

Montezuma Mining Company Limited

ABN 46 119 711 929

Annual Financial Report

for the year ended 30 June 2012

Corporate Information

ABN 46 119 711 929

Directors

Seamus Cornelius (Non-Executive Chairman)
Justin Brown (Managing Director)
John Ribbons (Non-Executive Director)

Company Secretary

John Ribbons

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Principal Place of Business

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Solicitors

Kings Park Corporate Lawyers
Suite 8, 8 Clive Street
WEST PERTH WA 6005

Bankers

National Australia Bank Limited
1232 Hay Street
WEST PERTH WA 6005

Share Register

Security Transfer Registrars Pty Ltd
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Auditors

Rothsay Chartered Accountants
Level 18, Central Park Building
152-158 St Georges Terrace
PERTH WA 6000

Internet Address

www.montezuma.com.au

Stock Exchange Listing

Montezuma Mining Company Limited shares (Code: MZM) are listed on the Australian Securities Exchange.

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Directors' Report

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

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Seamus Cornelius, (Non-Executive Chairman, audit committee member)

Mr Cornelius brings 21 years of corporate experience in both legal and commercial negotiations. Mr Cornelius has been based in Shanghai and Beijing since 1993 where he has been living and working as a corporate lawyer.

From 2000 to 2011, Mr Cornelius was an international partner with one of Australia's leading law firms and specialised in dealing with cross border investments, particularly in the energy and resource sectors. Mr Cornelius has for many years advised large international companies on their investments in China and in recent years advised Chinese state owned entities on their investments in natural resource projects outside China, including Australia. Mr Cornelius is also chairman of Buxton Resources Limited. Mr Cornelius has not held any former directorships in the last 3 years.

Justin Brown, B.Sc. (Hon), (Managing Director, audit committee member)

Mr Brown is a geologist with extensive experience in minerals exploration in Australia, Asia, Africa and New Zealand. He has a strong technical background with experience in the full spectrum of mineral exploration and mining from grass roots target generation through to resource mining and mine production.

Mr Brown has also worked in business circles away from mining and exploration, having founded and operated a successful internet services consultancy enhancing his management expertise which he brings to the Board. Mr Brown is a non-executive director of Exterra Resources Limited. Mr Brown has not held any former directorships in the last 3 years.

Mr Brown's is the founding Managing Director of the Company.

John Ribbons, B.Bus., CPA, ACIS (Non-Executive Director, Chairman of audit committee)

Mr Ribbons is an accountant who has worked within the resources industry for over fifteen years in the capacity of company accountant, group financial controller or company secretary.

Mr Ribbons has extensive knowledge and experience with ASX listed production and exploration companies. He has considerable site based experience with operating mines and has also been involved with the listing of several exploration companies on ASX. Mr Ribbons has experience in capital raising, ASX and TSX compliance and regulatory requirements. Mr Ribbons has not held any former directorships in the last 3 years.

COMPANY SECRETARY

John Ribbons

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

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

	Ordinary Shares	Options over Ordinary Shares
Seamus Cornelius	2,868,655	3,500,000
Justin Brown	2,112,500	3,000,000
John Ribbons	291,671	1,500,000

Directors' Report continued

PRINCIPAL ACTIVITIES

During the year the Group carried out exploration on its tenements and applied for or acquired additional tenements with the objective of identifying economic mineral deposits.

There was no significant change in the nature of the Group's activities during the year.

DIVIDENDS

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

REVIEW OF OPERATIONS

Finance Review

The Group began the financial year with a cash reserve of \$3,398,780. During the year, total funds of \$4,185,765 were raised from the exercise of 17,178,825 options, and a further 1,637,180 ordinary shares were issued raising \$327,436. Funds were used to acquire and actively advance the Group's projects located in Australia. Additional funds were received during the year from the sale of 238,636 ordinary shares held in Mineral Resources Limited. The shares were received in accordance with the commercial terms of the Mineral Resources Limited scheme of arrangement with Auvex Resources Limited to acquire 100% of its issued capital. The Company held 7,500,000 fully paid ordinary shares in the capital of Auvex Resources Limited.

During the year total tenement acquisition and exploration expenditure incurred by the Group amounted to \$3,411,201. In line with the Group's accounting policies, all exploration expenditure was written off at year end. The Company received income of \$125,000 (2011: \$829,484) from the sale of tenement interests, and recognised a net fair value loss on financial assets of \$262,544 (2011: \$264,450 fair value gain). Net administration expenditure incurred amounted to \$458,302 (2011: \$1,806,665). This has resulted in an operating loss after income tax for the year ended 30 June 2012 of \$4,007,047 (2011: \$3,602,100).

At 30 June 2012 surplus funds available totalled \$6,847,835.

Operating Results for the Year

Summarised operating results are as follows:

	2012	
	Revenues	Results
	\$	\$
Consolidated entity revenues and loss from ordinary activities before income tax expense	590,145	(4,007,047)

Shareholder Returns

	2012	2011
Basic and diluted loss per share (cents)	(6.2)	(8.1)

Risk Management

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The Group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial year were as follows:

- During the year the Company issued 17,178,825 ordinary shares on the exercise of options to raise a total of \$4,185,765.
- During the year the Company issued 1,637,180 ordinary shares for cash to raise a total of \$327,436.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 24, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

Directors' Report continued

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation in respect to its exploration activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the year under review.

REMUNERATION REPORT

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

Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of Montezuma Mining Company Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Company's financial results. The board of Montezuma Mining Company Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Company.

