



ANNUAL REPORT 2011

ACN 105 578 756

CORPORATE DIRECTORY

Directors**Dr Mike Etheridge**

Non-Executive Chairman

Mr Gordon Barnes

Managing Director

Mr Mark Lester

Non-Executive Director

Dr James Macdonald

Non-Executive Director

Company Secretary

Mr Rowan Caren

Principal Place of Business

3 Corporation Place,
Orange NSW 2800
Telephone: +61 2 6361 1285
Facsimile: +61 2 6361 1202
www.clancyexploration.com

Registered Office

Suite 4, 6 Richardson Street
West Perth WA 6005

Share Registry

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

Auditor

Deloitte Touche Tohmatsu
Level 14, Woodside Plaza
240 St Georges Terrace
Perth WA 6000

Lawyers

Holborn Lenhoff Massey
3rd Floor, Irwin Chambers
16 Irwin Street
Perth WA 6000

Hilary Macdonald
Suite 29, 18 Stirling Highway
Nedlands WA 6009

ASX Trading Symbols: Shares - CLY, Options – CLYO**INDEX**

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CHAIRMAN'S ADDRESS

Dear Fellow Shareholders,

On behalf of the board, we would like to present to you the 2011 Annual Report for Clancy Exploration Limited.

Corporate Changes

Further to the transfer of corporate and operational management to Orange, NSW in late 2010, Gordon Barnes was appointed as Managing Director on 1st January 2011, while retaining his role as Exploration Manager. In addition, Dr Mike Etheridge joined the board as a non-executive director on 11th March 2011, subsequently taking over from Dr James Macdonald (who remained on as non-executive director) as non-executive chairman on 22nd July 2011. Mike is a Clancy shareholder and his relationship with Clancy stretches back to 2004 when he was founding non-executive chairman of Geoinformatics Exploration Inc, from which Clancy Exploration was spun out in 2007.

Exploration Progress

The Company made significant progress on several of its NSW tenements during 2011, as detailed in the following Operations Report. The highlights have been at the Condobolin project, where all five targets drilled during the year and early in 2012 have yielded promising results, including what was effectively a virgin prospect at Meritilga. Meritilga yielded both high-grade (4m @ 20g/t gold, 0.26% copper and 30.2g/t silver) and broader, lower grade intersections (incl. 18m @ 0.33g/t gold, 0.6% copper and 8.2 g/t silver; 31m @ 0.4g/t gold, 0.18% copper and 16g/t silver), in addition to widespread zinc and lead mineralisation over a strike length exceeding 600m.

At the direction of the Board, management undertook a thorough review of OH&S policies and procedures during 2011. A thoroughly revised and updated OH&S Manual has been reviewed and approved by the Board and will be formally adopted after external auditing has been completed in the June 2012 quarter.

Financing

The Company completed a fully underwritten non-renounceable rights issue that raised \$4.38 million (before issue costs) during May-June 2011. The rights issue was offered on the basis of one new share and one free attaching option for every two shares held, at an issue application price of 8 cents per share. The free attaching options have an exercise price of 15 cents each and will expire on 31 July 2013 and are listed under the existing ASX code of "CLYO". The issue was fully underwritten jointly by Patersons Securities Limited and Soaring Securities Pty Limited, and we greatly appreciate their support for the Company.

In addition, the Company entered into a Drilling Earn-in Agreement with Australian Mineral and Waterwell Drilling Pty Ltd (AMWD), whereby AMWD will become CLY's preferred drilling contractor for a \$5 million drilling contract or a three year period, whichever occurs first. Under the terms of the agreement, AMWD will invoice CLY monthly for a cash amount equivalent to 75% of all agreed costs associated with drilling and CLY will issue fully paid ordinary shares in CLY to AMWD for the balance of 25%.

Strategic Review

During the second half of the year, the Board undertook a strategic review of the Company's business. As a result, we have commenced a search for a flagship, more advanced project to bring into the Company. Several opportunities have been assessed to date, and subsequent to year-end (2nd April 2012), the Company announced its intention to make an off-market takeover bid for Genesis Resources Ltd (ASX:GES), having been attracted to Genesis by its interest in the Plavica gold-copper-silver project in Macedonia.

Clancy Exploration looks forward to a very positive year in 2012, both by advancing its current projects and by its pursuit of other opportunities to deliver value to its shareholders.

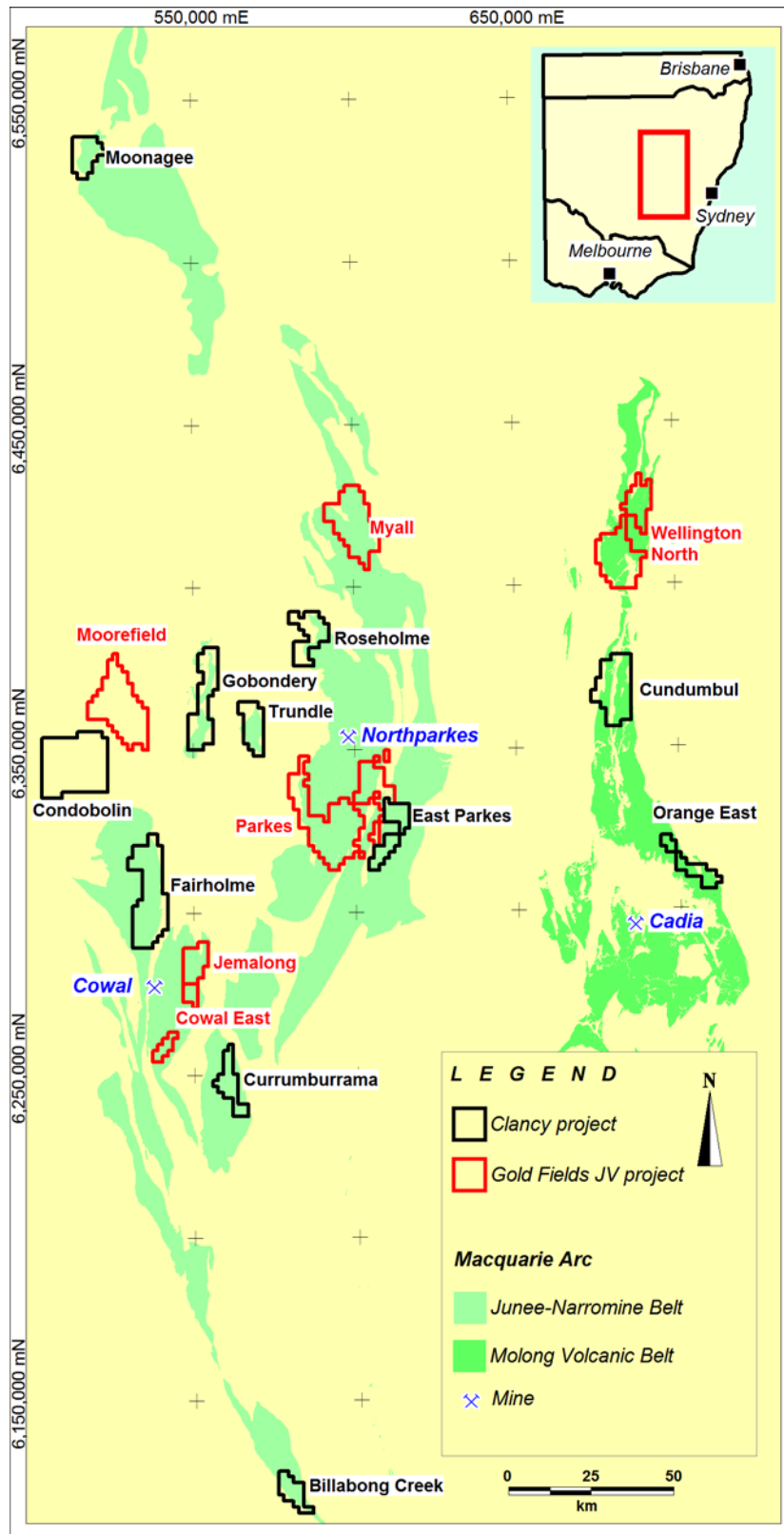


Dr. Mike Etheridge
Chairman since 22 July 2011



Dr. James Macdonald
Chairman to 22 July 2011

OPERATIONS REPORT



Map showing the location of Clancy projects in the Macquarie Arc of Lachlan Fold Belt. Inset – the location within NSW.

OPERATIONS REPORT***New South Wales Projects***

Clancy's tenement portfolio in NSW consists of 19 exploration projects covering 3,127km². The majority of the portfolio is in the Lachlan Fold Belt, focused on the Ordovician Macquarie Arc, which hosts several large porphyry copper-gold deposits, including the world class deposits in the Cadia Valley near Orange. Clancy's targeting indicates that the geological environment in respect of its projects within the Macquarie Arc is prospective for porphyry copper-gold deposits. Clancy also has several tenements outside of the Macquarie Arc that are prospective for gold and base metals.

The Clancy portfolio in NSW consists of 12 wholly owned projects managed by Clancy and 7 joint venture projects with Gold Fields Australasia Pty Ltd (Gold Fields) managed by Gold Fields. Both the Clancy and Gold Fields exploration teams are based in Orange, NSW. A total of 20,075m of drilling and numerous geophysical and geochemical surveys were completed on the NSW project portfolio in the year to 31 December 2011.

Condobolin

(NSW, Clancy 100%)

Condobolin (EL7399) is located in the central west of NSW immediately north of the Condobolin township. Condobolin has a substantial mining history, predominantly as a base metals field (lead, zinc and copper), as well as gold. The mineralisation is hosted in epithermal-style quartz veins within the metasedimentary units of the Ordovician Girilambone Group, associated with pyrite, sphalerite, galena, chalcopyrite, arsenopyrite and free gold.

Condobolin was a focus for field activity in 2011 with drilling (3,905m), an aeromagnetic and radiometric survey (2,106 line km), a soil geochemistry survey (2,195 samples), rock chip sampling (32 samples), a 3D IP survey (3km²) and trial downhole IP survey completed in the year to 31 December, 2011.

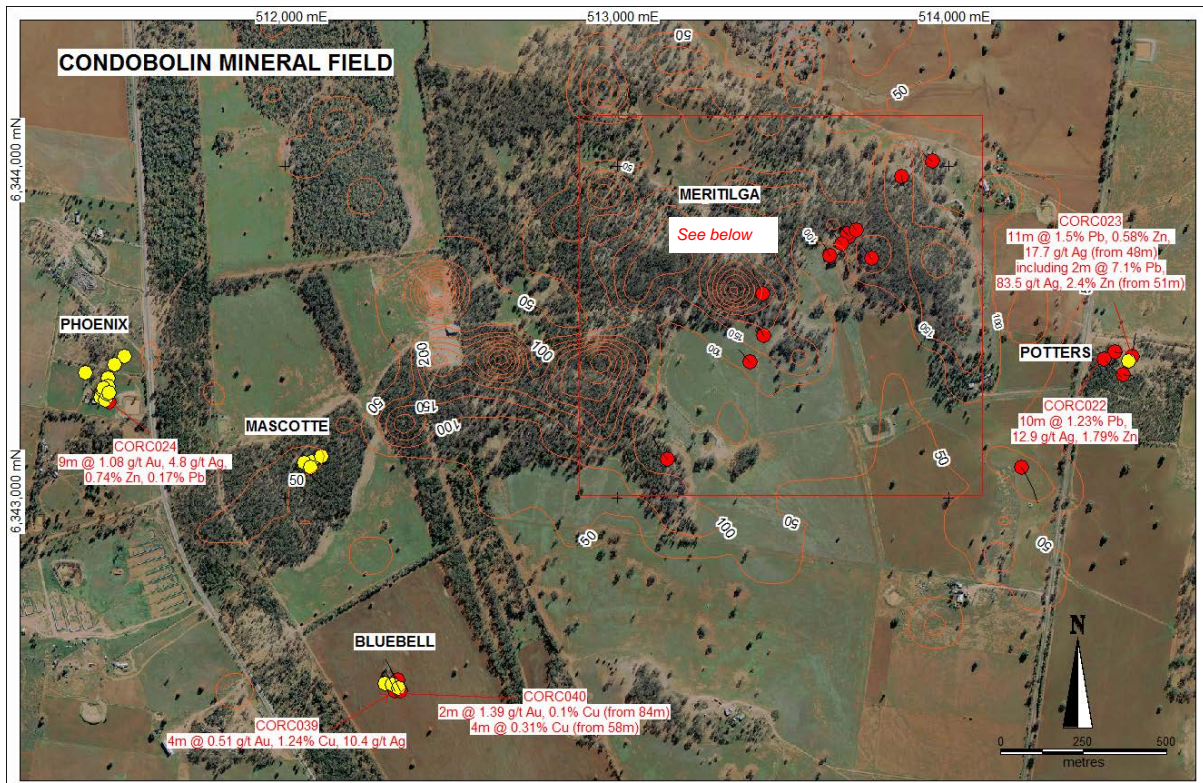
The geophysical and geochemical surveys highlighted a significant area of anomalism centered on the Meritilga prospect. The gold, copper, lead, silver and zinc mineralisation at Meritilga and the broader Condobolin Mineral Field appears to be a manifestation of a zoned hydrothermal system, with near surface, low-sulphidation epithermal mineralisation potentially linked at depth to a deeper intrusive source.

RC drilling at Meritilga intersected a high-grade gold shoot in hole CORC029, with the following results:

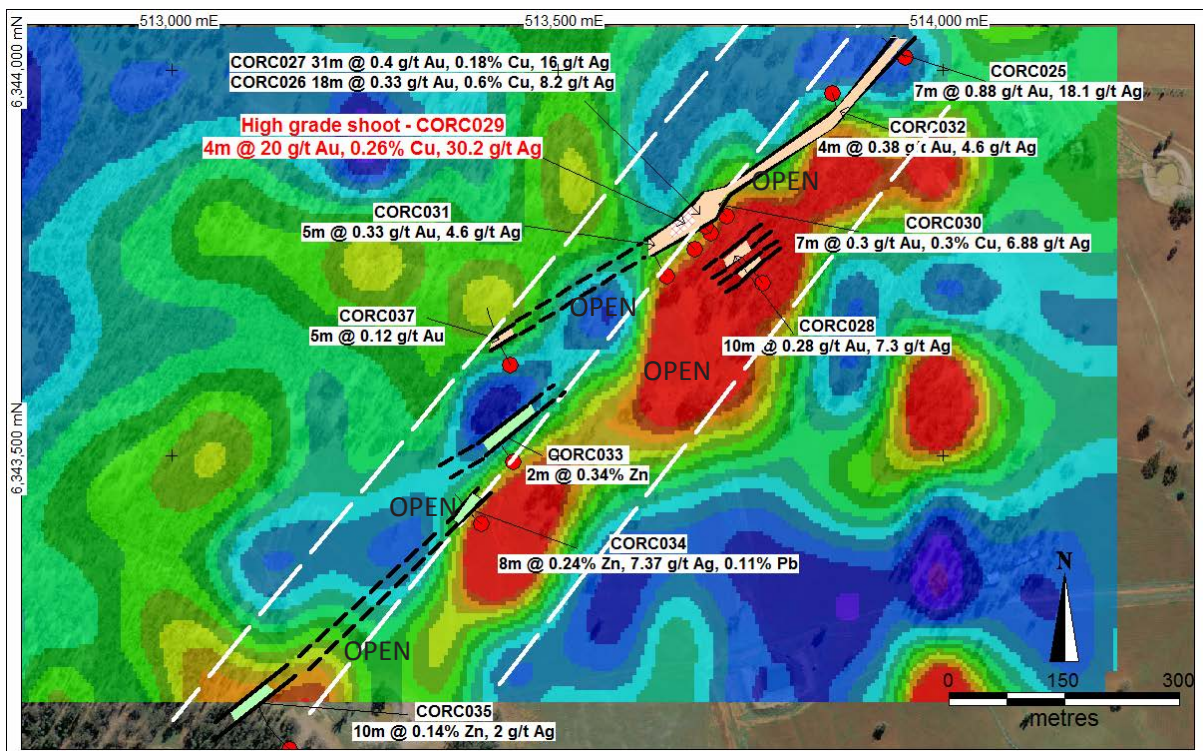
- 4m @ 20g/t Au, 0.26% Cu and 30.2g/t Ag from 75m; including:
 - 1m @ 62g/t Au, 60g/t Ag from 76m

The high-grade shoot is open at depth and along strike to the south and is adjacent to broad zones of lower-grade gold, copper and silver mineralisation; e.g. 31m @ 0.4g/t Au, 0.18% Cu and 16g/t Ag from 34m in CORC027 and 18m @ 0.33g/t Au, 0.6% Cu and 8.2g/t Ag from 60m in CORC026. The mineralisation is associated with the previously untested Meritilga Fault Zone, which has a strike length of 1km.

