
high-resolution Describes the detail apparent in a processed magnetic image when it is flown with close-spaced lines; enables a more reliable sub-surface view.
hydrothermal A process when hot water-rich solutions transfer materials or alter rocks.
igneous Descriptor for a rock formed by solidification from a molten rock or magma.
inlier An area of older rocks surrounded by younger rocks.
intrusion An igneous body formed when magma invades other rocks e.g. sills and dykes.
IP Induced polarisation - geophysical survey.
Joint Venture Arrangement between two or more parties to explore or develop a project.
Km(s) Kilometre(s).
Km^2 Square kilometre
Komatiite An ultramafic mantle-derived volcanic rock that typically display low silicon, potassium and aluminium, and high magnesium content.
laterite An iron-rich rock that typically forms at the surface due to intense weathering and leaching of underlying bedrock.
Limonite A mixture of hydrated iron oxides and hydroxides of varying composition. Limonite typically forms the upper portion of a lateritic profile.
lineament Straight or gently curved linear feature on the Earth's surface or on a map.
lithology Rock type - can include chemical composition, texture, colour etc.
lithostratigraphy study and correlation of strata to elucidate earth history on the basis of rock type.
lode A mineral deposit consisting of veins, disseminations or pods.
m metre.
M million.
Ma millions of years before the present.
mafic Descriptive term for a dark coloured igneous rock; low in silica.
magnetic survey A survey of the Earth's magnetic field either from the ground or the air.
magma Naturally occurring molten rock e.g. a lava flow or fountain.
meta- Prefix to a recognisable rock type to denote affected by metamorphism.
Metalliferous Bearing quantities of metal.
metamorphism The process by which pre-existing rocks are changed by heat and pressure.
metasediment A metamorphosed sediment.
mineralisation An anomalous concentration of metals of economic interest. Not ore unless it can be mined at a profit.
ML Mining Lease.
Mt million tonnes.
N North.
Ni/NiS Nickel/Nickel Sulphide.
Ordovician Geological time from approx 488ma to 443ma.
ore A rock containing minerals of economic interest, extractable at a profit.
orebody A solid and fairly continuous mass of ore.
Orogeny A process where part of the earth's crust is deformed over a specific period of time.
outcrop Similar to exposure, where rocks can be seen naturally at the Earth's surface.
Oz Ounce.
Palaeo- A prefix indicate of relatively great age, ancient conditions or fossil forms.
Palaeozoic The first Era of fossil-bearing rocks (before the Mesozoic).
Palaeoproterozoic The oldest portion of the Proterozoic Era (Palaeo = old).
Pb Chemical symbol for the element lead.
Pegmatites descriptive of an exceptionally coarse grained rock.
Pelites An aluminous metamorphosed sedimentary rock.
phyllites Mud stone that has been altered by the formation of platy minerals (e.g. mica).

pluton A large igneous intrusion formed at great depth in the crust.
ppb parts per billion.
ppm parts per million.
Precambrian Era of geological time before the Cambrian, from about 4600 to 545 Ma.
prospect A mining property in which potential for ore discovery is demonstrated.
prospective Said of a region or prospect thought to have a high chance of ore discovery.
Proterozoic Era of geological time between the Archaean and Cambrian from 2500 to 545 Ma.
province A large area or region unified in some way and able to be conceptualised.
Pyrite an iron sulphide material.
Pyrrhotite an iron sulphide material.
Quaternary The Fourth Era, latest of the geological eras following the Cainozoic or Tertiary.
quartz Silicon dioxide, the commonest mineral in the Earth's crust.
RC Reverse Circulation; form of percussion drilling; drill cuttings are recovered through the drill rods.
REE Rare Earth Elements.
resources A well-defined estimate of mineralisation, not necessarily economic.
RM Radiometric geophysical survey method.
S South.
sampling Collection of a representative part of material, often for analysis or reference.
Saprolite A chemically weathered rock. Saprolites form in the lower zones of soil profiles and represent deep weathering of the bedrock surface.
Saprock The first stage of weathering. It consists of partially weathered and as yet unweathered minerals and so retains the fabric and structural features of the fresh rock.
Schist A strongly foliated crystalline rock.
sedimentary Variety of rocks formed at the Earth's surface, by deposition of sediment.
shear (zone) Fracture (or zone of fracturing) along which movement has taken place.
Sphalerite a sulphide mineral of zinc and iron.
stratigraphic The study of rock strata, especially of their distribution and age.
structural corridor Large scale linear zone or belt recognised by geological feature alignment.
structure Total description of orientation and relative position of an area's rock units.
sulphides Minerals containing sulphur and metallic elements, often ore minerals.
supergene Process involving water, with or without dissolved material, percolating down from surface.
targets Exploration targets consist of a location that can be tested by drilling; generally represent an anomaly from a survey or a geological concept.
tectonic Term used to relate a particular phenomenon to a structural or orogenic concept.
tectonic corridor A zone subjected to forces involved in the structural modification of rocks.
tenement Exploration or mining land title allowing various actions e.g. an EL.
Tertiary geological time from approximately 65 to 1 million years ago.
Turbidite Describes the sediments deposited by submarine mass flow.
Ultramafic rock Igneous rocks with no free quartz and generally very little feldspar.
underground In relation to mining where the ore is broken beneath the surface.
vein Thin sheet-like infill of a fissure or crack, commonly with quartz and sulphides.
volcanism/volcanic All natural processes and/or products resulting from volcanic activity.
weathered Decomposed by action of external agencies.
Zn Chemical symbol for the element zinc.