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

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

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

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

The executive directors and executives (if any) 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 Company and expensed. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$200,000). Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Performance based remuneration

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

Company performance, shareholder wealth and key management personnel remuneration

The remuneration policy has been tailored to increase the direct positive relationship between shareholders investment objectives and key management personnel performance. Currently, this is facilitated through the issue of options to the majority of key management personnel to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth. At commencement of production, performance based bonuses based on key performance indicators are expected to be introduced. For details of key management personnel interests in options at year end, refer to note 18 of the financial statements.

Use of remuneration consultants

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

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

The Company received approximately 99.9% of "yes" votes on its remuneration report for the 2011 financial year. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

Details of remuneration

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

The key management personnel of the Group include the directors as per page 3.

Directors' Report continued

Key management personnel of the Group

	Short-Term		Post Employment		Share-based Payments	Total
	Salary & Fees	Non Monetary	Superannuation	Retirement benefits	Options	
	\$	\$	\$	\$	\$	\$
Directors						
Seamus Cornelius (appointed 30 June 2011)						
2012	78,636	4,589	-	-	52,100	135,325
2011	-	-	-	-	-	-
Justin Brown						
2012	249,385	5,264	22,445	-	52,100	329,194
2011	199,539	3,513	17,958	-	90,500	311,510
John Ribbons						
2012	42,000	4,589	-	-	52,100	98,689
2011	33,807	3,367	-	-	90,500	127,674
Denis O'Meara (retired 30 June 2011)						
2011	37,500	3,513	3,375	-	-	44,388
Ian Cornelius (retired 14 July 2010)						
2011	1,458	146	-	-	-	1,604
Total key management personnel compensation						
2012	370,021	14,442	22,445	-	156,300	563,208
2011	272,304	10,539	21,333	-	181,000	485,176

Service agreements

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

Justin Brown, Managing Director:

- Term of agreement – 30 June 2013.
- Annual salary of \$242,880 (plus 9% statutory superannuation) plus the provision of income protection insurance, to be reviewed annually.
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, equal to six months total salary.

Share-based compensation

Options are issued to key management personnel as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of key management personnel of Montezuma Mining Company Limited to increase goal congruence between key management personnel and shareholders. The following options were granted to or vesting with key management personnel during the year:

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Exercised Number	% of Remuneration
Directors								
Seamus Cornelius	29/11/2011	500,000	29/11/2011	30/11/2015	80.0	10.4	N/A	38.5
Justin Brown	29/11/2011	500,000	29/11/2011	30/11/2015	80.0	10.4	N/A	15.8
John Ribbons	29/11/2011	500,000	29/11/2011	30/11/2015	80.0	10.4	N/A	52.8

There were no ordinary shares issued upon exercise of remuneration options to directors or other key management personnel of the Group during the year.

Directors' Report continued

DIRECTORS' MEETINGS

During the year the Company held eight meetings of directors. The attendance of directors at meetings of the board were:

	Directors Meetings		Audit Committee Meetings	
	A	B	A	B
Seamus Cornelius	8	8	-	-
Justin Brown	8	8	-	-
John Ribbons	8	8	-	-

Notes

A - Number of meetings attended.

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

SHARES UNDER OPTION

At the date of this report there are 8,925,000 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	24,678,825
Movements of share options during the year:	
Issued, exercisable at 41 cents, on or before 21 October 2015	375,000
Issued, exercisable at 80 cents, on or before 30 November 2015	1,500,000
Exercised (20 cents, 31 August 2012)	(11,878,825)
Exercised (20 cents, 2 March 2012)	(300,000)
Exercised (35 cents, 23 July 2012)	(1,500,000)
Exercised (35 cents, 31 August 2012)	(3,500,000)
Cancelled (41 cents, 21 October 2015)	(50,000)
Expired (20 cents, 2 March 2012)	(400,000)
Total number of options outstanding as at 30 June 2012	8,925,000
Movements of share options after the reporting date:	

Total number of options outstanding as at the date of this report	8,925,000
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The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
30 November 2012	20	3,050,000
30 November 2012	35	50,000
21 October 2015	41	325,000
14 December 2013	58	3,000,000
30 November 2015	65	1,000,000
30 November 2015	80	1,500,000
Total number of options outstanding at the date of this report		8,925,000

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

Directors' Report continued

SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of Montezuma Mining Company Limited were issued during the year ended 30 June 2012, and up to the date of this report, on the exercise of options. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
9 November 2006	20 cents	11,278,825
8 April 2008	20 cents	300,000
22 July 2010	20 cents	600,000
21 June 2006	35 cents	3,500,000
23 July 2007	35 cents	1,500,000
		17,178,825

INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Montezuma Mining Company Limited paid a premium of \$13,767 to insure the directors of the company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Rothsay Chartered Accountants or associated entities. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Rothsay Chartered Accountants received or are due to receive the following amounts for the provision of non-audit services:

	2012	2011
	\$	\$
Tax compliance services	-	2,500

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

Signed in accordance with a resolution of the directors.



Justin Brown
Managing Director
Perth, 27 September 2012



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The Directors
Montezuma Mining Company Ltd
PO Box 8535
Perth Business Centre WA 6849

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit review of the 30 June 2012 financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Frank Vrachas (Lead auditor)

Rothsay Chartered Accountants

Dated 27/9/2012



Chartered Accountants

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW).