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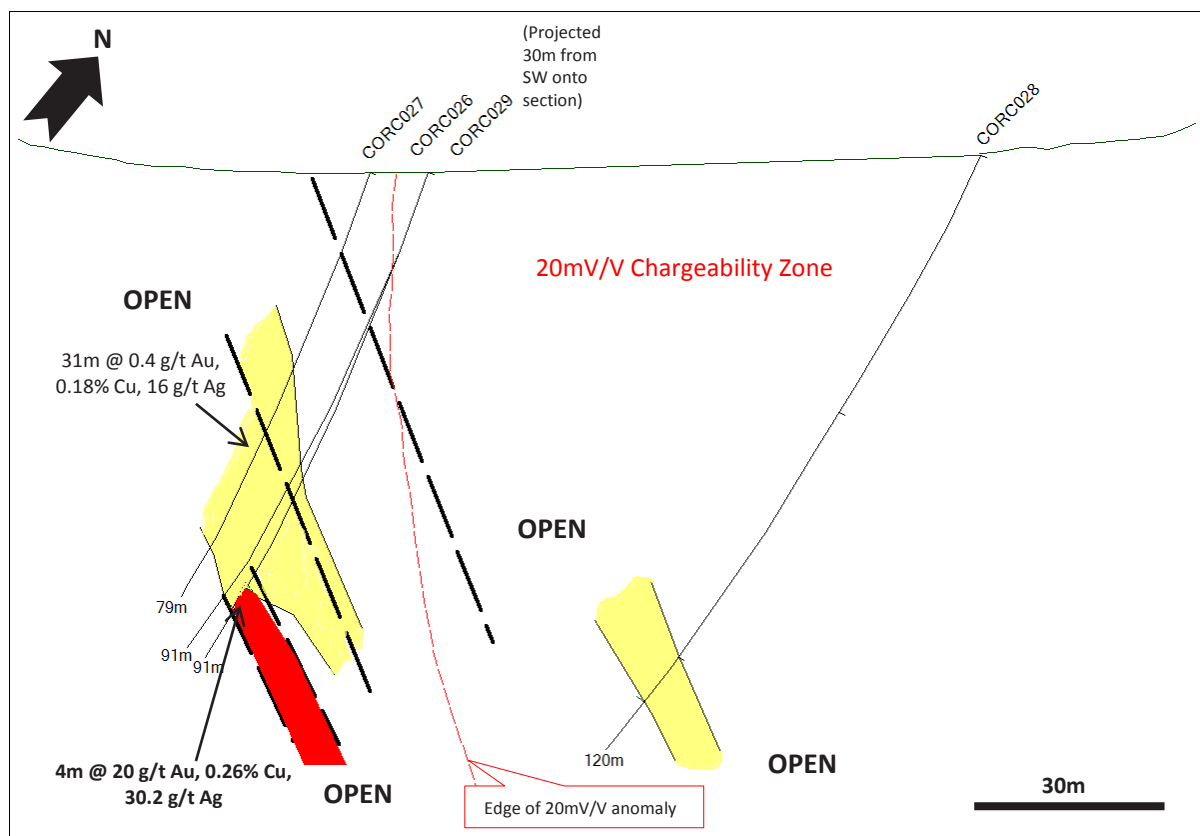


Plan view of RC drill program over the Condobolin Mineral Field showing major intercepts at Phoenix, Potters and Bluebell prospects and arsenic in soil anomaly.



Plan view of RC drill program at the Meritilga Prospect showing major intercepts, interpreted mineralisation geometry and 3D IP chargeability anomalies at 100m vertical depth.

OPERATIONS REPORT



Cross section looking northeast at the Meritilga Prospect showing the high grade shoot (red) the lower grade gold-silver-copper halo (yellow), and faults (dotted black lines).

Drilling at the Potters, Phoenix and Bluebell prospects also returned encouraging intercepts. At Potters, drilling tested the footprint of the old workings. Ore-grade material remains in close proximity to the workings with hole CORC023 intersecting 11m @ 1.5% Pb, 0.58% Zn and 17.68g/t Ag from 48m, including 2m @ 7.1% Pb, 2.4% Zn and 83.5g/t Ag from 51m. Hole CORC022 was drilled to intersect extensions of the Potters lode, 20m below the known extent of the workings. At 136m, 10m @ 1.79% Zn, 1.23% Pb and 12.9g/t Ag was intersected. The zone included 4m @ 4.1% Zn, 2.87% Pb and 29.6g/t Ag from 136m.

At the Phoenix prospect, one hole, CORC024, was drilled to twin diamond hole COD001, to verify the persistence of the lode drilled in February 2011. The intercept, 9m @ 1.08g/t Au, 4.8 g/t Ag, 0.74% Zn and 0.17% Pb from 83m, confirmed the Phoenix lode to now be 30m wide. It is still open down dip and along strike.

Three RC holes were drilled at the Bluebell prospect in order to test the strike and down dip extension of the lode intersected during drilling in February 2011, which returned 4m @ 0.29g/t Au, 1.14% Cu and 8.17g/t Ag from 98m in CORC012. Fence hole CORC040, drilled to hit the lode 10m down dip, intersected 2m @ 1.39 g/t Au, 0.1% Cu and 2.33g/t Ag from 84m, indicating the lode dips gently to the south. Hole CORC039, drilled 15m along strike to the west, intersected 4m @ 0.51g/t Au, 1.24% Cu and 10.4g/t Ag from 105m.

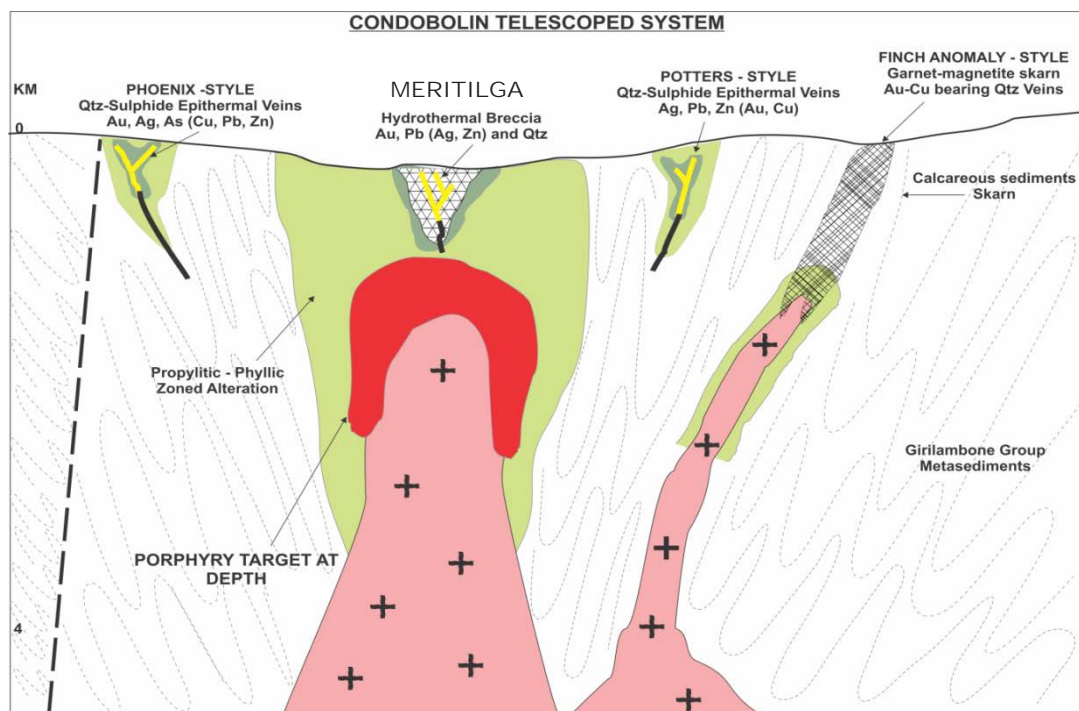
Potential for alluvial gold was highlighted by the aeromagnetic survey, which identified buried channels that drain the hills around Meritilga. These hills host numerous historic workings that once produced high-grade gold. Aircore and aircore hammer drilling was completed to test alluvial gold and basement gold targets. Numerous basement gold hits over a gram per tonne and visible gold near the old Eureka Mine were returned. The aircore drilling intersected the alluvial channels

OPERATIONS REPORT

beneath shallow soil cover and they contain quartz-rich alluvial gravel up to 8m thick. The results confirm that gold-bearing quartz is present in the gravel (e.g. 1m @ 28.4 g/t Au from 4m in COAC012). Further testing of the alluvial gold potential will require refinement of drilling and sampling methods.

Basement testing below the palaeochannel was successful, with several aircore holes returning elevated gold from phyllite host rocks containing quartz veins and patchy copper oxides (e.g. 2m @ 3.99 g/t Au from 28m in COAC005 and 1m @ 4.75 g/t Au from 44m in COAC009). Drilling proximal to the Eureka workings returned visible gold at 40m and elevated gold and base metals in epithermal quartz veins in altered phyllite host rocks. The sample with visible gold assayed 1.86 g/t Au, suggesting the gold could be nuggetty above the primary zone (e.g. 3m @ 0.75 g/t Au from 38m in COAC027; including, 1m @ 1.86 g/t Au, 0.14% Lead from 40m). Drilling proximal to the Mt Tilga Gold workings returned elevated gold occurring in quartz-carbonate veins bearing arsenopyrite-pyrite (e.g. 4m @ 0.26 g/t Au from 44m in COAC018).

During the year, diamond drilling to follow up results of the successful February 2011 RC program (reported in the 2010 annual report) was completed. Three holes were drilled at the Phoenix prospect and three holes were completed at the Mascotte prospect. Patchy, low-grade gold, zinc, silver and lead results were returned from a number of holes. At Phoenix, several mineralised shear zones were intersected, which present as milled breccias that are heavily quartz veined with massive pyrite, sphalerite and galena. On a broad scale, these are thought to represent dilational zones similar to those which occur at Mineral Hill, some 60km north of Condobolin, which are also zoned with respect to gold and base metals. Crucial to the understanding of the Condobolin Mineral Field is the fact that the host rock sequence is most likely Silurian in age, consisting of foliated thick packages of volcanic sediments. This would indicate that the host rock sequence at Condobolin, and therefore most likely the mineralisation, is the same age as Mineral Hill.



Schematic model for mineralisation in the Condobolin Mineral Field.

OPERATIONS REPORT**Trundle**

(NSW, Clancy 100%)

Trundle consists of two exploration licences EL4512 and EL7187 located 25km west of the Northparkes copper-gold mine (Rio Tinto). The project has many similarities to Northparkes and is separated from the Northparkes district by a north-south trending Devonian rift basin. Interpretation of geophysical data suggests that Trundle may have originally been part of the Northparkes complex, which was subsequently dismembered during development of the rift.

In 2011, RC drilling was undertaken at Trundle Park testing copper-gold skarn and epithermal targets (10 holes; 1,239m). The highlights from this program (reported in the 2010 annual report) included a high-grade intercept of 2m @ 20g/t Au and 6.97% Cu from 64m in TPRC003 and 58m @ 0.44g/t Au and 0.17% Cu from 22m in TPRC005. The high-grade intercept in TPRC003 is associated with quartz veining and native copper and the broad, moderate-grade gold and copper intercept in TPRC005 is associated with magnetite-rich skarn.

During the year, an investigation into the potential of the extensive magnetite skarn horizons at Trundle to host significant iron (magnetite and hematite) resources, in addition to copper and gold, was completed. Magnetite-rich skarn is present at several localities including Trundle Park, Mordialloc and Botfield. Current mines that exploit this style of deposit include Ernest Henry in Queensland and Cairn Hill in South Australia.

Outcrop of the skarn is restricted to small exposures around historic workings at Trundle Park, Mordialloc and Botfield, where it is relatively thin and has high sulphide content (mostly pyrite). However, magnetic data suggests that the skarn is quite extensive, particularly at Trundle Park, where it extends under shallow cover into areas that have never been drill tested. RC drilling of the Cu-Au-Fe skarn targets commenced on 4 January 2012. Approximately 1,110m of RC drilling is planned and results will be reported in due course.

Gobondery

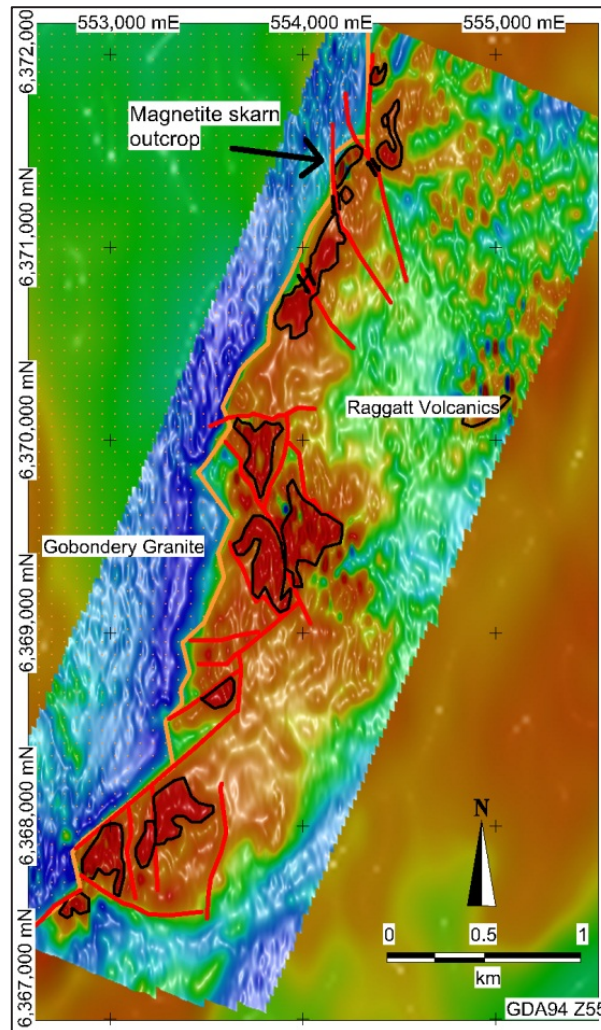
(NSW, Clancy 100%)

Gobondery (EL6534) is located approximately 50km NW of Northparkes, just south of Tullamore. Gobondery sits within an inlier of the Ordovician arc that is interpreted to have been rifted west off the Northparkes Igneous Complex. The main Ordovician arc unit is the Raggatt Volcanics, which consists of shoshonitic andesitic lavas and volcanoclastic rocks. The Ordovician belt at Gobondery is narrow (1-2km wide) and is flanked to the west by the Devonian Gobondery Granite, and to the east by Silurian volcanics and the Devonian rift basin sediments of the Tullamore Syncline.

Medium grained magnetite-dominant skarn occurs in the central part of the tenement, which was worked in 1920 to produce 8128t of iron ore. The skarn crops out over an area of 250m by 80m along the contact of the Raggatt Volcanics and the Gobondery Granite. Aerial magnetic imagery shows an intense coherent magnetic anomaly extending for approximately 4.5km along the granite contact, referred to as the Forest View anomaly. This anomaly encompasses the outcropping skarn and large areas buried under less than ten metres of unconsolidated cover.

A 50m line-spaced ground magnetic survey was completed (187 line km) to further define the Forest View magnetic anomaly. The survey data shows several features such as areas of greater magnetic intensity relating to higher concentrations of magnetite, however not all of the skarn is magnetic, indicating that much of the magnetite has oxidised to hematite. Drill testing of the skarn horizon commenced in January 2012 and results will be reported in the March 2012 quarterly report.

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RTP ground magnetic image of the Forest View anomaly over regional RTP showing the contact of the Gobondery Granite and the Raggatt Volcanics (orange), magnetic anomalies (black) and interpreted faults (red).

The Devonian Mount Leadley epithermal gold prospect (YTC Resources) is adjacent to the northeast section of EL6534. Auger soil sampling on gold-copper targets west of Mount Leadley was completed (474 samples) however no significant results were returned.

Orange East

(NSW, Clancy 100%)

Orange East EL6181 is located east of the city of Orange and contains several target styles including Ordovician porphyry copper-gold and post-Ordovician copper-gold targets. Numerous old workings occur in the area and many are focussed along regional-scale structures, such as the Lucknow and Godolphin faults. An extensive auger soil sampling program was undertaken in 2011 to extend the soil sample coverage in the southern and central parts of the tenement. Processing of the results is in progress.

