

# DE GREY MINING LTD

*The Bold Explorer*

## QUARTERLY REPORT

FOR THE QUARTER ENDING 30 SEPTEMBER 2010

**ASX CODE: DEG**

**Shares on Issue**

258,862,350

**Board of Directors**

*Campbell Ansell  
Chairman*

*Gary Brabham  
Managing Director*

*Darren Townsend*

**Company Secretary**

*Dennis Wilkins*

**Exploration Manager**

*Dave Hammond*

**Registered Office**

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**A.B.N. 65 094 206 292**

### Highlights

#### Argentina Projects/Acquisitions (gold, silver)

- Experienced Argentine field crew engaged.
- Santa Cruz field work commenced mid-October.
- De Grey's entry into Argentina has brought forward a number of other potential new project opportunities that are being progressively evaluated.

#### Queensland Projects (gold, base metals)

- Modelling of detailed gravity data confirms coincidence of a gravity anomaly with the Apex magnetic anomaly, indicative of potential for IOCG mineralisation.
- Diamond drilling scheduled for December quarter.

#### Pilbara Iron Assets (iron ore)

- De Grey retains 20% free carried interest in the Beyondie Iron JV with Emergent Resources.
- Emergent commenced initial drill testing of target DSO iron mineralisation in mid-September; results awaited.

### Corporate

- Placement of 33.75 million shares to sophisticated and professional investors in September saw the Company raise \$1.35 million before costs.
- De Grey continues to assess new project opportunities, seeking additional high quality exploration assets.



# DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2010

## Argentina Projects

### Santa Cruz Province

Through farm-in and option agreements, and staking in its own right, De Grey has secured exploration rights over nearly 2,200 sq km of ground in Santa Cruz Province, Argentina. The tenements cover Jurassic rocks of the Deseado Massif, a region increasingly recognized as highly prospective for low-sulphidation epithermal gold-silver mineralisation due to recent discoveries of high-grade deposits.

De Grey has contracted the services of an experienced Argentine field crew that mobilized to Santa Cruz in mid-October to commence field work.

Initially, exploration will be concentrated on the Sierra Morena, Cañadon Langostura, La Evelina and Cerro Tres Picos projects in the west of the Deseado (Figure 1). First-pass work will comprise mapping and surface sampling and programs are expected to then progress to systematic geochemical sampling of all areas of prospective Jurassic rocks in order to define drill targets.

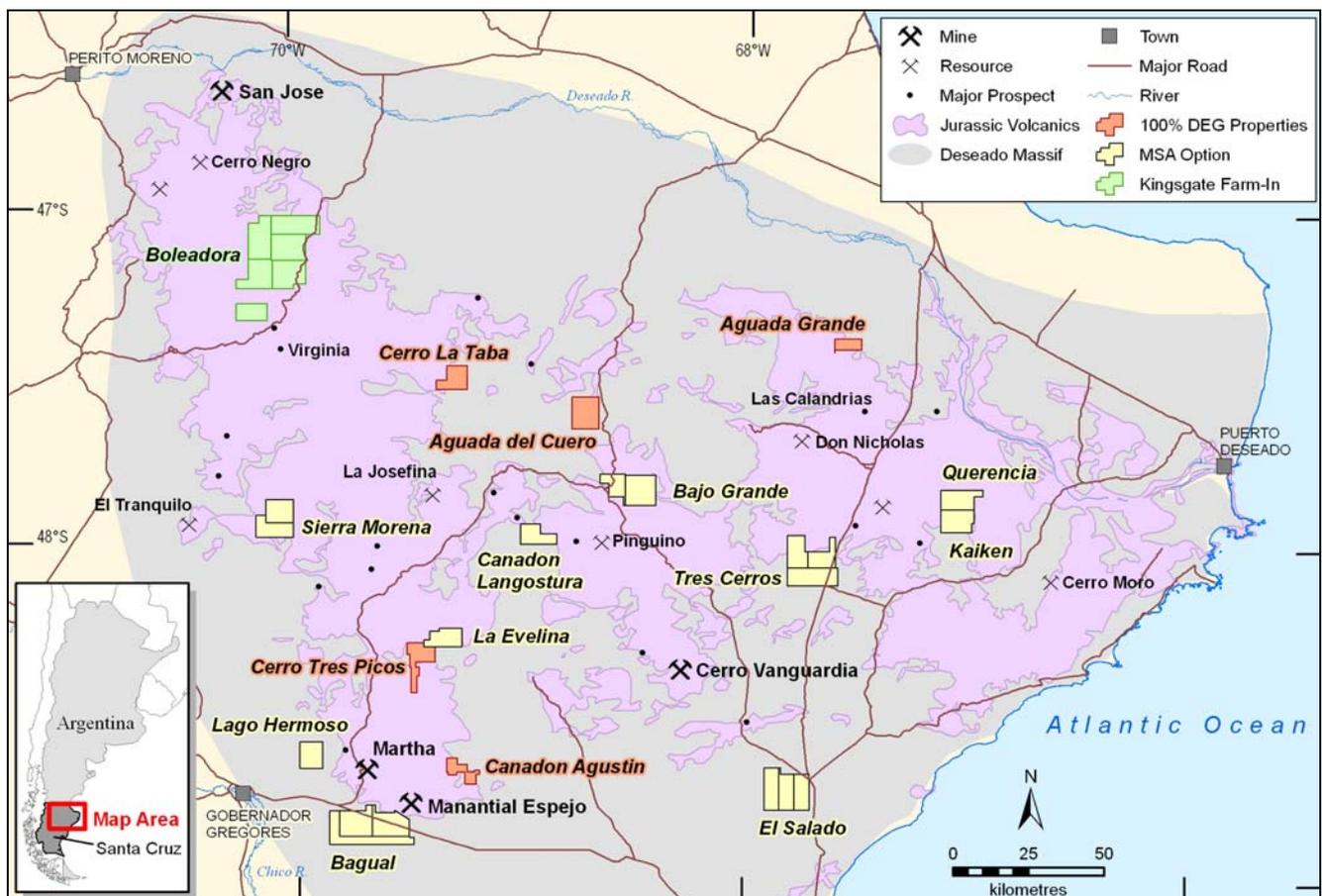
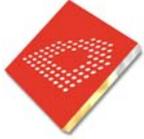