Corporate Governance Statement

The Board of Directors

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

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

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

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

Role of the Board

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

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

Appointments to Other Boards

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

Independent Professional Advice

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

Continuous Review of Corporate Governance

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

ASX Principles of Good Corporate Governance

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

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

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

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 1:	Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	A	Matters reserved for the board are included on the Company's website.
1.2	Companies should disclose the process for evaluating the performance of senior executives	N/A	The performance of executive and non-executive directors is reviewed by the board with the exclusion of the Director concerned. The performance of management and employees is reviewed by the Managing Director and approved by the Board. Acting in its ordinary capacity, the board from time to time carries out the process of considering and determining performance issues. The Company's board charter is available on the Company website.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	A	
Principle 2:	Structure the board to add value		
2.1	A majority of the board should be independent directors	A	The board comprises three directors, two of whom are independent (John Ribbons and Seamus Cornelius).
2.2	The chair should be an independent director	A	
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	A	The positions of Chairman and Managing Director are held by separate persons.
2.4	The board should establish a nomination committee	A	The nomination committee is comprised of the full board. A copy of the nomination committee charter is available on the Company's website. The nomination committee has not met during the reporting period, however all matters that might properly be dealt with by the nomination committee are subject to regular scrutiny at full board meetings.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	A	The Board may undergo periodic formal assessment processes, including assessment of the Board's committees, where applicable. An independent third party consultant may be used to facilitate the assessment. An informal process of Board review which may be used by the Board requires each director to complete a questionnaire relating to the role, composition, procedures, practices and behaviour of the Board and its members. Senior executives having most direct contact with the Board may also be invited to complete similar questionnaires. Responses to the questionnaires are confidential and provided direct to the Chair. The Board as a whole then hold a facilitated discussion during which each Board member has the opportunity to raise any matter, suggestion for improvement or criticism with the Board as a whole. The Chair of the Board may also meet individually with each Board member to discuss their performance. Non-executive directors may also meet to discuss the performance of the Chair or the Managing Director.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	A	The skills, experience and period of office of Directors are set out in the Company's Annual Report (Directors' Report) and on its website. A statement as to the Company's materiality thresholds can be found in the Board Charter on the Company's website.
Principle 3:	Promote ethical and responsible decision-making		
3.1	Companies should establish a code of conduct and disclose the code	A	The Company has formulated a Code of Conduct which can be viewed on the Company's website.

A = Adopted

N/A = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	N/A	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. The Company does not think that it is appropriate to state measurable objectives for achieving gender diversity due to its size and stage of development.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	N/A	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. However, given the Company's size and stage of development as an exploration company, the board does not think it is yet appropriate to include measurable objectives in relation to gender. As the Company grows and requires more employees, the Company will review this policy and amend as appropriate.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	A	The proportion of women employees in the whole organisation is nil. There are currently no women in senior executive positions. There are currently no women on the board.
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3	A	
Principle 4: Safeguard integrity in financial reporting			
4.1	The board should establish an audit committee	A	The audit committee is comprised of the full board. A copy of the audit committee charter is available on the Company's website. The audit committee has not met during the reporting period, however all matters that might properly be dealt with by the audit committee are subject to regular scrutiny at full board meetings.
4.2	The audit committee should be structured so that it:		
	• consists only of non-executive directors	N/A	There are two non-executive directors on the board. Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits.
	• consists of a majority of independent directors	A	
	• is chaired by an independent chair, who is not chair of the board	A	
	• has at least three members	A	
4.3	The audit committee should have a formal charter	A	The Audit Committee Charter is available on the Company's website.
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	A	The audit committee is to meet at least annually and otherwise as required. However, the audit committee has not met during the reporting period.

A = Adopted

N/A = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 5:	Make timely and balanced disclosure		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	A	A copy of the Continuous Disclosure Policy is available on the Company's website. The board receives regular reports on the status of the Company's activities and any new proposed activities.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	A	
Principle 6:	Respect the rights of shareholders		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	A	In line with adherence to continuous disclosure requirements of ASX, all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including the Annual Reports, Half Yearly Reports, Quarterly Reports, the Company Website and the distribution of specific releases covering major transactions and events or other price sensitive information.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	A	The Company has formulated a Communication Policy which can be viewed on the Company's website.
Principle 7:	Recognise and manage risk		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	A	The Company has formulated Risk Management policies within the Corporate Governance Statement which can be viewed on the Company website.
7.2	The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks	A	The full board recognises its responsibility for identifying areas of significant business risk and ensuring that arrangements are in place to adequately manage these risks. This issue is regularly reviewed at board meetings and a risk management culture is encouraged amongst employees and contractors.
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	A	Assurance received.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	A	

A = Adopted

N/A = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 8:	Remunerate fairly and responsibly		
8.1	The board should establish a remuneration committee	A	A remuneration committee has been formed with the Charter available on the Company's website. The remuneration committee is comprised of the full board. The remuneration committee has not met during the reporting period, however all matters that might properly be dealt with by the remuneration committee are subject to regular scrutiny at full board meetings.
8.2	The remuneration committee should be structured so that it:		
	consists of a majority of independent directors	A	
	is chaired by an independent chair	A	
	has at least three members.	A	
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	A	Refer to the Remuneration Report in the Company's Annual Report.
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8	A	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.