Fairholme

(NSW, Clancy 100%)

The Fairholme project (EL6552 and EL6915) is located about 12 km NE of Burcher and 12km north of the Cowal gold mine. The project consists of two tenements, EL6552 and EL6915 that cover 172km²

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of the Fairholme Igneous Complex. The geophysical characteristics of the Fairholme Igneous Complex are similar to the Cowal Complex to the south, which hosts the Cowal gold mine (Barrick) and the Marsden copper-gold prospect (Newcrest). A funding partner is being sought for this project and discussions with potential partners are in progress.

Billabong Creek

(NSW, Clancy 100%)

Billabong Creek (EL6802) is located 20 km west of Gundagai and 45 km ENE of Wagga Wagga. It is located alongside the regionally extensive Gilmore Fault which marks the southern edge of the Macquarie Arc. It shares many similarities to the well mineralised Temora area, which also sits alongside the Gilmore Fault approximately 90km to the northwest. During the year, an airborne magnetic and radiometric survey was completed (1,778 line km). The airborne survey will assist with resolving key structures and potential intrusive complexes. Follow-up soil sampling is underway and definition of drill targets is planned for 2012.

Cundumbul

(NSW, Clancy 100%)

The Cundumbul project consists of two exploration licenses (EL6661 and EL7399) that cover 204.9km² of prospective arc units in the Molong Volcanic Belt between Molong and Wellington. The Molong Volcanic Belt is host to the giant Cadia porphyry Cu-Au deposits (Newcrest) south of Orange that have a combined endowment of >65Moz Au and 10.6Mt Cu. There are numerous intrusive complexes at Cundumbul that have anomalous copper and/or gold associated with them and chargeable IP anomalies. An extensive auger soil sampling program was initiated in 2011, with 838 samples collected to year end. This program remains in progress and results will be reported in 2012.

Roseholme

(NSW, Clancy 100%)

Roseholme (EL6822 and ELA4238) is located at the northern end of the Northparkes Igneous Complex 29km NNW of Rio Tinto's Northparkes copper-gold mine. During the year, an airborne magnetic and radiometric survey was completed (1,716 line km). The survey will assist with resolving key structures and potential intrusive complexes to define future drill targets. Follow-up drilling of targets is planned for 2012.

Currumburrama

(NSW, Clancy 100%)

Currumburrama (EL6784) is located 40km east of West Wyalong and covers a large basement magnetic complex that is inferred to be the Ordovician arc based on magnetic and gravity data. During the year, an airborne magnetic and radiometric survey was completed (1,264 line km). The survey will assist with resolving key structures and potential intrusive complexes to define future drill targets. Follow-up drilling of targets is planned for 2012.

Myall JV

(NSW, Gold Fields 51%, Clancy 49%, Gold Fields earning 80%)

Myall (EL6913) is located 25km southwest of Narromine at the northern end of the Junee-Narromine Volcanic Belt of the Macquarie Arc. Myall covers most of the Narromine Igneous Complex which is prospective for Ordovician porphyry copper-gold deposits. In 2011, work continued on the regional

OPERATIONS REPORT

aircore drilling program, with the initial aim of completing systematic 500m x 500m drill coverage across the project area. Wet weather and flooding caused significant delays with the regional aircore program, however a total of 10,521m of drilling (99 holes) was completed by Gold Fields in 2011. Several aircore holes, have intersected attributes consistent with porphyry-style systems and one hole intersected alteration related to potential orogenic gold style mineralisation. Several holes intersected low level copper anomalism (>500ppm Cu), most of which is associated with supergene enrichment over quartz monzodiorite and granodiorite bodies. Significant end-of-hole copper anomalism was identified in one hole, where minor disseminated chalcopyrite was observed. Further aircore drilling is planned for 2012 with approximately 12,000m of aircore drilling remaining.

Cowal East JV

(NSW, Gold Fields 82%, Clancy 18%)

The Cowal East project consists of two tenements, Koobah EL6553 and Wyrra EL6554, located in the Cowal Igneous Complex, east of the Cowal gold mine and north and south of the Marsden copper-gold prospect. Aircore and diamond drilling is planned for 2012.

Wellington North JV

(NSW, Gold Fields 87%, Clancy 13%)

Wellington North consists of five exploration licences (EL6178, EL6328, EL6662, EL7200 and EL7440) and covers approximately 30km of strike length of the Molong Volcanic Belt immediately north of Wellington. RC and diamond drilling (2,684m), auger drilling (2,758 samples), a 3D IP survey (15km²) rock-chip sampling and ground magnetic and gravity surveys were completed in 2011.

At the Boda prospect, diamond hole BGDR001 was re-entered to extend intersections including 7m @ 0.83g/t Au and 0.40% Cu; 8m @ 0.45g/t Au and 0.17% Cu and an open bottom of hole intercept of 85.1m @ 0.08% Cu, 39ppm Mo and 0.06g/t Au in potassic alteration. The hole was extended to 503.2m and the intercept was extended by another 29m to 114m @ 0.08% Cu, 33ppm Mo & 0.05g/t Au. Shallow RC holes on nominal 150m centres were drilled to delineate strike extensions to the BGDR001 mineralisation. Low-level copper (up to 0.23% Cu) and gold (up to 0.13g/t Au) anomalism has been defined. Further RC drilling is planned.

Target definition auger geochemistry was undertaken at the Mayhurst-Girraween and Glenrowan prospects, which has defined significant gold (up to 0.21g/t Au) and copper (up to 0.18% Cu) anomalism associated with hydrothermally altered rocks and geophysical anomalies. This area will be a focus for further drilling activity in 2012.

Parkes JV

(NSW, Gold Fields 80%, Clancy 20%)

The Parkes project (EL7676 and EL7677) covers 474km² of the highly prospective Northparkes Igneous Complex. Rio Tinto's Northparkes copper-gold mine is located approximately 15km to the north of the Parkes project. During the year, RC and diamond drilling (988m) and auger drilling programs (1,339 samples) were completed at the MacGregors, Bogan Gate, Swansbra and E44 prospects. An aeromagnetic and radiometric survey was also completed at the Bogan Gate prospect.

Drilling at the MacGregors prospect tested an orogenic gold target within a moderately east dipping basaltic/andesitic volcanic unit at the sheared contact with strongly phyllic altered andesite porphyry. Low- to moderate-grade gold mineralisation was intersected within quartz-carbonate-chlorite-pyrite-arsenopyrite stockwork veins. RC hole MGD002 is located 160m along strike to the

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south from diamond hole MGD001 and the mineralisation is open to the north and south. Significant results from MGD001 and MGD002 are listed below:

- MGD001: 21m @ 0.49 g/t Au from 73m; including
 - 2m @ 2.07 g/t Au from 81m.
- MGD002: 20m @ 0.43g/t Au and 0.29% As from 46m; including
 - 6m @ 0.94g/t Au and 0.70% As
- MGD002: 22m @ 0.50g/t Au and 0.15% As from 94m; including
 - 4m @ 1.3g/t Au and 0.26% As
 - 4m @ 0.91g/t Au and 0.34% As

The auger soil sampling program at the MacGregors prospect defined an 800m long +50ppm arsenic anomaly and a second 1,000m long +50ppm arsenic anomaly some 1.5km to the south which is open to the southwest. Two RC holes were drilled at the Bogan Gate prospect and one RC hole was completed at each of the Swansbra and E44 South prospects. No significant results were returned from the RC holes.

Moorefield JV

(NSW, Gold Fields 80%, Clancy 20%)

Moorefield (EL7675) covers 285km² between Fifield and Condobolin in the central west of New South Wales. Four RC holes were completed at Boxdale, following up a previous intercept in hole BDR001 (19m @ 1.28g/t Au and 6796ppm As). Significant results were returned from BDR003 confirming that the mineralisation identified in BDR001 extends for at least 60m to the south along a NNW strike:

- 4m @ 0.70g/t Au, 7.6g/t Ag from 32m
- 11m @ 0.4 g/t Au, from 56m; including
 - 3m @ 1.06g/t Au and 5.08g/t Ag
- 15m @ 1.00 g/t Au, 0.79% As from 85m; including
 - 6m @ 2.11g/t Au and 9.57g/t Ag
- 6m @ 0.13g/t Au from 124m

A 3D IP survey was completed at Boxdale and a significant chargeability anomaly was defined coincident with the gold-arsenopyrite-pyrite lode intersected in previous drilling, which confirms the NNW strike orientation. Soil and rock chip sampling was undertaken at the Boxdale and Lima prospects. At Boxdale, target definition auger geochemistry has defined coherent arsenic and other pathfinder element trends. At Lima, encouraging alteration, gossan and outcropping sulphide mineralisation is present within Silurian Mineral Hill Volcanics.

Mapping and rock chip sampling in the Carlisle Reefs area identified a previously unknown set of historical workings where gold results from mullock sampling returned 16.15g/t Au, 7.24g/t Au and 5.81g/t Au. The gold results have supporting arsenic (up to 2.26%) and antimony (up to 358ppm) anomalism. Other rock chip results included 1.77g/t Au, 1.16% As and 2.67% Cu.

Tasmanian Projects

Clancy has two joint venture projects with Bass Metals Limited (Bass) and two joint venture projects with TNT Mines Pty Ltd (TNT). Bass and TNT manage the respective joint ventures which are located in the Mount Read Volcanic Belt in northwest Tasmania. This area is host to a wide variety of mineral

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deposits styles, including Renison Bell (tin and silver), Mt Lyell (copper and gold) and the VHMS deposits Rosebery, Hellyer, Que River and Hercules (zinc, silver, lead, copper and gold). More recent discoveries include intrusive-related skarn-style nickel deposits (Avebury) and skarn-style tungsten-iron deposits (Mt Lindsay). Most of the base metals deposits are hosted by Cambrian rocks of the Mount Read Volcanic Belt. At least two periods of mineralisation are represented in this belt by the Cambrian VHMS deposits (e.g. Rosebery, Hellyer) and the Devonian intrusive related systems (e.g. Renison Bell, Avebury, Mt Bischoff).

Bass Metals JV's

(Bass 75%, Clancy 25%)

Clancy has two joint ventures with Bass: Lake Margaret EL28/2009 located 5km north of the Mt Lyell copper mine and 10km south of the Henty gold mine; and Sock Creek EL20/2010 located 7.5km southwest of the Hellyer mine. Both tenements cover prospective stratigraphy for base metal and gold deposits within the Mount Read Volcanic Belt. During the year, Bass drilled two diamond holes on the Lake Margaret JV testing for the source of a mineralised glacial erratic. Both holes intersected unmineralised andesite beneath glacial cover. MMI soil sampling was undertaken along the projected position of the Great Lyell Fault and will continue in 2012. A VTEM survey is also planned.

TNT Mines JV's

(TNT 75%, Clancy 25%)

Clancy has two joint ventures with TNT: Waratah EL64/2004 located in northwest Tasmania and surrounds the Mt Bischoff tin mine; and Oonah EL63/2004 which is located immediately north of the historic Zeehan lead-zinc-tin field. Both projects are prospective for tin and silver-lead mineralisation. Mapping and rock chip sampling were completed at Waratah and diamond drilling was completed at Oonah.

Western Australian Project

Yalgoo

(Clancy 100%)

Yalgoo E59/1302 is adjacent to the Golden Grove zinc-copper-gold-silver-lead mine which is located in the Yalgoo-Singleton greenstone belt in the Murchison Province of WA. The exploration targets in the Yalgoo project are discrete aeromagnetic anomalies. A ground magnetic survey was completed over two discrete aeromagnetic anomalies in 2010. Magnetic inversion models for the ground magnetic data suggest that the anomalies represent sub-vertical magnetic sources that are within 50m of surface and extend to depth. The geometry of the inversion models is consistent with a plug-like source, however this can only be tested with drilling due to the lack of outcrop. A program of works for the proposed drilling was submitted to the DMP and a heritage survey was completed in 2011. All of the approvals are now in place to carry out the drilling which is scheduled for the June 2012 quarter.

The information in this document that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Gordon Barnes who is a Member of the Australian Institute of Geoscientists. Mr Barnes is a full-time employee of Clancy Exploration Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Gordon Barnes consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

DIRECTORS' REPORT

The Board of Directors has pleasure in presenting its report on the consolidated entity consisting of Clancy Exploration Limited and the entity it controlled at the end of, or during, the year ended 31 December 2011.

1. Directors

(i) Names, Qualifications and Experience

The names and details of the Company's directors in office at any time during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Dr Michael Etheridge, FTSE, FAICD, FAIG, FGSA (Non-Executive Chairman) 65 Years

Dr Etheridge is a geologist who has had a varied career in universities, a government research organisation and in industry. He is currently non-executive chairman of ABM Resources Ltd (appointed November 2009) and Zeus Uranium Ltd, and a non-executive director of DET CRC Ltd, a collaborative research organisation involving the mining industry, universities and government research bodies. He was previously a director of Ballarat Goldfields NL prior to its takeover by Lihir Gold Ltd in March 2007 and of Lihir Gold Ltd (from March 2007 to September 2010), prior to its merger with Newcrest Ltd. He was also a director of Consolidated Minerals Ltd prior to its takeover by Palmary Plc (AIM) and Ariana Resources Plc (AIM). In 1989, Dr Etheridge switched from public sector research to industry and co-founded the geoscience consultancy business Etheridge Henley Williams (EHW). EHW grew to over 30 staff on three continents before it merged with the SRK Consulting group to become SRK's Australasian business in 1997. In 2004 Dr Etheridge left SRK Australasia, where he was chairman, to pursue a career as a professional company director in the resources and related R&D sectors.

Dr Etheridge was appointed as a director of the Company on 11 March 2011 and became Chairman on 25 July 2011. His relationship with the Company stretches back to 2004 when he was founding non-executive chairman of Geoinformatics Exploration Inc (TSX-V), from which Clancy Exploration Ltd was spun out in 2007. He is currently a member of the audit and the remuneration committees.

Dr Etheridge is a Fellow of the Australian Academy of Technological Sciences and Engineering, the Australian Institute of Company Directors, the Society of Economic Geologists and the Australian Institute of Geoscientists.

Gordon Barnes, BSc, MSc, MAIG, MSEG (Managing Director and Exploration Manager) 47 years

Mr Barnes is an exploration geologist with a background in exploration project management and technical consulting services. He has 22 years of practical experience, ranging from active field based projects through to multi-commodity project generation initiatives in Australia, Asia, North and South America. He worked as an Exploration Geologist with Freeport-McMoRan Copper & Gold Inc at the Karonie gold project in the Eastern Goldfields. Following Freeport's merger with the Normandy-Poseidon Group in 1989, Mr Barnes became a Project then Senior Geologist with Normandy Exploration, working on projects in the Murchison (Au), Southern Cross (Au, Ni), Eastern Goldfields (Au), Pilbara (Au, Cu) and Kimberley (Ni, Co, Zn) regions of Western Australia.

Mr Barnes started consulting to the industry in 1996 and co-founded the Insight Geoscience Group the following year. Insight Geoscience participated in several client-sponsored project generative initiatives in Asia (Au, Cu), Australia (Zn, Cu, Pb) and North America (Zn). He has also worked on a variety of advanced database projects for multi-national clients.

Mr Barnes joined Clancy's original parent company, Geoinformatics Exploration Inc., in April 2004 to manage the Australian exploration projects and transferred to Clancy in 2007 with overall responsibility for the management of Clancy's exploration projects.

Mr Barnes graduated from Royal Melbourne Institute of Technology with a Bachelor of Science in Applied Geology in 1987 and completed a MSc in Ore Deposit Geology at the University of Western Australia in 1996. He is a Member of the Australian Institute of Geoscientists and the Society of Economic Geologists.

Mr Barnes was appointed as Managing Director, a position he holds in conjunction with the Exploration Manager role, on 1 January 2011. He has not held a directorship in any other listed entity in the past three years.

Dr James Macdonald, BA (Hon), MSc, PhD, PGeo, FSEG (Non-Executive, (Technical)) 57 Years

Dr Macdonald is a geoscientist. During the past 28 months he has operated a New Zealand-based consultancy business which for the previous five years was Brisbane-based, providing professional geoscientific services to exploration and mining companies, mainly in Australia, Asia and Southern Africa. Dr Macdonald has over 31 years' experience in the global exploration and mining industries. He was Chief Geologist for AGIP Resources focused on exploration in Canada and Europe in the late 1980's. Dr Macdonald managed Andean gold exploration for Homestake Mining Company from 1994 to 1998. In

DIRECTORS' REPORT

1998, Dr Macdonald joined Billiton International Metals as Chief Geoscientist, based in the Netherlands. Following the merger with BHP in 2001, he relocated to Brisbane, Australia, in a similar capacity as Global Geoscience Leader. In 2008, Dr Macdonald became a non-executive Chairman of International Base Metals Ltd. (unlisted). He was a director of Mantle Diamonds Limited based in London from June 2006 to November 2009. In 2009, he became a non-executive Chairman of Craton Mining and Exploration Ltd, based in Windhoek, Namibia. He has not held a directorship in any other listed entity in the past three years. He is currently a member of the audit committee and Chairman of the remuneration committee. He was the chairman of the Company until 25 July 2011.