DIRECTORS' DECLARATION

The directors of the Consolidated Group declare that:

1. the financial statements and notes, as set out on pages 42 to 98 are in accordance with the *Corporations Act 2001* and:
   a) comply with Accounting Standards and the Corporations Regulations 2001; and
   b) give a true and fair view of the financial position as at 30 June 2012 and the performance for the year ended on that date of the company and Consolidated Group; and
   c) are in accordance with International Financial Reporting Standards, as stated in note 1 to the financial statements; and
2. the Chief Executive Officer and Chief Financial Officer have each declared that:
   a) the financial records of the Group 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 Accounting Standards; and
   c) the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the Consolidated Group 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.

Andrew Mortimer
Managing Director
Dated this 30th day of September 2012

SHAREHOLDER INFORMATION

The following additional information is required by the ASX Limited in respect of listed public companies and was applicable at 3 September 2012.

Shareholding

Distribution of Shareholders	Number (as at 3 September 2012)
Category (size of holding)	**Ordinary Shares**
1 – 1,000	166
1,001 – 5,000	132
5,001 – 10,000	190
10,001 – 100,000	840
100,001 – and over	415
	1,743

The number of shareholdings held in less than marketable parcels is 1,173.

There are no substantial shareholders listed in the holding company's register as at 22 September 2012.

a. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

20 Largest Shareholders as at 3 September 2012 — Ordinary Shares

Name		Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	JP Morgan Nominees Australia Limited <Cash Income A/C>	229,467,713	38.320
2.	BBY Nominees Limited	29,541,514	4.930
3.	Citicorp Nominees Pty Limited	23,646,262	3.949
4.	JB Global Holdings LLC`	18,279,130	3.053
5.	SA Capital Funds Management Limited <SACFM No 1 Fund A/C>	13,848,660	2.313
6.	Mr Andrew Kenneth Bruce Mortimer	10,612,510	1.772
7.	Mr Andrew Kenneth Bruce Mortimer	9,390,668	1.568
8.	Mr Andrew James Neale & Mrs Maya Santi Varinija Neale	6,421,875	1.072
9.	LBT Corp Pty Ltd	4,998,895	0.835
10.	John Wardman & Associates Pty Ltd <The Wardman Super Fund A/C>	4,000,000	0.668
11.	Mr Andrew Kenneth Bruce Mortimer	3,701,668	0.618
12.	Ms Lia Melissa Darby	3,481,334	0.581
13.	Mr Stuart Charles Sands-Hicks & Mr Jim Donald Hicks	3,481,334	0.578
14.	Mrs Graciela Alejandra Ramirez	3,399,000	0.568
15.	Mr Andrew Kenneth Bruce Mortimer	3,173,334	0.530
16.	Thomas Vetter	3,000,000	0.501
17.	Petard Pty Ltd	3,000,000	0.501
18.	Mrs Patricia Kay Philip	2,842,919	0.475
19.	National Nominees Limited	2,700,000	0.451
20.	Merrill Lynch (Australia) Nominees Pty Limited	2,628,571	0.439
		381,615,387	**63.722**

Options over Unissued Shares ($0.25 options – expiry 31 December 2013)

A total of 51,727,806 $0.25 options are on issue. Each option can be exercised upon the payment of $0.25 and will receive one ordinary share. The expiry date for the options is 31 December 2013. Listed below are the 20 largest $0.25 option holders as at 3 September 2012.