A = Adopted

N/A = Not adopted

Consolidated Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2012

	Notes	Consolidated	
		2012	2011
		\$	\$
REVENUE	4	465,145	417,519
Other income	5	125,000	969,450
EXPENDITURE			
Depreciation expense		(33,216)	(19,380)
Salaries and employee benefits expense		(199,311)	(200,394)
Exploration expenditure		(3,411,201)	(3,504,069)
Secretarial and share registry expenses		(139,461)	(103,104)
Administration expenses		(357,613)	(309,542)
Other expenses	6	(262,544)	-
Share based payment expense	27	(193,846)	(1,467,280)
LOSS BEFORE INCOME TAX		(4,007,047)	(4,216,800)
INCOME TAX BENEFIT/(EXPENSE)	7	-	614,700
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF MONTEZUMA MINING COMPANY LIMITED		(4,007,047)	(3,602,100)
LOSS PER SHARE FOR LOSS ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY:			
Basic and diluted loss per share (cents per share)	26	(6.2)	(8.1)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Financial Position

AT 30 JUNE 2012

	Notes	Consolidated	
		2012	2011
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	8	6,847,835	3,398,780
Trade and other receivables	9	231,571	113,917
Financial assets at fair value through profit or loss	10	610,213	3,619,000
TOTAL CURRENT ASSETS		7,689,619	7,131,697
NON-CURRENT ASSETS			
Receivables	11	619,300	619,300
Plant and equipment	12	76,877	47,180
TOTAL NON-CURRENT ASSETS		696,177	666,480
TOTAL ASSETS		8,385,796	7,798,177
CURRENT LIABILITIES			
Trade and other payables	13	318,250	412,031
TOTAL CURRENT LIABILITIES		318,250	412,031
TOTAL LIABILITIES		318,250	412,031
NET ASSETS		8,067,546	7,386,146
EQUITY			
Issued capital	15	11,793,350	7,298,749
Reserves	16(a)	2,327,753	2,133,907
Accumulated losses	16(b)	(6,053,557)	(2,046,510)
TOTAL EQUITY		8,067,546	7,386,146

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

YEAR ENDED 30 JUNE 2012

	Notes	Contributed Equity \$	Options Reserve \$	Accumulated Losses \$	Total \$
Consolidated					
BALANCE AT 1 JULY 2009		5,720,610	666,627	1,555,590	7,942,827
Profit for the year	16(b)	-	-	(3,602,100)	(3,602,100)
TOTAL COMPREHENSIVE INCOME		-	-	(3,602,100)	(3,602,100)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	15	1,578,139	-	-	1,578,139
Employee and consultant options	16(a)	-	1,467,280	-	1,467,280
BALANCE AT 30 JUNE 2011		7,298,749	2,133,907	(2,046,510)	7,386,146
Loss for the year	16(b)	-	-	(4,007,047)	(4,007,047)
TOTAL COMPREHENSIVE LOSS		-	-	(4,007,047)	(4,007,047)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	15	4,494,601	-	-	4,494,601
Employee and consultant options	16(a)	-	193,846	-	193,846
BALANCE AT 30 JUNE 2012		11,793,350	2,327,753	(6,053,557)	8,067,546

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2012

	Notes	Consolidated	
		2012	2011
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(638,742)	(596,713)
Interest received		462,790	299,929
Receipts from royalties on mining interests		-	124,484
Proceeds on sale of mining interests		5,000	-
Expenditure on mining interests		(3,689,920)	(3,713,330)
Proceeds from disposal of financial assets at fair value through profit or loss		2,866,244	14,000
Payments for financial assets at fair value through profit or loss		-	(165,550)
Income taxes paid		(10,673)	(166,130)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	25	(1,005,301)	(4,203,310)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(40,245)	(42,455)
Payments for tenement bonds		-	(25,000)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(40,245)	(67,455)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		4,494,601	1,578,139
NET CASH INFLOW FROM FINANCING ACTIVITIES		4,494,601	1,578,139
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,449,055	(2,692,626)
Cash and cash equivalents at the beginning of the financial year		3,398,780	6,091,406
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	8	6,847,835	3,398,780

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Montezuma Mining Company Limited and its subsidiaries. The financial statements are presented in the Australian currency. Montezuma Mining Company Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 27 September 2012. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Montezuma Mining Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

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

(ii) New and amended standards adopted by the Group

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

(iii) Early adoption of standards

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

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which have been measured at fair value.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Montezuma Mining Company Limited ("Company" or "parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Montezuma Mining Company Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Montezuma Mining Company Limited.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Montezuma Mining Company Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

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

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

(i) Royalties income

Royalty income from the Company's Tribute Mining Agreement is recognised upon receipt of payment from the Perth Mint to the miner for each delivery of gold to the Perth Mint by the miner, in accordance with the terms of the Tribute Mining Agreement.

(ii) Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associated operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(f) Leases

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases (note 21). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

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

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(i) Trade and other receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(j) Investments and other financial assets

Classification

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial assets - reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

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

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from investment securities.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

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

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(k) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 20% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is Company policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(l) Exploration and evaluation costs

Exploration and evaluation costs are written off in the year they are incurred.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

(n) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Share-based payments

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 27.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(o) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(p) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

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

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

The key changes made to accounting requirements include:

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

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

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

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

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

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

This Standard makes amendments to AASB 112: Income Taxes.

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

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

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

The amendments are not expected to impact the Group.

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

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

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

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

This Standard is not expected to impact the Group.

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

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

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

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

This Standard is not expected to impact the Group.

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

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

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

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

This Standard is not expected to impact the Group.