Dr Macdonald completed a Bachelor of Arts with Honours at Oxford University, majoring in Geology. He subsequently completed an MSc and a PhD in Economic Geology at the University of Toronto. He is a Member of the Association of Professional Engineers and Geoscientists of British Columbia, a Fellow of the Society of Economic Geologists and a Member of the Australian Institute of Company Directors.

Mark Lester, B.Com, CA

(Non-Executive Director, (Financial)) 58 Years

Mr Lester is a Chartered Accountant in public practice. He is currently a partner in a Chartered Accounting practice based in Subiaco, Western Australia. He is also a Registered Auditor and a director of a Registered Tax Agent and is involved in advising a wide range of clients including public companies, large private groups, not for profit organisations and trustee entities. Previously, Mr Lester was company secretary of Melbourne-based biotech company Meditech Research Limited for six years until its acquisition by Alchemia Limited. During that period of time Mr Lester acted as chief financial officer and was responsible for all ASIC and ASX compliance matters. Following his graduation, he joined a major international accounting firm where he worked for six years. In 1982, Mr Lester left public accounting to work in commerce gaining experience in the financial services and manufacturing sectors. In 1988 he returned to public practice. He has not held a directorship in any other listed entity in the past three years. He is currently a member of the audit and remuneration committees.

Mr Lester graduated from the University of Western Australia with a Bachelor of Commerce.

(ii) Interests in the Shares and Options of the Company

	No. of Shares				No. of Unlisted Options				
	Held at Beginning of Year	Acquired During Year	Disposed During Year	Held at End of Year ¹	Held at Beginning of Year	Granted During Year (Expiring 31 December 2013)	Granted During Year (Expiring 30 September 2013)	Lapsed During Year	Held at End of Year ¹
G Barnes	336,027	168,014	-	504,041	1,000,000	-	-	-	1,000,000
M Etheridge	345,898	172,949	-	518,847	-	-	-	-	-
J Macdonald	570,512	-	-	570,512	400,000	-	-	-	400,000
M Lester	134,617	67,309	-	201,926	250,000	-	-	-	250,000
	1,387,054	408,272	-	1,795,326	1,650,000	-	-	-	1,650,000

	No. of Listed Options		
	Held at Beginning of Year	Acquired During Year	Held at End of Year ¹
G Barnes	177,757	168,014	345,771
M Etheridge	86,475	172,949	259,424
J Macdonald	142,628	-	142,628
M Lester	33,655	67,309	100,964
	440,515	408,272	848,887

¹The Directors' interests in the shares and options of the Company at reporting date and at the Company's 31 December 2011 financial year end were identical.

DIRECTORS' REPORT

2. Company Secretary

Rowan Caren, B.Com, CA (Company Secretary) 45 Years

Mr Caren is a Chartered Accountant with over 18 years commercial experience. He has been directly involved in the minerals exploration industry for 13 years. In 2004 he created a specialist company secretarial and advisory consultancy, Dabinett Corporate. He has provided financial and corporate services to several listed and unlisted companies involved in the resources sector. He qualified with PricewaterhouseCoopers and worked for them in Australia and overseas for six years.

Mr Caren graduated with a Bachelor of Commerce (Accounting) from the University of Western Australia and is a member of the Institute of Chartered Accountants in Australia.

3. Principal Activities

The principal activities during the year of the entities within the consolidated entity were mineral exploration and development.

4. Operating Results for the Year

The net consolidated loss from continuing operations for the year, after income tax, amounted to \$2,325,265 (2010: \$2,743,959).

5. Dividends

No dividend has been declared or paid by the Company since the end of the previous financial year and the directors do not at present recommend a dividend.

6. Review of Operations

During the year, the Company continued to explore its gold, copper and base metals projects in New South Wales, Tasmania and Western Australia, directly and through joint venture partners.

7. Likely Developments and Expected Results

Other than as referred to in this report, further information as to likely developments in the operations of the Company and likely results of those operations in future financial years would, in the opinion of the directors, be speculative.

8. Significant Changes in the State of Affairs

Pursuant to a 1 for 2 non-renounceable rights issue, the Company issued 54,756,724 new ordinary shares in June 2011, at a subscription price of 8 cents per share. These shares were listed on the Australian Securities Exchange on 24 June 2011. The offering raised \$4,380,583 before costs of \$455,844. Additionally, under the terms of the rights issue, participating shareholders received one free attaching option for every new share subscribed, exercisable at 15 cents per option on or before 31 July 2013. Accordingly 54,756,724 new options were issued.

On 23 September 2011 the Company signed a Drilling for Equity earn-in agreement with Australian Mineral and Waterwell Drilling Pty Ltd ("AMWD") for drilling services of up to \$5 million or over a period of up to three years. Under this agreement AMWD is invoicing a cash amount equivalent to 75% of actual agreed drilling costs, on a monthly basis. The Company is issuing fully paid ordinary shares to AMWD for the balance of 25%. These shares are escrowed for 12 months. It has also issued 2,000,000 listed options to AMWD.

9. Significant Events After Balance Date

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the consolidated entity in subsequent financial years.

10. Review of Financial Condition

At 31 December 2011 the consolidated entity had cash reserves of \$3,348,010 (2010: \$1,660,368) after paying suppliers and employees \$2,732,702 (2010: \$3,018,090), of which \$1,876,012 (2010: \$2,146,744) was expended on direct

DIRECTORS' REPORT

exploration activities. A further \$98,101 (2010: \$91,834) was spent on capital expenditure. The consolidated entity raised \$4,380,583 from a rights issue of which a cash cost of \$363,418 was applied to the costs of the share issues (2010: Raised \$3,090,269 from a rights issue and a private placement, of which \$301,005 was applied to the costs of the share issues). A further \$87,299 (2010: \$81,613) in interest was received together with a research and development cash rebate of \$375,843 (2010: Nil) and proceeds from the sale of interests in tenements of \$40,000 (2010: Nil). There were no refunds of unearned income to a joint venture partner (2010: \$7,768 refunded). An amount of \$19,409 was borrowed and fully repaid in respect of insurance premiums (2010: \$Nil). The Company paid an amount of \$285 on behalf of its controlled entity (2010: \$212).

11. Remuneration Report – Audited

This report details the nature and amount of remuneration for each director of Clancy Exploration Limited and the Group, and for the executives receiving the highest remuneration in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the three executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term “executive” encompasses the Managing Director, senior executives and the secretary of the Parent and the Group.

Remuneration Policy

The remuneration policy of Clancy Exploration Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives. The board of Clancy Exploration Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated entity, as well as align interests of directors, executives and shareholders.

No options to acquire ordinary shares were granted during the year ended 31 December 2011. The Board believes that options are an effective remuneration tool which preserve the cash reserves of the Company whilst providing valuable remuneration. The options granted in 2007 expired on 30 April 2010. The options, granted in 2009 with an expiry date of 10 August 2013 are not transferable and are to be forfeited if either the grantee voluntarily terminates his employment and does not exercise the options within thirty days of resignation or the Company terminates his employment for reasons of serious misconduct. The options, granted in 2010 with an expiry date of 30 September 2013 may only be transferred with the Board's consent and are to be cancelled if either the grantee voluntarily terminates his employment and does not exercise the options within thirty days of resignation or the company terminates his employment for reasons of serious misconduct. The options, granted in 2010 with an expiry date of 31 December 2013 are not transferable and they may be cancelled at the Board's discretion if either the grantee voluntarily terminates his employment and does not exercise the options within thirty days of resignation or the Company terminates his employment for reasons of serious misconduct.

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

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed and approved by the board after seeking professional advice from independent external consultants.
- All executives receive a base salary (which is based on factors such as length of service and experience) and options granted to acquire ordinary shares.
- The board reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors.

All remuneration paid to directors and executives is valued at the cost to the Company and is expensed. Options are valued using the Binomial Tree methodology.

Non-Executive Directors

The board policy is to remunerate non-executive directors at market rates 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 there is a maximum aggregate sum of \$200,000 per annum, which is to be

DIRECTORS' REPORT

divided between the non-executive Directors in the proportions agreed between them or, failing agreement, equally. Directors are encouraged to hold shares in the Company and have been granted options in previous years.

Remuneration Sub-Committee

The Board has established a sub-committee to consider remuneration of the Board and key management personnel. The Remuneration Sub-Committee may seek independent professional advice to formulate remuneration policy recommendations which are then submitted to the Board for approval. The Remuneration Sub-Committee met twice in the 2011 year. The Remuneration Sub-Committee is comprised of the Chairman of the Board, Dr Mike Etheridge (joined 1 March 2012), and the independent non-executive Directors, Dr James Macdonald and Mr Mark Lester. The Company Secretary was a member of the Committee until 1 March 2012.

Company performance, shareholder wealth and director and executive remuneration

Options are issued to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

Executive and non-executive directors, other key management personnel and other senior employees have been granted options over ordinary shares. Options granted in 2010 vested upon grant. The recipients of options are responsible for growing the Company and increasing shareholder value. If they achieve this goal the value of the options granted to them will also increase. Therefore the options provide an incentive to the recipients to remain with the Company and to continue to work to enhance the Company's value.

There is no policy in place which limits exposure to risk in relation to those securities in the Company which constitute an element of directors' remuneration and which are linked to satisfaction of Company performance conditions.

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth for the four years to 31 December 2011:

Consolidated Entity:

	31 December 2011	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Revenue	\$180,147	\$81,643	\$394,086	\$954,456	\$337,804
Net loss before tax	(\$2,740,538)	(\$3,119,802)	(\$3,201,171)	(\$2,116,053)	(\$857,653)
Net loss after tax	(\$2,325,265)	(\$2,743,959)	(\$3,201,171)	(\$2,133,441)	(\$840,265)
Share price at end of year ¹	5 cents	9 cents	15 cents	6 cents	20 cents
Basic loss per share	(1.7 cents)	(3.0 cents)	(5.4 cents)	(4.5 cents)	(2.6 cents)
Diluted loss per share	(1.7 cents)	(3.0 cents)	(5.4 cents)	(4.5 cents)	(2.6 cents)

Note 1: The Company was listed on the ASX on 11 July 2007.

Note 2: No dividends have been declared or paid since the Company was listed.

Key Management Personnel Remuneration Policy

The remuneration structure for key management personnel, as determined by the Board, is based on a number of factors, including length of service, particular experience of the individual concerned and their role within the organisation. The contracts of service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future.

DIRECTORS' REPORT

Key Management Personnel Remuneration:

Remuneration for the year ended 31 December 2011

Key Management Person & Position	Short-term Benefits		Long-term Benefits	Post-employment Benefits	Total
	Salary or Fees	Consulting fees	Long service leave ⁴	Superannuation	
	\$	\$	\$	\$	\$
G Barnes³ <i>Managing Director</i>	240,000	-	35,244	21,600	296,844
M Etheridge <i>Non-Executive Chairman</i>	37,339	-	-	3,361	40,700
J Macdonald <i>Non-Executive Director</i>	41,010	-	-	-	41,010
M Lester <i>Non-Executive Director</i>	31,326	-	-	2,820	34,146
R Caren <i>Company Secretary</i>	-	66,278	-	-	66,278
G Doig <i>Chief Financial Officer</i>	-	113,341	-	-	113,341
	349,675	179,619	35,244	27,781	592,319

Remuneration for the year ended 31 December 2010

Key Management Person & Position	Short-term Benefits		Long-term Benefits	Share-based Payments ¹	Post-employment Benefits	Termination Payment ¹	Total
	Salary or Fees	Consulting fees	Long service leave	Options	Superannuation	Cash	
	\$	\$	\$	\$	\$	\$	\$
J Macdonald <i>Non-Executive Chairman</i>	40,000	-	-	27,200	-	-	67,200
M Stewart² <i>Managing Director</i>	214,420	-	24,449	68,000	38,173	110,210	455,252
M Lester <i>Non-Executive Director</i>	24,000	-	-	17,000	2,160	-	43,160
R Caren <i>Company Secretary</i>	-	68,272	-	-	-	-	68,272
G Barnes³ <i>Exploration Manager</i>	160,500	-	-	32,700	14,445	-	207,645
G Doig <i>Chief Financial Officer</i>	-	105,822	-	-	-	-	105,822
	438,920	174,094	24,449	144,900	54,778	110,210	947,351

¹There is no performance-related component to remuneration. The nature of the options granted to KMP's serve to align the interests of the KMP's with the interests of shareholders.

²M Stewart resigned as managing director on 31 December 2010.

³G Barnes was appointed as managing director on 1 January 2011 whilst retaining the position of exploration manager.

⁴Long-service leave disclosed as remuneration for 2011 is presented on an accruals basis and has not been paid out.

DIRECTORS' REPORT

During the financial year, the following share-based payment arrangements granted as compensation were in existence:

Holder	Option Series	Granted No.	Grant Date	Vesting Date	Expiry Date	Fair Value per Option at Grant Date \$	Exercise Price \$
Employees & Consultants	Incentive	2,050,000	12 August 2009	12 August 2009	10 August 2013	0.0507	0.175
Directors	Incentive	1,650,000	28 January 2010	28 January 2010	31 December 2013	0.0680	0.195
Employees	Incentive	1,100,000	4 May 2010	4 May 2010	30 September 2013	0.0654	0.185
Total		4,800,000					

Options Granted As Part of Remuneration

Options are issued to directors and executives as part of their remuneration for nil consideration.

Options Granted As Part of Remuneration for the year ended 31 December 2011

No options were issued to directors as part of their remuneration during the course of the year ended 31 December 2011. No options were exercised, or forfeited during the year.

There were no alterations to the terms and conditions of any options granted as remuneration since their grant date.

Options Granted As Part of Remuneration for the year ended 31 December 2010

Key Management Personnel	Option Series	Granted No.	Grant Date	Exercise Date	Fair Value per Option at Grant Date \$	Exercise Price \$	Value of Options Granted During the Year \$	Remuneration Consisting of Options for the Year %	Value of Options Lapsed During the Year \$
M Stewart	Incentive	1,000,000	28 January 2010	31 December 2013	0.068	0.195	68,000	14.9%	84,792
J Macdonald	Incentive	400,000	28 January 2010	31 December 2013	0.068	0.195	27,200	40.5%	24,930
M Lester	Incentive	250,000	28 January 2010	31 December 2013	0.068	0.195	17,000	39.4%	19,944
G Barnes	Incentive	500,000	4 May 2010	30 September 2013	0.0654	0.185	32,700	15.8%	48,735
		2,150,000					144,900	18.7%	178,401

All options granted to directors as part of their remuneration during the course of the year ended 31 December 2010 vested immediately. The options granted to G Barnes as an executive during 2010, prior to him becoming a director, also vested immediately. No options were exercised, or forfeited during the year.

There were no alterations to the terms and conditions of any options granted as remuneration since their grant date.

Details of share-based payments in existence during 2010 are disclosed in this Directors' Report and Notes 15, 23 and 24 to the Annual Financial Statement.

DIRECTORS' REPORT
Contracts with Directors and Key Management Personnel**Gordon Barnes**

The key provisions of the contract with Gordon Barnes (Managing Director and Exploration Manager) are as follows:

Contract Duration	Rolling contract
Notice Period for Termination and Termination Payments	<p>Mr Barnes' remuneration is subject to an annual review undertaken by the remuneration committee.</p> <p>Mr Barnes may terminate employment by providing 3 months notice in writing.</p> <p>The Company may terminate Mr Barnes' employment, for reasons other than serious misconduct, by providing 6 months notice or providing payment in lieu of this notice period.</p> <p>The Company may immediately terminate Mr Barnes' employment for reasons of serious misconduct.</p>

12. Auditor Independence and Non-Audit Services

The Board of Directors is satisfied that no non-audit services were provided by the auditors during the year. Accordingly the issue of compatibility with the general standard of independence for auditors imposed by the Corporations Act 2001, does not arise. All material non-audit services are reviewed and approved by the Board of Directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor.

13. Auditors' Independence Declaration

The auditors' independence declaration for the year ended 31 December 2011 has been received and can be found on page 23 of the Annual Report.

14. Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors support and have adhered to the principles of corporate governance. The Company's corporate governance statement is included on page 68 of this Annual Report.

15. Share Options

At the date of this report 98,934,786 options to acquire ordinary shares in Clancy Exploration Limited were on issue, as follows:

Number	Expiry Date	Exercise Price	Description
94,134,786	31 July 2013	15 cents	Listed Options
2,050,000	10 August 2013	17.5 cents	Incentive Options ¹
1,650,000	31 December 2013	19.5 cents	Director Options ¹
1,100,000	30 September 2013	18.5 cents	Employee Incentive Options

¹These options are non-transferable.

300 options were exercised during the year or in the period up to the date of this report. Details of share-based payments and options issued to directors, consultants and eligible employees, are disclosed in this Directors' Report and Notes 15, 23 and 24 to the Annual Financial Statement.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate, with the exception of the abovementioned Listed (Free Attaching) Options in the event the Company makes a bonus issue of ordinary shares.

DIRECTORS' REPORT
16. Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

Director	Directors' Meetings Eligible to Attend	Directors' Meetings Attended	Remuneration Committee Meetings Eligible to Attend	Remuneration Committee Meetings Attended	Audit Committee Meetings Eligible to Attend	Audit Committee Meetings Attended
G Barnes	7	7	-	-	-	-
M Etheridge	6	6	-	-	-	-
J Macdonald	7	7	2	2	1	1
M Lester	7	7	2	2	1	1

In accordance with the rotational requirements of the Constitution, Mr Lester retires as a director at the Annual General Meeting and being eligible, offers himself for re-election.

17. Insurance and Indemnity of Officers

The Company has in respect of any person who is or has been a director or officer of the Company paid a premium in respect of a contract insuring all directors and officers against a liability. The Company maintains insurance policies for the benefit of the relevant director or officer for the term of their appointment and for a period of seven years after retirement or resignation.

The Company has entered into a Deed of Indemnity, Access and Insurance with each of its Directors and the Company Secretary. Under the Deeds of Indemnity, Access and Insurance the Company will indemnify each officer to the extent permitted by the Corporations Act against any liability arising as a result of the officer acting as an officer of the Company. The Deeds of Indemnity, Access and Insurance also provide for the right to access Board papers and other Company records.

18. Risk Management

The Company takes a proactive approach to risk management including monitoring actual performance against budgets and forecast and monitoring investment performance. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the consolidated entity's objectives and activities are aligned with the risks and opportunities identified by the Board.

19. Environmental Regulations and Performance

The Company is required to carry out the exploration and evaluation of its mining tenements in accordance with various State Government Acts and Regulations.

In regard to environmental considerations, the Company is required to obtain approval from various State regulatory authorities before any exploration requiring ground disturbance, such as line clearing, drilling programs and costeaning is carried out. It is normally a condition of such regulatory approval that any area of ground disturbed during the Company's activities is rehabilitated in accordance with various guidelines.

There have been no significant breaches of these guidelines.

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

G.J. Barnes

Managing Director

Signed at Orange, NSW dated this 29th day of March 2012

AUDITORS INDEPENDENCE DECLARATION



Deloitte Touche Tohmatsu
ABN 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

The Directors
Clancy Exploration Limited
3 Corporation Place
Orange NSW 2800

30 March 2012

Dear Directors

Clancy Exploration Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Clancy Exploration Limited.

As lead audit partner for the audit of the financial statements of Clancy Exploration Limited and the entity it controlled for the financial year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Neil Smith
Partner
Chartered Accountant

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDING 31 DECEMBER 2011

	Notes	Consolidated	
		2011	2010
		\$	\$
Continuing operations			
Other revenue	4	180,147	81,643
		<u>180,147</u>	<u>81,643</u>
Employee benefits expense	5(a)	(908,909)	(1,295,598)
Consulting and outsourced services expense		(428,463)	(359,428)
Exploration expenditure	5(d)	(1,357,767)	(1,072,431)
Travel expense		(62,345)	(30,942)
Depreciation, amortisation and impairment expense	5(b)	(76,417)	(49,891)
Finance costs	5(c)	(2,213)	(553)
Net joint venture reimbursed exploration expenditure & joint venture contributions	5(d)	-	(250,712)
Other expenses		(84,571)	(141,890)
		<u>(2,920,685)</u>	<u>(3,201,445)</u>
Loss from continuing operations before income tax benefit		(2,740,538)	(3,119,802)
Income tax benefit	6	415,273	375,843
		<u>(2,325,265)</u>	<u>(2,743,959)</u>
Loss from continuing operations after tax for the period		(2,325,265)	(2,743,959)
Other comprehensive income:			
Net fair value gain/(loss) on revaluation of available-for-sale investment		-	(562)
		<u>-</u>	<u>(562)</u>
Other comprehensive income/(loss) net of tax		-	(562)
		<u>(2,325,265)</u>	<u>(2,744,521)</u>
Total comprehensive loss attributable to owners of the parent		(2,325,265)	(2,744,521)
Basic loss per share (cents per share)	7	(1.7 cents)	(3 cents)
Diluted loss per share (cents per share)	7	(1.7 cents)	(3 cents)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

		Consolidated	
		2011	2010
	Notes	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	8	3,348,010	1,660,368
Trade and other receivables	9	631,841	493,043
Total Current Assets		<u>3,979,851</u>	<u>2,153,411</u>
Non-Current Assets			
Plant and equipment	10	154,209	130,375
Intangible assets	11	3,551	5,969
Total Non-Current Assets		<u>157,760</u>	<u>136,344</u>
TOTAL ASSETS		<u>4,137,611</u>	<u>2,289,755</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	12	347,146	298,474
Provisions	13	38,952	32,470
Total Current Liabilities		<u>386,098</u>	<u>330,944</u>
Non-Current Liabilities			
Provisions	13	37,471	-
Total Non-Current Liabilities		<u>37,471</u>	<u>-</u>
TOTAL LIABILITIES		<u>423,569</u>	<u>330,944</u>
NET ASSETS		<u>3,714,041</u>	<u>1,958,811</u>
EQUITY			
Contributed equity	14	13,409,971	10,166,442
Reserves	15	1,660,974	824,008
Accumulated losses		(11,356,904)	(9,031,639)
TOTAL EQUITY		<u>3,714,041</u>	<u>1,958,811</u>

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDING 31 DECEMBER 2011

CONSOLIDATED	Notes	Ordinary shares \$	Options reserve \$	Asset revaluation reserve \$	Retained earnings \$	Total Equity \$
At 1 January 2011		10,166,442	824,008	-	(9,031,639)	1,958,811
Total comprehensive income for the period, net of tax		-	-	-	(2,325,265)	(2,325,265)
Issue of share capital and free attaching options		3,699,328	733,740	-	-	4,433,068
Proceeds – exercise of options		45	-	-	-	45
Transaction costs on share issues		(455,844)	-	-	-	(455,844)
Share-based payments - broker and drilling service provider options			103,226	-	-	103,226
At 31 December 2011		13,409,971	1,660,974	-	(11,356,904)	3,714,041
At 1 January 2010		7,377,178	639,868	562	(6,287,680)	1,729,928
Total comprehensive income for the period, net of tax		-	-	(562)	(2,743,959)	(2,744,521)
Issue of share capital		3,090,269	-	-	-	3,090,269
Transaction costs on share issues		(301,005)	-	-	-	(301,005)
Share-based payments - employee options		-	184,140	-	-	184,140
At 31 December 2010		10,166,442	824,008	-	(9,031,639)	1,958,811

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDING 31 DECEMBER 2011

	Notes	Consolidated	
		2011	2010
		\$	\$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Proceeds from sale of interest in tenements		40,000	-
Sundry income		370	-
Refunds of unearned income to customers		-	(7,768)
Payments to suppliers and employees		(2,732,702)	(3,018,090)
Receipts of research and development rebate		375,843	-
Interest received		87,299	81,613
Interest paid		(2,213)	(553)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	16	<u>(2,231,403)</u>	<u>(2,944,798)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of plant and equipment		(96,266)	(85,151)
Purchase of intangible assets		(1,835)	(6,683)
Proceeds on sale of property, plant and equipment		266	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(97,835)</u>	<u>(91,834)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		4,380,583	3,090,269
Costs of share issue		(363,418)	(301,005)
Proceeds of borrowing		19,409	-
Repayment of borrowing		(19,409)	-
Loans to related entity - payments made		(285)	(212)
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>4,016,880</u>	<u>2,789,052</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,687,642	(247,580)
Cash and cash equivalents at beginning of period		1,660,368	1,907,948
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8	<u>3,348,010</u>	<u>1,660,368</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
1. CORPORATE INFORMATION

The financial statements of Clancy Exploration Limited (the Company) for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 29 March 2012.

Clancy Exploration Limited (the parent) is a company limited by shares, incorporated in Australia, and whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the consolidated entity are described in the Directors' Report.

2. 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 include separate financial statements for Clancy Exploration Limited as an individual entity and the consolidated entity consisting of Clancy Exploration Limited and its controlled entity.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. These financial statements have also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value.

These financial statements are presented in Australian dollars.

(b) Statement of Compliance

These financial statements comply with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

(c) New accounting standards and interpretations**(A) Changes in accounting policy and disclosure**

From 1 January 2011 the Group has adopted the following standards and interpretations, mandatory for annual reporting periods beginning 1 January 2011. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

(i) *AASB 124 (Revised) Related Party Disclosures*

The following Amending Standards have also been adopted from 1 January 2011 with no effect on the financial statements:

(i) *AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues.*

(ii) *AASB 2009-12 Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052];*

(iii) *AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB1];*

(iv) *AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 1];*

(v) *AASB 2010-1 Amendments to Australian Accounting – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters;*

(vi) *AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB139];*

(vii) *AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13];*

NOTES TO THE FINANCIAL STATEMENTS

- (viii) AASB 2010-5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042];
- (ix) AASB Int. 19 Extinguishing Financial Liabilities with Equity Instruments;

The following Australian Accounting Standards and Interpretations that have recently been issued but are not yet effective have not been adopted by the Group for the annual reporting period ending 31 December 2011. Those that are relevant to the Group are outlined in the table below:

Reference	Title	Summary	Application date of standard*	Impact on Group financial statements	Application date for Group*
AASB 9	Financial Instruments.	Simplifies the classifications of financial assets into two categories: <ul style="list-style-type: none"> • Those carried at amortised cost; and • Those carried at fair value. Simplifies requirements related to embedded derivatives that exist in financial assets that are carried at amortised cost, such that there is no longer a requirement to account for the embedded derivative separately.	1 January 2013. (Early adoption permitted for financial periods ended on or after 31 December 2009).	Adoption of AASB 9 is likely to result in changes in the way in which the Group classifies financial assets. The Group has been unable to assess (as at authorisation of these financial statements) the financial impact of this change on the Group's financial statements in the period of initial application.	1 January 2013.
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12].	This standard gives effect to the consequential changes arising from the issuance of AASB 9: Financial Instruments.	1 January 2013. (Early adoption permitted for financial periods ended on or after 31 December 2009) provided AASB 9 is applied and disclosure in made of this fact	Refer to AASB 9 above	1 January 2013.
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	Amends AASB 124 Related Party Disclosures to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs	1 July 2013	Adoption of AASB 2011-4 will remove individual KMP disclosures currently appearing in the Group's financial statements	1 January 2014
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards	Contains consequential amendments to 20 other standards and 4 interpretations in light of the issuance of the new standards in August 2011 - AASB 10 'Consolidated Financial Statements', AASB 11 'Joint Arrangements', AASB 12 'Disclosure of Interests in Other Entities', AASB 127 'Separate Financial Statements' (2011) and AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	The Group has been unable to assess (as at authorisation of these financial statements) the financial impact of these changes on the Group's financial statements in the period of initial application	1 January 2013
AASB 2011-9	Amendments	The amendments to this standard:	1 July 2012	Adoption of Revised	1 January

NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard*	Impact on Group financial statements	Application date for Group*
	to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income	<ul style="list-style-type: none"> Require entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments) Preserve the amendments made to AASB 101 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI. 		AASB 2011-9 may result in reclassification adjustments to items in OCI	2013
AASB 10	Consolidated Financial Statements	<p>Establishes a new control model that applies to all entities. Replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities.</p> <p>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. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 127.</p>	1 January 2013	Adoption of AASB 10 will not have any impact on the Group as currently structured as it only has one wholly owned subsidiary.	1 January 2013
AASB 11	Joint Arrangements	<p>AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-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 it 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. Consequential amendments were also</p>	1 January 2013	The Group has been unable to assess (as at authorisation of these financial statements) the financial impact of these changes on the Group's financial statements in the period of initial application	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard*	Impact on Group financial statements	Application date for Group*
		made to other standards via AASB 2011-7 and amendments to AASB128.			
AASB 12	Disclosure of Interests in Other Entities	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.	1 January 2013	The Group has been unable to assess (as at authorisation of these financial statements) the financial impact of these changes on the Group's financial statements in the period of initial application.	1 January 2013
AASB 127	Separate Financial Statements (2011)	Deals with the requirements for separate financial statements, which have been carried over largely unamended from AASB 127 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in AASB 10 Consolidated Financial Statements. Requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with AASB 9 Financial Instruments. Also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.	1 January 2013	The Group has been unable to assess (as at authorisation of these financial statements) the financial impact of these changes on the Group's financial statements in the period of initial application.	1 January 2013
AASB 128	Investments in Associates and Joint Ventures (2011)	Supersedes AASB 128 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.	1 January 2013	The Group has been unable to assess (as at authorisation of these financial statements) the financial impact of these changes on the Group's financial statements in the period of initial application.	1 January 2013
AASB 13	Fair Value Measurement	Establishes a single source of guidance 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 when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. 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	1 January 2013	The Group has been unable to assess (as at authorisation of these financial statements) the financial impact of these changes on the Group's financial statements in the period of initial application.	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard*	Impact on Group financial statements	Application date for Group*
		assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.			
AASB 119 & AASB2011-10	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans which are not applicable to the Group. 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.	1 January 2013	The Group has been unable to assess (as at authorisation of these financial statements) the financial impact of these changes on the Group's financial statements in the period of initial application.	1 January 2013
AASB 1054, AASB 2011-1 & AASB 2011-2	AASB 1054 Australian Additional Disclosures, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project and AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements	These Standards are a consequence of the joint Trans-Tasman Convergence project harmonising Australian and New Zealand Accounting Standards and New Zealand, eliminating differences relating to for-profit entities. AASB 1054 sets out the Australian-specific disclosure requirements additional to IFRSs in areas such as compliance with Australian Accounting Standards, the nature of financial statements (general purpose or special purpose), audit fees, imputation (franking) credits and reconciliation of net operating cash flow to profit (loss). AASB 2011-1 amends a range of Australian Accounting Standards and Interpretations for closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. It deletes various Australian-specific guidance and disclosures from other Standards and aligns the wording with IFRSs. The 'true and fair override' is introduced into AASB 101 Presentation of Financial Statements, but its application in the Australian context is limited by an additional 'Aus' paragraph. AASB 2011-2 establishes reduced disclosure requirements for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements in relation to the Australian additional disclosures arising from the Trans-Tasman Convergence Project.	AASB 1054 - Applies to annual reporting periods beginning on or after 1 July 2011 AASB 2011-1 - Applies to annual reporting periods beginning on or after 1 July 2011 AASB 2011-2 - Applies to annual reporting periods beginning on or after 1 July 2013	The Group has been unable to assess (as at authorisation of these financial statements) the financial impact of these changes on the Group's financial statements in the period of initial application.	AASB 1054 – 1 January 2012 AASB 2011-1 – 1 January 2012 AASB 2011-2 – 1 January 2014

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Clancy Exploration Limited and its subsidiary (as outlined in Note 21) as at 31 December each year (the Group).

NOTES TO THE FINANCIAL STATEMENTS

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Clancy Exploration Limited are accounted for at cost in the separate financial statements of the parent entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition (see Note 2 (e)).

(e) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair value of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(f) Segment reporting

Management has assessed that the Company's reportable business segments under the quantitative criteria set out in AASB 8 *Segment Reporting* and has determined that no additional operating segments disclosures are required.

AASB 8 requires the 'management approach' to the identification, measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments.

In its adoption of the 'management approach' to segment reporting, the Company has identified that it continues to operate as a gold, copper and base metals explorer and developer, in a single reportable business segment, under one segment manager, in one geographical location being Australia, consistent with the prior year. The

NOTES TO THE FINANCIAL STATEMENTS

information disclosed in the financial statements is the same information utilised internally by the chief operating decision maker. Accordingly no additional quantitative or qualitative disclosures are required.