Figure 1: Locations of De Grey's projects, Santa Cruz, Argentina



## DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2010

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Field checking of an ASTER anomaly target area on the Sierra Morena property in April 2010 located siliceous breccias that outcrop discontinuously over approximately 1km strike and rock chip samples returned up to 0.49g/t Au and 13g/t Ag. Also, a single rock chip sample from a second area of poorly exposed quartz veining 700m distant from the breccia outcrops returned 0.20g/t Au and 20g/t Ag. Those areas are being targeted for immediate follow-up.

### QUEENSLAND PROJECTS

#### Apex Project Farm-in

De Grey has entered into a farm-in agreement with Teck Australia Pty Ltd (Teck) under which De Grey can earn 100% interest in EPM14142, located north of Cloncurry in Northwest Queensland.

EPM14142 covers a geophysical feature informally called the Apex Magnetic Complex, located 55km north of Xstrata's Ernest Henry copper-gold mine and 90km south of Falcon Minerals/Anglogold Ashanti's Saxby project, in the covered northern extension of the Eastern Succession of the Mount Isa Inlier.

A 1,035 station detailed ground gravity survey was completed in June, modelling of which confirms a significant gravity anomaly coincident with the magnetic signature at Apex. The high-amplitude anomalies are thought to be due to magnetite associated with an IOCG-style alteration system or, alternatively, a mafic intrusive complex similar to that which hosts nickel-copper mineralisation reported by Falcon Minerals at Saxby.

Locations have been selected for two diamond drill holes to test the target and drilling is scheduled to commence in the December quarter, subject to rig availability.

De Grey has been awarded funding of up to \$80,000 under the Queensland Government's Cooperative Drilling Initiative (CDI) to drill test the Apex Magnetic Complex. The CDI grant provides recognition of the quality and the potential of this exciting drill target in a frontier exploration area.

De Grey can earn 100% interest in the project by sole funding \$2 million exploration expenditures over 4 years, including a commitment to spend \$250,000 in the first year with a work program to include at least two drill holes to basement, with Teck retaining a 1% NSR royalty and the right to earn back to 70% interest by incurring a significant premium on De Grey's expenditures at any time up until De Grey has spent \$7.5 million.

### PILBARA IRON ASSETS

#### Beyondie Iron Joint Venture

On 16 September 2010, Emergent Resources Limited (Emergent) announced that its proposed joint venture with Beijing China Metallurgical Investment Co. Limited (CMIC) would not proceed. Execution of the Emergent-CMIC deal was a condition precedent to Emergent's proposed purchase of De Grey's 20% free carried interest in the Beyondie Iron JV. The proposed purchase has thus fallen away and De Grey retains its interest in the joint venture.