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

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

This Standard is not expected to impact the Group.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(s) Critical accounting judgements, estimates and assumptions

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

Share based payment transactions

The Company 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 27.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full board of directors as the Group believes that it is crucial for all board members to be involved in this process. The managing director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the board on risk management.

(a) Market risk

(i) Foreign exchange risk

As all operations are currently within Australia, the Group is not exposed to any material foreign exchange risk.

(ii) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the statement of financial position as financial assets at fair value through profit or loss. Given the current level of operations, the Group is not currently exposed to commodity price risk.

The Group's equity investments are publicly traded on the ASX, with the investments being made for strategic purposes identified by the Board of Directors. The price risk is monitored by the Board and evaluated in accordance with these strategic outcomes.

Sensitivity analysis

At 30 June 2012, if the value of the equity instruments held had increased/decreased by 15% with all other variables held constant, post-tax loss for the Group would have been \$210,523 lower/higher, with no changes to other equity balances, as a result of gains/losses on equity securities classified as financial assets at fair value through profit or loss (2011: \$542,850 higher/lower profit).

(iii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group \$6,847,835 (2011: \$3,398,780) is subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group was 5.8% (2011: 7.2%).

Sensitivity analysis

At 30 June 2012, if interest rates had changed by +/- 80 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been \$64,250 lower/higher (2011: \$32,500 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

The Group does not have any significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount (net of provision for impairment) of those assets as disclosed in the statement of financial position and notes to the financial statements.

As the Group does not presently have any debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the Statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the balance date are recorded at amounts approximating their carrying amount.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

Consolidated

2012	2011
\$	\$

3. SEGMENT INFORMATION

For management purposes, the Group has identified only one reportable segment being exploration activities undertaken in Australia. This segment includes activities associated with the determination and assessment of the existence of commercial economic reserves, from the Group's mineral assets in this geographic location.

Segment performance is evaluated based on the operating profit and loss and cash flows and is measured in accordance with the Group's accounting policies.

Exploration segment

Segment revenue	-	124,484
Reconciliation of segment revenue to total revenue before tax:		
Interest revenue	465,145	293,035
Total revenue	465,415	417,519
Segment results	(2,821,055)	(2,674,585)
Reconciliation of segment result to net loss before tax:		
Other corporate and administration	(1,185,992)	(1,542,215)
Net loss before tax	(4,007,047)	(4,216,800)
Segment operating assets	-	-
Reconciliation of segment operating assets to total assets:		
Other corporate and administration assets	8,385,796	7,798,177
Total assets	8,385,796	7,798,177

4. REVENUE

From continuing operations

Other revenue

Interest	465,145	293,035
Royalties on mining interests	-	124,484
	465,145	417,519

5. OTHER INCOME

Net gain on sale of mining interests	125,000	705,000
Fair value gains on financial assets at fair value through profit or loss	-	264,450
	125,000	969,450

6. EXPENSES

Loss before income tax includes the following specific expenses:

Minimum lease payments relating to operating leases	122,890	88,412
Defined contribution superannuation expense	80,717	67,557
Fair value losses on financial assets at fair value through profit or loss	262,544	-

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

		Consolidated	
	Notes	2012 \$	2011 \$
7. INCOME TAX			
(a) Income tax expense			
Current tax		-	-
Deferred tax		-	(614,700)
		-	(614,700)
Deferred income tax (revenue)/expense included in income tax expense comprises:			
(Decrease)/Increase in deferred tax liabilities	14	-	(614,700)
		-	(614,700)
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Loss from continuing operations before income tax expense		(4,007,047)	(4,216,800)
Prima facie tax (benefit)/expense at the Australian tax rate of 30% (2011: 30%)		(1,202,114)	(1,265,040)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Share-based payments		58,154	440,184
Other		180,136	-
		(963,824)	(824,856)
Movements in unrecognised temporary differences		314,971	210,156
Tax effect of current year tax losses for which no deferred tax asset has been recognised		648,853	-
Income tax (benefit)/expense		-	(614,700)
(c) Unrecognised temporary differences			
Deferred Tax Assets (at 30%)			
<i>On Income Tax Account</i>			
Financial assets at fair value through profit or loss		99,701	-
Accruals and provisions		31,404	-
Carry forward tax losses		1,329,053	900,591
		1,460,158	900,591
Deferred Tax Liabilities (at 30%)			
Financial assets at fair value through profit or loss		-	690,435
Accrued income		10,442	-
		10,442	690,435

Net deferred tax assets were not brought to account as it was not considered probable within the immediate future that tax profits would be available against which deductible temporary differences and tax losses could be utilised.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

	Consolidated	
	2012	2011
	\$	\$
8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	81,792	833,539
Short-term deposits	6,766,043	2,565,241
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	6,847,835	3,398,780
Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.		
Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.		
9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES		
Sundry receivables	222,645	107,410
Prepayments	8,926	6,507
	231,571	113,917
10. CURRENT ASSETS - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Australian listed equity securities	610,213	3,619,000
Changes in fair values of financial assets at fair value through profit or loss are recorded in other income or other expenses in the statement of comprehensive income (notes 5 and 6 respectively).		
11. NON-CURRENT ASSETS - RECEIVABLES		
Environmental bond	619,300	619,300
12. NON-CURRENT ASSETS - PLANT AND EQUIPMENT		
Plant and equipment		
Cost	130,266	97,482
Accumulated depreciation	(53,349)	(50,302)
Net book amount	76,877	47,180
Movements:		
Opening net book amount	47,180	32,548
Additions	67,006	39,840
Disposals	(4,093)	(5,828)
Depreciation charge	(33,216)	(19,380)
Closing net book amount	76,877	47,180
13. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES		
Trade payables	188,948	235,469
Other payables and accruals	129,302	176,562
	318,250	412,031
14. NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES		
The balance comprises temporary differences attributable to:		
Financial assets at fair value through profit or loss	-	-
Movements:		
Opening balance	-	614,700
Charged to profit or loss	-	(614,700)
Closing balance	-	-