(g) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Clancy Exploration Limited's functional and presentation currency.

(ii) *Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(h) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and short-term deposits with an original maturity of not more than 3 months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above. The consolidated entity does not have any bank overdraft facilities.

(i) Trade and other receivables

Trade receivables are generally paid on 30 day settlement terms and are recognised and carried at original invoice amount less an allowance for impairment. Trade receivables are non-interest bearing.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision would be recognised when legal notice has been sent and a reply not received within 30 days.

(j) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit and loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the consolidated entity commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

(i) *Loans and receivables*

Loans and receivables including loan notes are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at the transaction price minus principal repayments and minus any allowance for impairment or uncollectability. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. Loans and receivables are included with

NOTES TO THE FINANCIAL STATEMENTS

receivables in current assets in the statement of financial position, except for those with maturities greater than 12 months after balance date, which are classified as non-current. Loans and receivables with maturities greater than 12 months are carried at amortised cost using the effective interest rate method.

(ii) Available-for-sale securities

Available-for-sale investments are those non-derivative financial assets, principally equity securities, that are designated as available-for-sale or are not classified as any of the following categories: financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. After initial recognition available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

(iii) Financial assets carried at cost

Investments are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), 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, discounted at the current market rate of return for a similar financial asset.

(k) Interest in a jointly controlled operation

The consolidated entity has interests in three overall joint ventures that are jointly controlled operations. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity.

In the case of two joint ventures and one project under a third joint venture, joint venture partners are sole funding exploration expenditure until the completion of certain programs, studies or milestones. Accordingly the consolidated entity is neither incurring nor accounting for such exploration expenditure. In the case of all other projects under the third joint venture, the consolidated entity can elect to contribute to ongoing exploration costs in proportion to its interests or dilute. Some contributions were made during the course of 2010 and were accounted for as exploration expenditure. In previous years, all exploration expenditure in relation to a jointly controlled operation where the consolidated entity was the manager, were recovered from the other joint venture partner in its entirety for as long as the other joint venture partner was earning its interest. Once the joint venture partner had earned its interest, the Company recovered expenditure equivalent to the other joint venture partner's interest.

(l) Intangibles and Impairment of non-financial assets other than that of goodwill

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

NOTES TO THE FINANCIAL STATEMENTS

The consolidated entity does not have any intangible assets with indefinite lives.

(i) Impairment

Intangible assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The consolidated entity conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of the 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 that 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 impairment are tested for possible reversal of the impairment when events or changes in circumstances indicate that the impairment may have reversed.

(ii) Derecognition and disposal

Any gain or loss arising on derecognition of an intangible asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

(m) Plant and Equipment

Plant and equipment is stated at historical cost less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of these items.

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

Depreciation is calculated using the straight line and diminishing value methods to allocate the cost of the specific assets over their estimated useful lives. The expected useful lives are detailed in Note 10.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The directors have determined that items of plant and equipment do not generate independent cash inflows and that the business of the consolidated entity is, in its entirety, a cash-generating unit. The recoverable amount of plant and equipment is thus determined to be its fair value less costs to sell.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For plant and equipment, impairment losses are recognised in the statement of comprehensive income as an expense.

(ii) Derecognition and disposal

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use.

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

NOTES TO THE FINANCIAL STATEMENTS**(n) Trade and other payables**

Trade payables and other payables are carried at the transaction price minus principal repayments. They represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Provisions and employee benefits

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the consolidated entity expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

*Employee leave benefits**(i) Wages, salaries, annual leave and sick 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 respect of employees' services up to the reporting date. Liabilities for annual leave expected to be settled within 12 months of the reporting date are recognised in the current provision for the employee benefits. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long Service Leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(p) Share-based payment transactions*(i) Equity settled transactions:*

The consolidated entity provides benefits to its directors, employees and consultants in the form of share-based payments, whereby directors and employees render services in exchange for options to acquire shares or rights over shares (equity-settled transactions). The consolidated entity has also issued ordinary shares and unlisted options as consideration to vendors for the acquisition of exploration licences and drilling services.

The cost of these equity-settled transactions is measured by reference to the fair value to the Company of the equity instruments at the date at which they were granted in the case of options for directors, employees and consultants; and the closing share price on, or just before, either the date of entering into, or executing, an exploration licence purchase agreement in the case of options and shares issued to tenement vendors as consideration for the settlement price. The fair value of the unlisted options is determined using a Binomial Tree model, taking into account the terms and conditions upon which the options were granted.

The cost of equity-settled transactions is recognised as an expense, together with a corresponding increase in equity, on a straight-line basis, over the period in which the vesting and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant directors and employees become fully entitled to the options (the vesting date).

NOTES TO THE FINANCIAL STATEMENTS

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income reflects:

- (i) the grant date fair value of the options;
- (ii) the current best estimate of the number of options that will ultimately vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of vesting conditions being met, based on best available information at balance date; and
- (iii) the extent to which the vesting period has expired.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it has 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, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(q) 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.

(r) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Rendering of Services

Where the work performed in relation to a joint venture or other contract outcome can be reliably measured:

- right to receive compensation for the services provided and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours performed to date as a percentage of total estimated labour hours in relation to a joint venture or for each contract. Where it is probable that a loss will arise in relation to a joint venture or from a contract, the excess of total costs over revenue is recognised as an expense immediately.

Where the contract outcome cannot be reliably measured:

- revenue is recognised only to the extent that the costs that have been incurred are recoverable.

Unearned income is recognised in respect of progress billings and advances on exploration contracts in progress, received in advance, or not represented by work done or reimbursable expenditure incurred, under joint venture arrangements. Such income is recognised and brought to account over time as it is earned.

(ii) Interest revenue

Revenue is recognised as interest accrued using the effective interest method. This is a method of calculating the amortised costs of a financial asset and allocating the interest revenue over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

All revenue is stated net of Goods and Services Tax ("GST").

(s) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates

NOTES TO THE FINANCIAL STATEMENTS

and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets, liabilities and their carrying amounts for financial statements purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset/liability in a transaction that is not a business combination and that, at the time of transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interest in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of the asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Clancy Exploration Limited and its wholly-owned Australian controlled entity formed a tax consolidated group on 1 July 2008. However, they continue to account for their own current and deferred tax amounts. The consolidated entity has applied the stand alone taxpayer approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes.

In addition to its own current and deferred tax amounts, Clancy Exploration Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Members of the tax consolidated group have not entered into a tax funding agreement and as no current tax assets or liabilities or deferred tax assets are recognised in relation to tax losses or unused tax credits, no contributions or distributions are required to be made under AASB Int 1052 Tax Consolidation Accounting.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

NOTES TO THE FINANCIAL STATEMENTS

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

(t) Earnings per share

Basic earnings per share is calculated as profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(u) Exploration Expenditure

Exploration expenditure incurred by the consolidated entity in relation to its own sole-funded projects together with any optional quarterly contributions to exploration expenditure, made to the manager of one the jointly controlled operations, are recognised in profit or loss as incurred and are classified in the statement of comprehensive income under the expense category "Exploration expenditure".

Exploration expenditure incurred by the consolidated entity, on those joint venture projects it managed, was almost completely recovered from joint venture partners and as such was recognised in profit or loss as incurred. It is classified in the statement of comprehensive income within the income or expense category "Net joint venture reimbursed expenses".

(v) Financial Liabilities and Equity Instruments Issued by the Consolidated Entity

- (i) Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual agreement.
- (ii) Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.
- (iii) Financial liabilities
Financial liabilities are classified as either financial liabilities 'at fair value through profit and loss' or 'other financial liabilities'.
- (iv) Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

NOTES TO THE FINANCIAL STATEMENTS

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Equally, the consolidated entity continually employs judgement in the application of its accounting policies.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions. Those which may materially affect the carrying amounts of assets and liabilities reported in future periods are discussed below:

(a) Significant accounting judgements

(i) *Impairment of non-financial assets including intangible computer software*

The consolidated entity assesses impairment on all assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. These include technology and economic environments. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use calculations, which incorporate a number of key estimates and assumptions.

(b) Significant accounting estimates and assumptions

(i) *Share-based payment transactions*

The consolidated entity measures the cost of equity settled transactions with directors, employees, consultants and brokers by reference to the fair value of the equity instruments at the date at which they are granted. In the case of options and shares issued to tenement vendors as consideration for the settlement price, fair value is measured at the closing share price on, or just before, either the date of entering into, or executing, an exploration licence purchase agreement.

In the case of shares issued to vendors of drilling services, fair value is measured at 95% of the volume weighted average price of shares for the last ten business days on which shares were traded, while for options fair value is measured at the closing share price on, or just before, either the date of entering into, or executing, an drilling for equity agreement.

In the case of options, fair value is determined using a Binomial Tree model, in accordance with the assumptions detailed in Note 15. The accounting estimates and assumptions relating to equity settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(ii) *Estimation of useful lives of assets*

The estimation of useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and software developers' support and maintenance program (operating computer software and intangible computer software). Adjustments to useful lives are made when considered necessary. Depreciation and amortisation charges as well as estimated useful lives are included in Notes 10 and 11.

(iii) *Research and development tax offset*

An income tax benefit of \$415,273 has been included in the statement of comprehensive income for the 2011 year. It arises from a tax offset originating from a tax concession on research and development expenditure incurred by the Company.

The Company has embarked on a research and development project to develop and extend techniques and technologies so as to significantly increase probability in targeting and identifying areas with high grade mineral deposits. At the inception of the project, the worldwide exploration data was fragmented and numerous and not suitable to enable efficient identification of target areas, in particular deep seeded porphyry mineralisation.

To bridge the current information gap in relation to deep seeded porphyry mineralisation and progress the exploration techniques to the level that the Company requires, significant research is being conducted and an innovative method of analysing the exploration data is being developed. Expenditure on such activities is

NOTES TO THE FINANCIAL STATEMENTS

classified by AusIndustry as eligible research and development and qualifies for a tax offset by way of a cash rebate.

The Company has previously successfully claimed a tax offset for 2010, but each year's claim requires separate registration and is subject to AusIndustry review. The claim for 2011 is expected to be lodged around the time of completion of these financial statements. It has been accrued at 31 December 2011 on the assumption that it will succeed in its entirety.

		Consolidated	
		2011	2010
		\$	\$
4.	OTHER REVENUE		
	(a) Sale of interest in tenements		
	Sale of interest in tenements	40,000	-
		<u>40,000</u>	<u>-</u>
	(b) Other revenue		
	Interest revenue	140,056	81,613
	Miscellaneous revenue	91	30
		<u>140,147</u>	<u>81,643</u>
5.	EXPENSES		
	(a) Employee benefits expense includes:		
	Directors' fees	109,676	64,000
	Salaries	655,811	899,992
	Share-based payments expense	-	184,140
	Workers' compensation costs	23,048	13,090
	Annual leave provision	12,318	(1,469)
	Long service leave provision	35,244	26,853
	Post employment benefits expense	67,028	92,116
	Other employee benefits expense	5,784	16,876
		<u>908,909</u>	<u>1,295,598</u>
	(b) Depreciation, amortisation and impairment expense included in statement of comprehensive income		
	Depreciation of plant & equipment	70,678	37,270
	Amortisation of software and leasehold improvements	3,458	8,808
	Impairment of plant & equipment	971	3,755
	Loss on scrapping of assets	1,310	58
		<u>76,417</u>	<u>49,891</u>
	(c) Finance costs		
	Interest expense – other	2,213	553
		<u>2,213</u>	<u>553</u>
	(d) Exploration Expenditure		
	Gross direct exploration expenditure		
	- Self funded projects including depreciation	1,379,662	1,091,920
	- Contributions & management fees paid to joint venture partner	-	250,712
	Total gross exploration expenditure	<u>1,379,662</u>	<u>1,342,632</u>
	Less: Depreciation classified separately in statement of comprehensive income	(21,895)	(19,489)
	Net disclosure in statement of comprehensive income	<u>1,357,767</u>	<u>1,323,143</u>

NOTES TO THE FINANCIAL STATEMENTS

6. INCOME TAX	Consolidated	
	2011	2010
	\$	\$
(a) Income tax expense		
The major components of income tax expense are:		
Statement of comprehensive income		
<i>Current income tax</i>		
Current income tax charge/(benefit)	(415,273)	(375,843)
Adjustments in respect of current income tax of previous years	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	-	-
Income tax expense/(benefit) reported in statement of comprehensive income	<u>(415,273)</u>	<u>(375,843)</u>
(b) Amounts charged or credited directly to equity		
Deferred income tax related to items charged or credited directly to equity		
Unrealised loss on available-for-sale financial assets	-	-
Income tax benefit reported in equity	<u>-</u>	<u>-</u>
(c) Numerical reconciliation of accounting profit to tax expense		
A reconciliation between tax expense and the accounting profit before income tax multiplied by the consolidated entity's applicable income tax rate is as follows:		
Accounting loss before income tax	<u>(2,740,538)</u>	<u>(3,119,802)</u>
At the consolidated entity's statutory income tax rate of 30% (2010: 30%)	(822,161)	(935,941)
Non-deductible entertainment/penalties	534	1,739
Other non-allowable items	-	1,685
Share based payments	293	55,242
Impairment of fixed assets	291	1,126
Fringe benefits tax	7	-
Allowable deductions	(4,195)	(169)
Adjustments in respect of current income tax of previous years	-	1,330
Adjustments in respect of deferred tax asset relating to capital raising costs expensed in previous years	-	(971)
Research and development uplift concession	(83,055)	(75,168)
Increase in unrecognised deferred tax assets	493,013	575,284
Income tax benefit arising from R&D tax rebate	<u>(415,273)</u>	<u>(375,843)</u>
(d) Current tax assets and liabilities		
Current tax liability	<u>-</u>	<u>-</u>
(e) Recognised deferred tax assets and liabilities		
The Group has not recognised any deferred tax assets or liabilities during the year (2010: Nil)		
(f) Tax losses		
The group has Australian revenue tax losses for which no deferred tax asset is recognised on the statement of financial position of \$9,762,213 (2010: \$7,830,105) which are available indefinitely for offset against future taxable income subject to continuing to meet the relevant statutory tests.		
The group has Australian capital tax losses for which no deferred tax asset is recognised on the statement of financial position of \$111,962 (2010: \$111,962) which are available indefinitely for offset against future taxable capital gains subject to continuing to meet the relevant statutory tests.		
(g) Unrecognised temporary differences		
As at 31 December 2011, the group has other temporary differences (excluding tax differences relating to tax losses) for which no deferred tax asset is recognised in the statement of financial position of \$677,781		

NOTES TO THE FINANCIAL STATEMENTS

(2010: \$619,257). None of these unrecognised temporary differences relate to investments in subsidiaries, associates or joint ventures.

(h) Tax consolidation*Members of the tax consolidated group and the tax sharing agreement*

Clancy Exploration Limited and its 100% owned Australian resident subsidiary were both subsidiaries in a tax-consolidated group with Geoinformatics Exploration Australia Pty Ltd as the head entity until 2 July 2007. A new tax-consolidated group was formed on 1 July 2008 with Clancy Exploration Limited as Head Entity. Members of the new tax-consolidated group have not yet entered into a tax sharing agreement.

7. EARNINGS PER SHARE

The following reflects the income used in the basic and diluted earnings per share computations.

(a) Earnings used in calculating earnings per share	Consolidated	
	2011	2010
	\$	\$
<i>For basic and diluted earnings per share:</i>		
Loss from continuing operations after tax for the year	(2,325,265)	(2,743,959)
(b) Weighted average number of shares	2011	2010
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic and diluted earnings per share	138,898,799	90,796,543
(c) Earnings per share	2011	2010
Basic loss per share	(1.7 cents)	(3 cents)
Diluted loss per share	(1.7 cents)	(3 cents)

(i) Diluted earnings per share are calculated after classifying all options on issue remaining unconverted at 31 December 2011 as potential ordinary shares. As at 31 December 2011, the Company has on issue 98,934,786 options over unissued capital and has incurred a net loss. As the notional exercise prices of these options is greater than the current market price of the shares, they have not been included in the calculations of the diluted earnings per share as they are anti-dilutive for all periods presented.