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In November 2009, Emergent announced that drilling had established an Inferred Resource of 561Mt @ 27.5% Fe<sup>1</sup> in magnetite mineralisation at Beyondie and an Exploration Target comprising potential for a further 480-510Mt @ 27-28.5% Fe in immediate extensions.

In June 2010, Emergent announced that surface sampling and geophysics had indicated hematite iron mineralisation ("DSO") comprising an Exploration Target of 70-120Mt @ 52-57% Fe<sup>2</sup>, also located on the JV tenements. Initial RC drill testing of the target commenced on 14 September and results are expected in early November.

The potential quantities and grades of the Exploration Targets are conceptual in nature as there has been insufficient exploration to define Mineral Resources, and it is uncertain if further exploration will result in the definition of Mineral Resources.

Under a Split Commodity Agreement, De Grey retains the rights to all non-iron ore minerals on the 841 sq km covered by the joint venture tenements.

### TURNER RIVER PROJECT

The farm-in and joint venture agreements with HJH Nominees Pty Ltd (HJH) over each of the Company's Turner River gold and base metals exploration projects were terminated in August due to HJH's failure to perform minimum work commitments under the agreements.

De Grey is presently reassessing its strategy for the Turner River project. The Company has received a number of approaches from other prospective joint venture partners.

### PATERSON PROJECT

Utilising the recently released results of a regional airborne electromagnetic (AEM) survey by Geoscience Australia, De Grey has applied for exploration licences over 2,100 sq km of ground in the Paterson region, south of Rudall River National Park.

This frontier exploration region represents the southern extension of geological units that host, variously, the Telfer gold mine, Nifty copper mine, Kintyre uranium deposit, Maroochydore copper deposit and Encounter Resources' recent BM1 copper discovery. Despite the prospectivity of the areas De Grey has pegged, they have seen little exploration over the last 15 years or more.

De Grey is progressively compiling exploration data available from work by previous explorers in the 1980's and early 1990's into a digital database for the region, in order to home in on targets for immediate further work. The Company is also continuing dialogue with Native Title parties regarding exploration access and heritage agreements.

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

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<sup>1</sup> Refer to Emergent Resources ASX release dated 25 September 2009

<sup>2</sup> Refer to Emergent Resources ASX release dated 2 June 2010

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

**De Grey Mining Limited**

ABN

65 094 206 292

Quarter ended ("current quarter")

30 September 2010

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(279)	(279)
(b) development	-	-
(c) production	-	-
(d) administration	(288)	(288)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	26	26
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	5	5
<b>Net Operating Cash Flows</b>	<b>(536)</b>	<b>(536)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(536)</b>	<b>(536)</b>

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(536)	(536)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	1,380	1,380
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	<b>1,380</b>	<b>1,380</b>
	<b>Net increase (decrease) in cash held</b>	<b>844</b>	<b>844</b>
1.20	Cash at beginning of quarter/year to date	2,389	2,389
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>3,233</b>	<b>3,233</b>

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

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	106
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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

**Non-cash financing and investing activities**

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

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

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**Financing facilities available**

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

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

+ See chapter 19 for defined terms.

**Estimated cash outflows for next quarter**

		\$A'000
4.1	Exploration and evaluation	200
4.2	Development	-
4.3	Production	-
4.4	Administration	270
<b>Total</b>		<b>470</b>

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,561	186
5.2 Deposits at call	1,672	2,194
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>3,233</b>	<b>2,380</b>

**Changes in interests in mining tenements**

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

+ See chapter 19 for defined terms.

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

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

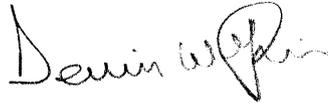
*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	258,862,350	258,862,350		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	33,750,000	33,750,000		
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	2,000,000 2,500,000 3,250,000 3,000,000 3,250,000		<i>Exercise price</i> 20 cents 7.5 cents 20 cents 25 cents 25 cents	<i>Expiry date</i> December 2010 June 2011 June 2011 July 2011 June 2012
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter	5,200,000		20 cents	July 2010
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

(Company secretary)

Date: 28 October 2010

Print name:

**Dennis Wilkins**

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.