The entire balance of deferred tax liabilities is expected to be settled within 12 months.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

		2012		2011	
	Notes	Number of shares	\$	Number of shares	\$
15. ISSUED CAPITAL					
(a) Share capital					
Ordinary shares fully paid	15(b), 15(d)	67,664,350	11,793,350	48,848,345	7,298,749
Total issued capital		<u>67,664,350</u>	<u>11,793,350</u>	<u>48,848,345</u>	<u>7,298,749</u>
(b) Movements in ordinary share capital					
Beginning of the financial year		48,848,345	7,298,749	42,101,903	5,720,610
Issued during the year:					
– Issued on exercise of 20 cent options		12,178,825	2,417,165	5,496,442	1,153,139
– Issued for cash at 20 cents		1,637,180	327,436	-	-
– Issued on exercise of 30 cent options		-	-	250,000	75,000
– Issued on exercise of 35 cent options		5,000,000	1,750,000	1,000,000	350,000
End of the financial year		<u>67,664,350</u>	<u>11,793,350</u>	<u>48,848,345</u>	<u>7,298,749</u>

(c) Movements in options on issue

	Number of options	
	2012	2011
Beginning of the financial year	24,678,825	26,825,267
Issued during the year:		
– Exercisable at 20 cents, on or before 31 August 2011	-	600,000
– Exercisable at 58 cents, on or before 14 December 2013	-	3,000,000
– Exercisable at 41 cents, on or before 21 October 2015	375,000	-
– Exercisable at 65 cents, on or before 30 November 2015	-	1,000,000
– Exercisable at 80 cents, on or before 30 November 2015	1,500,000	-
Options exercised (30 cents, 16 April 2011)	-	(250,000)
Options exercise (35 cents, 23 July 2011)	(1,500,000)	-
Options exercised (20 cents, 31 August 2011)	(11,878,825)	(4,871,442)
Options exercised (35 cents, 31 August 2011)	(3,500,000)	(1,000,000)
Options exercised (20 cents, 2 March 2012)	(300,000)	(175,000)
Options exercised (20 cents, 30 November 2012)	-	(450,000)
Options expired (20 cents, 2 March 2012)	(400,000)	-
Options cancelled (41 cents, 21 October 2015)	(50,000)	-
End of the financial year	<u>8,925,000</u>	<u>24,678,825</u>

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

Consolidated

2012 2011
\$ \$

15. ISSUED CAPITAL (cont'd)

(e) Capital risk management

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

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2012 and 30 June 2011 are as follows:

Cash and cash equivalents	6,847,835	3,398,780
Trade and other receivables	231,571	113,917
Financial assets at fair value through profit or loss	610,213	3,619,000
Trade and other payables	(318,250)	(412,031)
Working capital position	7,371,369	6,719,666

16. RESERVES AND RETAINED EARNINGS

(a) Reserves

Share-based payments reserve

Balance at beginning of year	2,133,907	666,627
Employee and contractor share options	193,846	1,467,280
Balance at end of year	2,327,753	2,133,907

(b) (Accumulated losses)/Retained earnings

Balance at beginning of year	(2,046,510)	1,555,590
Net loss for the year	(4,007,047)	(3,602,100)
Balance at end of year	(6,053,557)	(2,046,510)

(c) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued.

17. DIVIDENDS

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

18. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

Short-term benefits	384,463	282,843
Post employment benefits	22,445	21,333
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	156,300	181,000
	563,208	485,176

Detailed remuneration disclosures are provided in the remuneration report on pages 5 and 6.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(b) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on page 6.

(ii) Option holdings

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

2012	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Montezuma Mining Company Limited							
Seamus Cornelius	3,567,500	500,000	(567,500)	-	3,500,000	3,500,000	-
Justin Brown	6,012,500	500,000	(1,012,500)	(2,500,000)	3,000,000	3,000,000	-
John Ribbons	1,138,334	500,000	(138,334)	-	1,500,000	1,500,000	-

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

2011	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Montezuma Mining Company Limited							
Seamus Cornelius (appointed 30 June 2011)	-	-	-	3,567,500	3,567,500	3,567,500	-
Justin Brown	5,512,500	500,000	-	-	6,012,500	6,012,500	-
John Ribbons	638,334	500,000	-	-	1,138,334	1,138,334	-
Denis O'Meara (retired 30 June 2011)	1,102,500	-	-	-	1,102,500	1,102,500	-
Ian Cornelius (retired 14 July 2010)	305,000	-	-	(305,000)	-	-	-

(iii) Share holdings

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

2012	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of Montezuma Mining Company Limited				
Ordinary shares				
Seamus Cornelius	2,301,155	567,500	-	2,868,655
Justin Brown	1,100,000	1,012,500	-	2,112,500
John Ribbons	153,337	138,334	-	291,671