(ii) There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

8. CASH AND CASH EQUIVALENTS

	Notes	Consolidated	
		2011	2010
		\$	\$
Cash at bank		75,443	10,482
Short term bank deposits	(ii)	3,272,567	1,649,886
		<u>3,348,010</u>	<u>1,660,368</u>

Reconciliation to Statement of cash flows

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 31 December:

Cash at bank	75,443	10,482
Short term bank deposits	3,272,567	1,649,886
	<u>3,348,010</u>	<u>1,660,368</u>

(i) Cash at bank is non-interest bearing

(ii) Term Deposits to the value of \$300,000 (2010: \$178,000) have been provided as set-off security to a financial institution in respect of a \$250,000 (2010: \$178,000) bank guarantee facility provided in turn for exploration licence security purposes and a \$50,000 (2010: \$Nil) corporate credit card facility.

NOTES TO THE FINANCIAL STATEMENTS

8. CASH AND CASH EQUIVALENTS - contd**Financing facilities available**

Other than the aforementioned bank guarantee facility, at balance date, the Company did not have any financing facilities available

9. TRADE AND OTHER RECEIVABLES (Current)

	Consolidated	
	2011	2010
	\$	\$
Sundry debtors	-	279
Accrued income	60,524	7,767
GST input tax refundable	84,953	47,503
Income tax R&D benefits receivable	415,273	375,843
Deposits/Bonds	630	11,915
Prepayments	70,461	49,736
	631,841	493,043

(a) Fair value and credit risk

Due to the short term nature of the receivables, their carrying value is assumed to approximate their fair value.

Given the nature of the receivables as detailed above, the consolidated entity's exposure to credit risk is not considered to be material. The Group's maximum exposure to credit risk is the carrying value of trade and other receivables. Collateral is not held as security. Nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

10. PLANT AND EQUIPMENT

	Consolidated	
	2011	2010
	\$	\$
Year ended 31 December		
Computer Equipment		
At 1 January, net of accumulated depreciation	6,673	16,178
Additions	14,625	3,685
Disposals	(1,472)	(58)
Depreciation charge for the year	(9,488)	(9,040)
Reversal of impairment/(Impairment)	342	(4,092)
Net of accumulated depreciation and impairment	10,680	6,673
Plant and Equipment		
At 1 January, net of accumulated depreciation	51,670	1,324
Additions	21,396	56,160
Depreciation charge for the year	(28,720)	(5,360)
Impairment	(543)	(454)
Net of accumulated depreciation and impairment	43,803	51,670
Motor Vehicles		
At 1 January, net of accumulated depreciation	49,606	69,095
Additions	51,306	-
Depreciation charge for the year	(21,895)	(19,489)
Net of accumulated depreciation	79,017	49,606
Office Furniture		
At 1 January, net of accumulated depreciation	15,102	80
Additions	4,756	17,440
Disposals	(65)	-
Depreciation charge for the year	(5,352)	(2,693)
Reversal of impairment/(Impairment)	-	275
Net of accumulated depreciation and impairment	14,441	15,102
Leasehold Improvements		
At 1 January, net of accumulated depreciation	7,324	-
Additions	3,598	7,866
Amortisation charge for the year	(5,024)	(542)
Net of accumulated amortisation	5,898	7,324

NOTES TO THE FINANCIAL STATEMENTS

10. PLANT AND EQUIPMENT (Cont'd)

	Consolidated	
	2011	2010
	\$	\$
Library		
At 1 January, net of accumulated depreciation	-	-
Additions	585	-
Depreciation charge for the year	(200)	(144)
Reversal of impairment/(Impairment)	(15)	144
Net of accumulated depreciation and impairment	370	-
Total Plant and Equipment		
At 1 January, net of accumulated depreciation and amortisation	130,375	86,677
Additions	96,266	85,151
Disposals	(1,537)	(58)
Depreciation and amortisation charges for the year	(70,679)	(37,268)
Impairment	(216)	(4,127)
Net of accumulated depreciation, amortisation and impairment	154,209	130,375
At 31 December		
Computer equipment at cost	44,581	41,597
Accumulated depreciation and impairment	(33,901)	(34,924)
Net carrying amount	10,680	6,673
Plant and equipment at cost	87,536	66,778
Accumulated depreciation and impairment	(43,733)	(15,108)
Net carrying amount	43,803	51,670
Motor vehicles at cost	163,015	111,709
Accumulated depreciation	(83,998)	(62,103)
Net carrying amount	79,017	49,606
Office furniture at cost	22,690	18,140
Accumulated depreciation and impairment	(8,249)	(3,038)
Net carrying amount	14,441	15,102
Leasehold improvements at cost	11,464	7,866
Accumulated amortisation	(5,566)	(542)
Net carrying amount	5,898	7,324
Library at cost	1,344	759
Accumulated depreciation and impairment	(974)	(759)
Net carrying amount	370	-
Total cost	330,630	246,849
Accumulated depreciation, amortisation and impairment	(176,421)	(116,474)
Net carrying amount	154,209	130,375
(i) The useful life of the assets was estimated as follows:		
Sundry equipment:		5 to 15 years
Computer equipment:		4 years
Motor vehicles		5 to 8 years
Furniture and Fittings:		5 to 15 years
Library:		7 years
Leasehold improvements:		Over the remainder of the lease term up to 2 years
(ii) No assets have been pledged as security for borrowings.		

NOTES TO THE FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS	Consolidated	
	2011	2010
	\$	\$
Computer Software		
Year ended 31 December		
At 1 January, net of accumulated amortisation	5,969	7,724
Additions	1,835	6,683
Amortisation charge for the year	(3,458)	(8,809)
Reversal of impairment/(Impairment)	(795)	371
Net of accumulated amortisation and impairment	3,551	5,969
At 31 December		
Cost (gross carrying amount)	44,051	42,216
Accumulated amortisation and impairment	(40,500)	(36,247)
Net carrying amount	3,551	5,969
(i) The useful life of intangible assets was estimated as follows for 2011: Computer software: 2.5 years		
12. TRADE AND OTHER PAYABLES (Current)	Notes	Consolidated
		2011
		2010
		\$
		\$
Trade payables	(ii) - (iv)	127,913
Accrued expenses		219,233
		93,191
		347,146
		298,474
Terms and conditions:		
(i) Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.		
(ii) Trade payables are non-interest bearing and are normally settled on 30 day terms.		
(iii) Included in trade payables at 31 December 2010 is an amount of \$10,000 payable to C2Skye Management Ltd in respect of director's fees. C2Skye Management Ltd is controlled by a director A J Macdonald		
(iv) Included in trade payables at 31 December 2010 is the balance of a termination entitlement of \$53,779 payable to former director M Stewart, under an employment contract. ASX Listing Rules require that the Company's shareholders approve payment of termination benefits to directors in excess of 5% of equity interests, as set out in the latest set of accounts prior to the termination event that were given to the ASX. At 31 December 2010 the Company had paid \$56,431 out of a total \$110,210 termination entitlement leaving the abovementioned balance, which was subsequently paid.		
13. PROVISIONS		Consolidated
		2011
		2010
		\$
		\$
CURRENT		
Employee entitlements - accumulated annual leave		38,952
		32,470
		38,952
		32,470
NON-CURRENT		
Employee entitlements - long service leave		35,244
Employee entitlements - accumulated annual leave		2,227
		-
		-
		37,471
		-

NOTES TO THE FINANCIAL STATEMENTS

14. ISSUED CAPITAL

		Consolidated	
		2011	2010
		\$	\$
Ordinary shares	(a)	13,409,971	10,166,442

(a) Ordinary shares

Issued and fully paid ordinary shares carry one vote per share and carry the right to dividends.

Movement in ordinary shares on issue

	Notes	Consolidated 2011		Consolidated 2010	
		Number of shares	\$	Number of shares	\$
Consolidated Entity					
Beginning of financial year		109,513,447	10,166,442	75,212,008	7,377,178
Add: Shares issued during the year pursuant to a rights issue	(i)	54,756,724	3,646,798	-	-
Free attaching options exercised	(ii)	300	45	-	-
Shares issued for drilling services pursuant to a drilling for equity agreement	(iii)	971,954	52,530	-	-
Shares issued pursuant to a private placement	(iv)			6,923,077	900,000
Shares issued during the year pursuant to a rights issue	(v)			27,378,362	2,190,269
Less: Transaction costs on share issue	(vi)	-	(455,844)	-	(301,005)
End of financial year		165,242,425	13,409,971	109,513,447	10,166,442

- (i) Pursuant to the prospectus issued 3 May 2011, 54,756,724 ordinary shares and 54,756,724 free attaching options were issued in June 2011, at a subscription price of 8 cents per share, as a result of a one for two non-renounceable rights offer. These shares were listed on the Australian Securities Exchange on 24 June 2011. The offering raised \$4,380,538 before costs of the issue. According to its interpretation of AASB 139 the Company is required to determine the value of the free attaching options and using that value, apportion part of the proceeds of the share issue to the options reserve. These options were valued at \$733,740 according to the Binomial Tree method with an exercise price of 15 cents when the market trading price was 6.3 cents, a volatility factor of 75.4% and a risk free rate of 4.69%. Refer note 15: Movements in shares under option, below.
- (ii) On 13 May 2011, 300 options were exercised over 300 ordinary shares at an exercise price of 15 cents per share.
- (iii) On 1 December 2011 and 20 December 2011 respectively, 200,507 and 771,447 ordinary shares were issued to Australian Mineral and Waterwell Drilling Pty Ltd ("AMWD"), subject to a 12 month escrow, pursuant to a drilling earn-in agreement.
- (iv) On 7 April 2010 6,923,077 ordinary shares were issued at a price of 13 cents per share.
- (v) Pursuant to a 1 for 3 renounceable rights issue, 27,378,362 ordinary shares were issued on 13 August 2010 at a subscription price of 8 cents per share.
- (vi) The transaction costs represent the cost of issuing shares pursuant to points (i) above and (iii) - (v) above.

(b) Capital Risk Management

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

In order to maintain or adjust the capital structure, the entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, enter into joint ventures or sell assets.

The entity does not have a defined share buy-back plan.

No dividends were paid in 2011 and no dividends are expected to be paid in 2012.

The consolidated entity is not subject to any externally imposed capital requirements.

Management reviews management accounts on a bi-monthly basis and actual expenditures against budget on a bi-monthly basis.

NOTES TO THE FINANCIAL STATEMENTS

15. RESERVES

	Consolidated	
	2011	2010
	\$	\$
Share-based payment reserve	1,660,974	824,008
	<u>1,660,974</u>	<u>824,008</u>
<i>(a) Movement in reserves</i>		
(a.1) Available-for-sale investments revaluation reserve		
Balance at beginning of the financial year	-	562
Net unrealised loss on available-for-sale investment before tax	-	(562)
Balance at the end of the financial year	<u>-</u>	<u>-</u>
(a.2) Share-based reserve		
Balance at beginning of the financial year	824,008	639,868
Apportioned value of free attaching options from proceeds of rights issue	733,740	-
Arising on share-based payments	103,226	184,140
Balance at end of financial year	<u>1,660,974</u>	<u>824,008</u>

Option details	Notes	Exercise Price	On Issue at 1 January 2011	Issued	Exercised	Lapsed	Forfeited	On issue at 31 December 2011
Options expiring on 10 July 2011		\$0.20	2,000,000	-	-	(2,000,000)	-	-
Options expiring on 30 September 2011		\$0.20	2,250,000	-	-	(2,250,000)	-	-
Options expiring on 10 August 2013	(viii)	\$0.175	2,050,000	-	-	-	-	2,050,000
Options expiring on 31 December 2013	(v)	\$0.195	1,650,000	-	-	-	-	1,650,000
Options expiring on 30 September 2013	(vi)	\$0.185	1,100,000	-	-	-	-	1,100,000
Options expiring on 31 July 2013 Free attaching, listed	(ii) & (vii)	\$0.15	27,378,362	54,756,724	(300)	-	-	82,134,786
Options expiring on 31 July 2013 Broker, listed	(iii)	\$0.15	-	10,000,000	-	-	-	10,000,000
Options expiring on 31 July 2013 Drill for equity, listed	(iv)	\$0.15	-	2,000,000	-	-	-	2,000,000
			<u>36,428,362</u>	<u>66,756,724</u>	<u>(300)</u>	<u>(4,250,000)</u>	<u>-</u>	<u>98,934,786</u>

- (i) All options granted during 2011 and 2010 have been valued according to the Binomial Tree method except for the 2010 free attaching options which were considered to have nil value. All options vested fully on grant date and were fully expensed on that date, with the exception of the options granted on 23 September 11 which are being expensed over a period of 3 years.
- (ii) Pursuant to a 1 for 2 renounceable rights issue, participating shareholders received 1 free attaching option for every new share subscribed. See note 14(a) (ii) above.
- (iii) Pursuant to an underwriters' agreement in relation to the May 2011 renounceable rights issue described at note 14(a) (ii) above 10,000,000 options were issued.
- (iv) Pursuant to the drilling earn-in agreement per note 14(a) (iii) above, 2,000,000 options were issued to AMWD on 23 September 2011.
- (v) On 28 January 2010, the Company issued 1,650,000 options to directors.
- (vi) On 4 May 2010, the Company issued 1,100,000 options to employees.
- (vii) Pursuant to a 1 for 3 renounceable rights issue, under a prospectus issued 21 July 2010, participating shareholders received 1 free attaching option for every new share subscribed.
- (viii) On 12 August 2009 the Company issued 2,350,000 options to staff and consultants, of which 300,000 were forfeited in 2010.

NOTES TO THE FINANCIAL STATEMENTS

(b) Fair value of share options granted

Inputs into the model:	2011 Option series			2011 Free Attaching Option series	2010 Free Attaching Option series	2010 Option series		2009 Option series
	23/09/2011	30/08/2011	19/07/2011	16/06/2011	5/08/2010	4/05/2010	28/01/2010	12/08/200
Grant date	23/09/2011	30/08/2011	19/07/2011	16/06/2011	5/08/2010	4/05/2010	28/01/2010	12/08/200
No. of options granted	2,000,000	9,000,000	1,000,000	54,756,724	27,378,362	1,100,000	1,650,000	2,050,00
Grant date share price	5c	5.7c	6c	6.3c	10c	16c	16c	14
Exercise price	15c	15c	15c	15c	15c	18.5c	19.5c	17.5
Expected volatility	72.3%	73.4%	75.6%	75.6%	0.0%	85.4%	87.3%	80.0%
Option life	659 days	701 days	743 days	776 days	1091 days	1246 days	1434 days	1458 day
Expected life	659 days	701 days	743 days	776 days	1091 days	623 days	717 days	729 day
Expiry date	31/07/2013	31/07/2013	31/07/2013	31/07/2013	31/07/2013	30/09/2013	31/12/2013	10/08/201
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate	3.47%	3.79%	4.69%	4.69%	0.00%	5.00%	4.59%	4.59%
Fair value at grant date	0.54c	0.8782c	1.388c	1.34c	Nil	6.54c	6.8c	5.07
Valuation amount	\$10,800	\$79,038	\$13,888	\$733,740	Nil	\$71,940	\$112,200	\$119,14
Notes (as per Note 15(a))	(iv)	(iii)	(iii)	(ii)	(vii)	(vi)	(v)	(vii)

(c) Nature and purpose of reserves

The available-for-sale investments revaluation reserve records increments and decrements in fair value to the extent that they offset one another.

The share-based payments reserve records the value of share options issued to the Company's directors, employees, consultants and brokers as well as the vendors of drilling services and tenements. It also includes an apportionment for the value of free attaching options from proceeds of a rights issue.

16. STATEMENT OF CASH FLOWS RECONCILIATION

	Consolidated	
	2011	2010
	\$	\$
(a) Reconciliation of the net profit/(loss) after tax to net cash flows from operations		
Loss from ordinary activities after income tax	(2,325,265)	(2,743,959)
<i>Adjustments for:</i>		
Depreciation	71,988	37,328
Amortisation of intangible assets	3,458	8,809
Impairment of fixed assets	1,513	3,755
Reversal of Impairment of non-current investments	(542)	(2,409)
Loss on sale of property, plant and equipment	2	-
Investment written off	-	2,971
Share options expensed	-	184,140
Non-cash purchase of drilling services	53,507	-
Non-cash net expenses paid on behalf of controlled entity via loan account	285	212
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(129,358)	(386,535)
Decrease /(increase) in prepayments and bonds	384	(10,416)
Increase/(decrease) in trade and other payables	48,672	(31,331)
Increase/(decrease) in provisions	43,953	(7,363)
Net cash flow used in operating activities	<u>(2,231,403)</u>	<u>(2,944,798)</u>
(b) Non-cash financing and investing activities		
Settlement of drilling services with shares and options	63,331	-
Settlement of broker services with options	92,926	-
	<u>156,257</u>	<u>-</u>
(c) Bank guarantee facility		
Bank guarantee facility	300,000	178,000
Amount utilised	(118,477)	(178,000)
	<u>181,523</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

The bank guarantee facility has been provided by a financial institution for exploration licence security and corporate credit card purposes. Term deposits of \$300,000 (2010: \$178,000) have been provided as set-off security for these facilities.