Name		**Number of Options Held**	**% Held of total options on issue**
1.	Mr Robert Gemelli	3,980,668	7.695
2.	Ms Lia Melissa Darby	2,621,667	5.068
3.	Mr Andrew Kenneth Bruce Mortimer	2,516,667	4.865
4.	Mr Peter George McFee and Ms Brenda Ann McFee	2,480,334	4.795
5.	Mr Charles William Quin	2,200,000	4.253
6.	Jannarn Pty Ltd <Prabhakar Super Fund A/C>	1,598,798	3.091
7.	Mr Peter Gebhardt & Mrs Carlene Gebhardt <Petard Super Fund A/C>	1,518,433	2.935
8.	Ms Patricia Kay Philip	1,250,000	2.416
9.	Petard Pty Ltd	1,115,600	2.157
10.	Mr Matthew Gilbert Cooper & Mrs Kim Cooper	1,053,852	2.037
11.	LJR Constructions Pty Ltd	1,000,000	1.933
12.	Mr Aziz Gregory Melick	1,000,000	1.933
13.	Mr Ian Campbell <Ian Campbell Family A/C>	1,000,000	1.933
14.	Vigcorp (SA) Pty Ltd <Toderico Investment A/C>	1,000,000	1.933
15.	Mr Peter Neugebauer	1,000,000	1.933
16.	Mr George Phillip Kay	986,655	1.907
17.	Salvatente Pty Ltd <GRB Superannuation Fund A/C>	917,314	1.773
18.	Mr Thomas Koutsoupias & Mrs Justine Leah Koutsoupias <Googli's S/F A/C>	903,438	1.747
19.	Mr Peter Lancelot Gebhardt	800,000	1.547
20.	Berne No 132 Nominees Pty Ltd <399632 A/C>	700,000	1.353
		29,643,426	**57.307**

Options over Unissued Shares ($0.05 options – expiry 1 September 2014)

A total of 369,417,457 $0.05 options are on issue. Each option can be exercised upon the payment of $0.05 and will receive one ordinary share. The expiry date for the options is 1 September 2014.

Listed below are the 20 largest $0.05 option holders as at 3 September 2012.

Name		**Number of Options Held**	**% Held of total options on issue**
1.	BBY Nominees Limited	122,000,000	33.025
2.	JP Morgan Nominees Australia Limited <Cash Income A/C>	63,474,240	17.182
3.	LBT Corp Pty Ltd	15,021,889	4.066
4.	Goffacan Pty Ltd	14,800,000	4.006
5.	JB Global Holdings LLC	12,550,000	3.397
6.	Australasian Nominees Pty Ltd <The Australasian A/C>	10,000,000	2.707
7.	SA Capital Funds Management Limited <SACFM No 1 Fund A/C>	10,000,000	2.707
8.	Belloc Pty Limited	9,172,727	2.483
9.	Mr Peter Gebhardt & Mrs Carlene Gebhardt <Petard Super Fund A/C>	7,750,000	2.098
10.	J P Morgan Nominees Australia Limited <Cash Income A/C>	7,142,857	1.934
11.	SC Strategy Consult AG	6,000,000	1.624
12.	Mr Patrick James Peter Smith	5,945,564	1.610
13.	Mr Michael Reginald King	5,000,000	1.353
14.	John Wardman & Associates Pty Ltd <The Wardman Super Fund A/C>	4,000,000	1.083
15.	Rescon Resource Consultants AG	4,000,000	1.083
16.	Mr Andrew James Neale & Mrs Maya Santi Varinija Neale	3,210,937	0.869
17.	Mr Andrew Kenneth Bruce Mortimer	3,000,000	0.812
18.	Suburban Holdings Pty Ltd <The Suburban Super Fund A/C>	2,777,778	0.752
19.	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	2,500,042	0.677
20.	Mr Christopher Brycki	2,500,000	0.677
		310,849,034	**84.146**

1. The name of the company secretary is Kent Hunter.

2. The address of the principal registered office in Australia is Suite 1901, 109 Pitt St, Sydney, NSW 2000. Telephone 02 9225 4000.

3. Registers of securities are held at the following address;

Advanced Share Registry, 150 Stirling Hwy, Nedlands, WA 6009

4. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the ASX Limited.

5. Unquoted Securities

The Company has the following classes of unquoted securities on issue:

(i) 5,000,000 options exercisable at $0.08 on or before 28 February 2013

(ii) 3,500,000 options exercisable at $0.10 on or before 28 February 2013

(iii) 2,000,000 options exercisable at $0.125 on or before 28 February 2013

(iv) 1,428,571 options exercisable at $0.035 on or before 12 September 2018

SCHEDULE OF MINERAL TENEMENTS

AS AT 13 SEPTEMBER 2012

Project	***Tenement***	***Interest held by Proto Resources & Investments Ltd***
Barnes Hill	EL 17/2006	100% Renewal Pending
Barnes Hill West	EL 53/2008	100%
Barnes Hill	1872P/M	100%
Lindeman's Bore	EL 25307	80%
Lindeman's Bore South	ELA 27414	Application only
Waterloo	ELA 27420	100%
Waterloo	ELA 27416	100%
Waterloo North	ELA 28504	100%
Waterloo South	ELA 28505	100%
Waite Kauri	M37/1189	100%
Clara Hill	E04/2060	Application only
Great Doolgunna	E51/1455	30%
Casey	E51/1457	100%
Mt Killara	E53/1580	100%
Mt Killara North	E53/1706	Application only
Magellen North	E53/1581	100%
Station Bore	E69/2872	50%
Kiefernberg	21720/2011	100%
Nossen	21406/2011	100%

P Prospecting Licence
E Exploration Licence
M Mining Licence