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

2011

	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of Montezuma Mining Company Limited				
Ordinary shares				
Seamus Cornelius (appointed 30 June 2011)	-	-	2,301,155	2,301,155
Justin Brown	1,100,000	-	-	1,100,000
John Ribbons	153,337	-	-	153,337
Denis O'Meara (retired 30 June 2011)	700,000	-	-	700,000
Ian Cornelius (retired 14 July 2010)	320,000	-	(320,000)	-

(c) Loans to key management personnel

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

	Consolidated	
	2012	2011
	\$	\$

19. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) Audit services

Rothsay Chartered Accountants - audit and review of financial reports	44,409	40,591
Total remuneration for audit services	44,409	40,591

(b) Non-audit services

Rothsay Chartered Accountants – taxation advisory services	-	2,500
Total remuneration for other services	-	2,500

20. CONTINGENCIES

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

21. COMMITMENTS

(a) Exploration commitments

The Company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:

within one year	873,880	793,600
later than one year but not later than five years	3,495,520	3,174,400
	4,369,400	3,968,000

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

Consolidated

2012	2011
\$	\$

21. COMMITMENTS (cont'd)

(b) Lease commitments: Group as lessee

Operating leases (non-cancellable):

Minimum lease payments

within one year

222,720	142,165
---------	---------

later than one year but not later than five years

949,628	-
---------	---

Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities

1,172,348	142,165
-----------	---------

The property lease is a non-cancellable lease with a five year term, with rent payable monthly in advance. The rental agreement provides for a fixed rent increase of 3.5% on each anniversary date. The lease allows for subletting of all lease areas subject to permission from the lessor.

22. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is Montezuma Mining Company Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 23.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 18.

23. SUBSIDIARY

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name	Country of Incorporation	Class of Shares	Equity Holding ⁽¹⁾	
			2012	2011
			%	%
Peak Hill Metals Pty Ltd	Australia	Ordinary	100	100

(1) The proportion of ownership interest is equal to the proportion of voting power held.

24. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

No matter or circumstance has arisen since 30 June 2012, which has significantly affected, or may significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company in subsequent financial years. However, the Company can confirm that since 30 June 2012 it has entered into an option agreement with Grosvenor Gold Pty Ltd, a wholly owned subsidiary of Resource Investment NL, whereby Grosvenor Gold Pty Ltd may acquire 100% of the Company's interest in the Peak Hill Project by the acquisition of Peak Hill Metals Pty Ltd, a wholly owned subsidiary of the Company.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

Consolidated

2012 2011
\$ \$

25. STATEMENT OF CASH FLOWS

Reconciliation of loss after income tax to net cash outflow from operating activities

Loss for the year	(4,007,047)	(3,602,100)
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Non-Cash Items

Depreciation of non-current assets	33,216	19,380
------------------------------------	--------	--------

Loss on disposal of plant and equipment	4,093	5,828
---	-------	-------

Employee and consultants option expense	193,846	1,467,280
---	---------	-----------

Change in operating assets and liabilities

(Increase) in trade and other receivables	(117,654)	(50,282)
---	-----------	----------

Decrease/(increase) in financial assets at fair value through profit or loss	3,008,788	(1,121,000)
--	-----------	-------------

(Decrease) in trade and other payables	(120,543)	(141,586)
--	-----------	-----------

(Decrease) in provision for income taxes payable	-	(166,130)
--	---	-----------

(Decrease) in deferred tax liabilities	-	(614,700)
--	---	-----------

Net cash outflow from operating activities	(1,005,301)	(4,203,310)
--	-------------	-------------

26. EARNINGS PER SHARE

(a) Reconciliation of earnings used in calculating loss per share

Loss attributable to the owners of the Company used in calculating basic and diluted earnings per share

(4,007,047)	(3,602,100)
-------------	-------------

Number of shares 2012	Number of shares 2011
--------------------------	--------------------------

(b) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share

64,751,720	44,504,779
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(c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2012, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. This has resulted in the diluted earnings per share being the same as the basic earnings per share. These options could potentially dilute basic earnings per share in the future.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

27. SHARE-BASED PAYMENTS

(a) Employees and Contractors Option Plan

The Company provides benefits to employees (including directors) and contractors of the Company in the form of share-based payment transactions, whereby employees render services in exchange for options to acquire ordinary shares. The exercise price of the options granted range from 20 cents to 80 cents per option. All options granted have expiry dates ranging from 30 November 2012 to 30 November 2015.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Fair value of options granted

The weighted average fair value of the options granted during the year was 10.0 cents (2011: 31.9 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2012	2011
Weighted average exercise price (cents)	72.2	54.6
Weighted average life of the option (years)	4.00	3.17
Weighted average underlying share price (cents)	39.00	66.74
Expected share price volatility	50%	50%
Risk free interest rate	4.55%	4.72%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

(b) Options issued to suppliers

As part consideration for services associated with the initial public offering of the Company and as part consideration for the acquisition of tenement interests, suppliers were issued with listed options in the Company. A total of 1,850,000 options were issued with an exercise price of 20 cents which expired on 31 August 2011.

Options granted carried no dividend or voting rights. When exercisable, each option was convertible into one ordinary share of the Company with full dividend and voting rights.

Fair value of options granted

The listed options granted are valued at the market closing price on the date that the options are allotted. There were no options issued to suppliers during the current or prior year.

Set out below are summaries of the share-based payment options granted per (a) and (b):

	2012		2011	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	12,750,000	35.5	9,025,000	24.5
Granted	1,875,000	72.2	4,600,000	54.6
Forfeited	(50,000)	41.0	-	-
Exercised	(4,250,000)	25.3	(875,000)	22.9
Expired	(1,400,000)	30.7	-	-
Outstanding at year-end	8,925,000	41.7	12,750,000	35.5
Exercisable at year-end	8,925,000	41.7	12,750,000	35.5

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.71 years (2011: 1.36 years), and the exercise prices range from 20 cents to 80 cents.

Notes to the Consolidated Financial Statements continued

30 JUNE 2012

Consolidated

2012 2011
\$ \$

27. SHARE-BASED PAYMENTS (cont'd)

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

Options issued to employees and consultants (shown as share based payment expense in the statement of comprehensive income)

193,846 1,467,280

28. PARENT ENTITY INFORMATION

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

Parent Entity

2012 2011
\$ \$

Current assets	7,586,369	7,131,695
Non-current assets	1,396,179	666,482
Total assets	8,982,548	7,798,177
Current liabilities	915,002	412,031
Total liabilities	915,002	412,031
Issued capital	11,793,350	7,298,749
Share-based payments reserve	2,327,753	2,133,907
Accumulated losses	(6,053,557)	(2,046,510)
Total equity	8,067,546	7,386,146
Loss for the year	(4,007,047)	(3,602,100)
Total comprehensive income for the year	(4,007,047)	(3,602,100)

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 38 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 30 June 2012 and of its performance for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Justin Brown
Managing Director

Perth, 27 September 2012



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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MONTEZUMA MINING COMPANY LTD

Report on the financial report

We have audited the accompanying financial report of Montezuma Mining Company Ltd (the Company") which comprises the balance sheet as at 30 June 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 year.

Directors Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

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 as to whether the financial report is free of 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 our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in 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

We are independent of the Company, and have met the independence requirements of Australian professional ethical requirements and the *Corporations Act 2001*.



Chartered Accountants

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW).

**Audit opinion**

In our opinion the financial report of Montezuma Mining Company Ltd is in accordance with the *Corporations Act 2001*, including:

- a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Audit opinion

In our opinion the remuneration report of Montezuma Mining Company Ltd for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Frank Vrachas
Partner

Dated 27/9/2012

ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 27 September 2012.

(a) Distribution of equity securities

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

		Ordinary shares	
		Number of holders	Number of shares
1	- 1,000	51	17,847
1,001	- 5,000	193	597,619
5,001	- 10,000	154	1,307,757
10,001	- 100,000	322	11,046,381
100,001	and over	72	54,694,746
		792	67,664,350
The number of equity security holders holding less than a marketable parcel of securities are:		104	104,117

(b) Twenty largest shareholders

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

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	JP Morgan Nom Aust Ltd <Cash Income A/C>	5,406,272	7.99
2	South Boulder Mines Ltd	5,382,500	7.95
3	Ranguta Ltd	5,076,375	7.50
4	Alpha Boxer Ltd	4,002,500	5.92
5	Zero Nom Pty Ltd	4,000,000	5.91
6	Duketon Consolidated Ltd	3,050,000	4.51
7	Alpha Boxer Ltd	2,343,334	3.46
8	Kongming Inv Ltd	1,837,018	2.71
9	Avania Nom Pty Ltd	1,692,567	2.50
10	Mandies Meats Pty Ltd	1,151,796	1.70
11	Aradia Ventures Pty Ltd	1,030,000	1.52
12	Aradia Ventures Pty Ltd <J & A Brown Fam A/C>	1,007,500	1.49
13	Grammer Dianne Claire	1,000,000	1.48
14	Actdine Pty Ltd <Cunningham S/F A/C>	1,000,000	1.48
15	Sino West Assets Ltd	956,637	1.41
16	ABN Amro Clearing Sydney <Cust A/C>	660,810	0.98
17	Lewis Kathryn	612,500	0.91
18	Watts Paul Hartley	600,000	0.89
19	National Nom Ltd	599,000	0.89
20	Mandies Meats Pty Ltd <Number 2 Account>	544,900	0.81
		41,969,209	62.03

ASX Additional Information continued

(c) Substantial shareholders

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

	Number of Shares
JP Morgan Nom Aust Ltd <Cash Income A/C>	5,391,272
South Boulder Mines Ltd	5,382,500
Ranguta Ltd	5,076,375
Alpha Boxer Ltd	4,002,500
Zero Nom Pty Ltd	4,000,000

(d) Voting rights

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

(e) Schedule of interests in mining tenements

Location	Tenement	Percentage held / earning
Butcher Bird Copper	E52/2350	100
Robinson Range	P52/1227	100
Robinson Range	P52/1233	70
Millidie Creek	E52/2510	100
McCarthy Well	E51/1398	100
Mt Padbury	E52/1529	100
Peak Hill Gold	E52/2237	100
Peak Hill Gold	E52/2413	100
Peak Hill Gold	E52/2471	100
Peak Hill Gold	E52/2472	100
Peak Hill Gold	M52/35	100
Peak Hill Gold	M52/474	100
Peak Hill Gold	M52/56	100
Peak Hill Gold	M52/297	100
Peak Hill Gold	P52/1343	100
Peak Hill Gold	P52/1344	100
Peak Hill Gold	P52/1345	100
Peak Hill Gold	P52/1348	100
Peak Hill Gold	P52/1234	100
Peak Hill Gold	P52/1189	100
Peak Hill Gold	P52/1190	100
Peak Hill Gold	P52/1191	100
Peak Hill Gold	P52/1192	100
Peak Hill Gold	P52/1193	100
Peak Hill Gold	M52/801	100