17. INTEREST IN JOINTLY CONTROLLED OPERATIONS

The Group has the following significant interests in joint ventures:

(a) Bass Metals Limited unincorporated joint venture

- (i) Bass Metals Limited ("Bass") and Clancy Exploration Limited have a 75% and 25% interest respectively in two Tasmanian exploration licences ("tenements"), the Lake Margaret licence and the Sock Creek licence in the Mt Read Volcanic Belt in Western Tasmania.
- (ii) Joint venture property initially consists of these tenements and all mining information in the possession or control of either party relating to these tenements. It is owned by the parties as tenants in common in proportion to their respective interests. Exploration costs are currently incurred by Bass and there are no joint venture assets or liabilities.
- (iii) Bass as the party holding the majority interest is the manager of the joint venture and all joint venture activities.
- (vi) Expenditure is in proportion to joint venture interests. However, Bass has agreed to sole fund the joint venture until the completion of a pre-feasibility study on any one of the tenements. At the time of any withdrawal by Bass the tenements must be in good standing and expenditure commitments met. As at the date of this report, Bass had not withdrawn from the joint venture.
- (vii) The Company has no capital commitments or contingent liabilities in respect of this joint venture.
- (viii) Under the provisions of the joint venture agreement, the Company may become entitled to performance shares.

(b) Gold Fields Australasia Pty Ltd unincorporated joint venture

- (i) Under the Joint Venture projects managed by Gold Fields Australasia Pty Ltd ("GFA"), Clancy Exploration Limited has a 12.94% to 20% interest in 11 tenements in the eastern Lachlan Fold Belt in New South Wales. These tenements are divided over seven (2010: seven) project areas and are governed by seven (2010: seven) Joint Ventures and a Heads of Agreement – East Lachlan Alliance Second Restructure agreement ("Agreement") with GFA. This Agreement supercedes the previous East Lachlan Alliance Restructure agreement and grants GFA the right to manage the seven (2010: seven) Joint Venture projects in the Lachlan Fold Belt.
- (ii) GFA has earned an 81.54% interest in the Cowal East Joint Venture and an 87.06% interest in the Wellington North Joint Venture. GFA has earned a 51% interest in the Myall Joint Venture and has the right to earn an 80% interest by expenditure of \$10.5m.
- (iii) GFA has earned an 80% interest in three Joint Venture projects: Parkes CLY, Parkes CUR (collectively the Parkes JV projects), Moorefield and Jemalong. Clancy's 20% interest in each of these projects is carried until \$1m has been spent on each project. After GFA has spent \$1m on a project Clancy can either fund \$200,000 to retain its 20% share or dilute in proportion to GFA expenditure to a 10% share at which point Clancy's interest converts to a royalty of 2.5% Net Smelter Return.
- (iv) GFA has a right of pre-emption over four Clancy projects comprising 6 tenements.
- (v) The Company has no capital commitments or contingent liabilities in respect of this joint venture.
- (vi) At 31 December 2011, the Company owed GFA \$Nil (31 December 2010: \$1,841) in respect of contributions it had elected to fund.
- (vii) For the year ended 31 December 2011, the Company made contributions to GFA of \$Nil (Year ended 31 December 2010: \$250,712).

(c) Minemakers TTT Pty Ltd unincorporated joint venture

- (i) Minemakers TTT Pty Ltd ("MTTT") and Clancy Exploration Limited have, following the execution of a joint venture agreement ("agreement") on 25 February 2011, a 75% and 25% interest respectively in each of 2 Tasmanian exploration licences ("tenements") in the Mt Read Volcanic Belt in Western Tasmania.
- (ii) MTTT is manager of the joint venture and has funded a work program on each tenement.
- (iii) On 15 February 2012 a decision was taken by both MTTT and the Company to relinquish the Waratah licence.
- (iv) MTTT is currently earning-in on the Oonah licence. The Company has elected to fund its 25% share of future expenditure on this tenement once this earn-in has been completed.
- (v) There are no joint venture assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

(vi) The Company has no capital commitments or contingent liabilities in respect of this joint venture.

18. SEGMENT INFORMATION

The consolidated entity operates predominantly in one reportable business segment, managed by one segment manager and in one geographical location. The operations of the consolidated entity consist of gold, copper and base metals exploration, within Australia.

The information disclosed in the financial statements is the same information utilised in internal reporting by the chief operating decision maker. Accordingly no additional quantitative or qualitative disclosures are required.

19. COMMITMENTS

	Consolidated	
	2011	2010
	\$	\$
Estimated commitments for which no provisions were included in the financial statements are as follows:		
(a) Exploration Expenditure Commitments:		
(i) Under 27 (2010:26) NSW Government, 1 (2010:1) Western Australian Government and 2 (2010:3) Tasmanian Government exploration licences Payable		
- not later than one year	581,067	349,706
- later than one year and not later than five years	538,627	180,997
	1,119,694	530,703

The expenditure commitments relating to 12 of the 27 NSW Government exploration licences ("licences"), have been assumed by the Company's joint venture partner Gold Fields Australasia Pty Ltd ("GFA") (refer note 17) which manages all joint venture projects. Accordingly, these expenditure commitments have been excluded in determining the Company's overall commitments at 31 December 2011. The Company can opt to pay an 18.46% contribution on 2, and another 12.94% contribution on 5, of these 12 licences to GFA or alternatively dilute its interests in its joint venture projects according to a prescribed formula. At the date of this report, management had not made a decision as to whether to make a contribution for the March 2012 and subsequent quarters, or not. Accordingly, no contributions have been included with the above expenditure commitments.

There is a combined 2% net smelter royalty payable to third parties in relation to both the exploration licences comprising the Trundle project. It is not possible to ascertain the value of such commitments at the time of this report.

During 2011 and subsequent to the end of the financial year, a further NSW licence was applied for by the Company and one licence formerly managed by GFA was transferred to the Company. Of the 15 licences held by the Company, 2 are pending renewal.

The Company and its subsidiary Geoinformatics Exploration Tasmania Pty Ltd had, at 31 December 2011, a 25% interest in four (31 December 2010: four) Tasmanian licences two of which are covered by a mining exploration alliance agreement with Bass Metals Ltd ("Bass"), entered into on 10 May 2005, while a further two are covered by a joint venture agreement entered into on 25 February 2011 with Minemakers TTT Pty Ltd ("MTTT"). Under these various agreements, responsibility for all remaining commitments to exploration expenditure, in regard to these licences, has been undertaken by Bass and MTTT, who are also managers of this joint venture under this agreement.

Of the three Tasmanian licences held at 31 December 2010, two were joint ventured with MTTT. Bass made application during the year to Mineral Resources Tasmania for a further licence while the Company applied for an extension to its two licences. On 3 February 2011 the extension of these licences was granted to 7 August 2011 and 9 August 2011 respectively, thus fulfilling the conditions precedent for their joint venture with MTTT.

Included in overall commitments calculations are estimates of the Company's expected commitments in respect of its sole-funded exploration licences.

All the exploration expenditure commitments are non-binding, in respect of outstanding expenditure commitments, in that the Company or its joint venture partners have the option to relinquish and lose these

NOTES TO THE FINANCIAL STATEMENTS

licences or their contractual commitments at any stage, at the cost of its cumulative expenditures up to the point of relinquishment.

Refer to Note 17 for details of Jointly Controlled Operations.

(b) Operating Lease Commitments

In October 2010 the consolidated entity entered into a 24 month lease for office and core shed premises in Orange, NSW. In November 2010 it also entered into a 48 month operating lease for a photocopier-printer. Its operating lease commitments are as follows:

	Consolidated	
	2011	2010
	\$	\$
Payable		
- not later than one year	74,172	86,280
- later than one year and not later than five years	4,163	60,335
	<u>78,335</u>	<u>146,615</u>

20. CONTINGENT LIABILITIES

In accordance with normal industry practice the consolidated entity has entered into joint venture operations and farm-in agreements with other parties for the purpose of exploring and developing its mineral interests. If a party to a joint venture defaults and does not contribute its share of joint venture obligations, then the other joint venture partners are liable to meet those obligations. In this event the interest in the tenements held by the defaulting party may be redistributed to the remaining joint venture partners. A contingent liability exists in respect of contributions due to be paid by farm-in partners of the economic entity to some of its joint ventures. However, no material losses are anticipated in respect of any of these contingencies as expenditure commitments, if not recovered from joint venture partners, can be terminated through exploration licence relinquishment at any stage.

In respect of its joint venture agreement with Minemakers TTT Pty Ltd ("MTTT"), the Company has elected to fund its 25% share of future expenditure on the Oonah tenement once MTTT's earn-in has been completed. A drilling program has yet to be finalised but is not expected to exceed \$250,000 of which the Company's share would be \$62,500. The Oonah tenement has an annual expenditure commitment of \$137,900 and was renewed for a further two years on 7 August 2011.

21. RELATED PARTY DISCLOSURES

(a) Ultimate parent

The ultimate Australian parent entity and the ultimate parent of the consolidated entity is Clancy Exploration Limited.

(b) Subsidiaries

The subsidiary of Clancy Exploration Limited is listed in the following table:

Name	Nature of Investment	Country of Incorporation	% Equity interest		Investment \$	
			2011	2010	2011	2010
Geoinformatics Exploration Tasmania Pty Ltd	Ordinary shares	Australia	100	100	1	1

(c) Transactions with related parties

The following table provides the total amount of transactions (GST inclusive where GST applies) entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to Note 12):

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated	
	2011	2010
	\$	\$
<i>Sales of goods and services</i>		
Sales of services and reimbursable expenses to entity with significant influence over the Group	-	33
Expenses paid on behalf of controlled entity	285	212
<i>Purchase of goods and services</i>		
Director's fees billed by C2Skye Management Ltd, a company controlled by a director A.J. Macdonald	41,010	40,000
Directors travel expenses billed by C2Skye Management Ltd	7,271	4,042
Directors travel expenses billed by Tectonex Geoconsultants Pty Ltd, a company controlled by the chairman M A Etheridge	3,967	-
Refund of equipment payment from entity with significant influence over the Group	-	(387)
<i>Amounts received settling trade and other receivables</i>		
Entity with significant influence over the Group	-	111
<i>Amounts paid/(refunded) on trade and other payables</i>		
Amounts paid to C2Skye Management Ltd for director's fees and travel expense reimbursements	(58,282)	(44,042)
Amounts paid to Tectonex Geoconsultants Pty Ltd for travel expense reimbursements	(3,967)	-
Entity with significant influence over the Group	-	(191)
<i>Superannuation guarantee contributions paid</i>		
Amounts paid to MAL Super Fund Pty Ltd as trustee for MAL Superannuation Fund, a trustee company controlled by a director M A Lester who is also a beneficiary of the superannuation fund	(3,156)	(2,160)
Amounts paid to Tectonex Geoconsultants Pty Ltd as trustee for Etheridge Superannuation Fund, a trustee company controlled by the chairman M A Etheridge who is also a beneficiary of the superannuation fund	(2,011)	-
Amounts paid to Far Range Pty Ltd as trustee for Far Range Superannuation Fund a trustee company controlled by a director G J Barnes who is also a beneficiary of the superannuation fund	(19,811)	(14,445)
Amounts paid to Geocrust Pty Ltd a company controlled by a former director N Archibald and who had a significant shareholding in Kiska Metals Corporation ("KSK") (formerly Geoinformatics Exploration Inc) of Vancouver, Canada, a TSX-V listed company which disposed of its 31.4 % interest in the issued shares of Clancy Exploration Limited on 12 November 2010.	-	(128)
(i) Related party trade receivables and trade payables are non-interest bearing and are paid on 30 day settlement terms.		

NOTES TO THE FINANCIAL STATEMENTS

- (ii) All related party transactions involving an entity with significant influence during 2010 were with an associated entity Geoinformatics Exploration Australia Pty Ltd (“Geoinformatics”) and were in the normal course of trade. Geoinformatics’ parent entity Kiska Metals Corporation of Canada had significant influence over the Group by way of a 31.4% shareholding in the Company up until 12 November 2010 when it disposed of its interest.

22. EVENTS AFTER BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the consolidated entity in subsequent financial years.

23. DIRECTORS AND KEY MANAGEMENT PERSONNEL**(a) Details of Key Management Personnel**

The names of the Company’s directors and executives in office at any time during the financial year are as follows. Directors were in office for the entire period unless otherwise stated.

(i) Directors

G Barnes ^{^*}	Director, additionally Managing Director
M Etheridge ⁺	Chairman (Non-Executive)
J Macdonald [^]	Director (Non-Executive - Technical)
M Lester	Director (Non-Executive – Financial)

[^] = Also directors of controlled entity Geoinformatics Exploration Tasmania Pty Ltd.

^{*} = Appointed 1 January 2011.

⁺ = Appointed 11 March 2011.

(ii) Executives

R Caren [*]	Company Secretary
G Doig	Chief Financial Officer
G Barnes	Exploration Manager

^{*} = Also company secretary of controlled entity Geoinformatics Exploration Tasmania Pty Ltd

(b) Compensation for Key Management Personnel

	Consolidated	
	2011	2010
	\$	\$
Short-term employee benefits	349,675	438,920
Short-term consulting fees	179,619	174,094
Post-employment benefits	27,781	54,778
Other long-term benefits	35,244	24,449
Termination benefits ¹	-	110,210
Share-based payments	-	144,900
Total Compensation	<u>592,319</u>	<u>947,351</u>

¹ As at 31 December 2010, the Company had, under an employment contract, an obligation to make a termination payment to M Stewart. ASX Listing Rules require that the Company’s shareholders approve payment of termination benefits to directors in excess of 5% of equity interests, as set out in the latest set of accounts given to the ASX. At 31 December 2010 the Company had paid \$56,431 out of a \$110,210 termination entitlement, leaving a balance of \$53,779. Shareholder approval was obtained at the 2011 AGM thus enabling payment of the outstanding amount.

NOTES TO THE FINANCIAL STATEMENTS

(c) Option holdings of Key Management Personnel (Consolidated)

(i) OPTIONS – 31 DECEMBER 2011

		Held at 1 January 2011	Granted as Remuneration	Rights Issue Participant	Options Exercised	Expired/ Forfeited	Held at 31 December 2011	Exercisable/ Vested at 31 December 2011
Director								
G Barnes	Incentive	1,000,000	-	-	-	-	1,000,000	1,000,000
	Listed	177,757	-	168,014	-	-	345,771	345,771
M Etheridge	Listed	86,475	-	172,949	-	-	259,424	259,424
J Macdonald	Incentive	400,000	-	-	-	-	400,000	400,000
	Listed	142,628	-	-	-	-	142,628	142,628
M Lester	Incentive	250,000	-	-	-	-	250,000	250,000
	Listed	33,655	-	67,309	-	-	100,964	100,964
Executives								
R Caren	Incentive	200,000	-	-	-	-	200,000	200,000
	Listed	21,154	-	-	-	-	21,154	21,154
G Doig	Incentive	200,000	-	-	-	-	200,000	200,000
	Listed	30,418	-	-	-	-	30,418	30,418
		2,542,087	-	408,272	-	-	2,950,359	2,950,359

Refer to Note 15 for a description of the share options' terms and conditions.

(ii) OPTIONS – 31 DECEMBER 2010

		Held at 1 January 2010	Granted as Remuneration	Rights Issue Participant	Options Exercised	Expired/ Forfeited	Held at 31 December 2010	Exercisable/ Vested at 31 December 2010
Director								
M Stewart	Incentive	500,000	1,000,000	-	-	(500,000)	1,000,000	1,000,000
	PS 1	250,000	-	-	-	(250,000)	-	-
	PS 2	250,000	-	-	-	(250,000)	-	-
	Listed	-	-	238,515	-	-	238,515	238,515
J Macdonald	Incentive	250,000	400,000	-	-	(250,000)	400,000	400,000
	Listed	-	-	142,628	-	-	142,628	142,628
N Archibald	Incentive	200,000	-	-	-	(200,000)	-	-
M Lester	Incentive	200,000	250,000	-	-	(200,000)	250,000	250,000
	Listed	-	-	33,655	-	-	33,655	33,655
Executives								
R Caren	Incentive	300,000	-	-	-	(100,000)	200,000	200,000
	Listed	-	-	21,154	-	-	21,154	21,154
G Barnes	Incentive	800,000	500,000	-	-	(300,000)	1,000,000	1,000,000
	PS 1	150,000	-	-	-	(150,000)	-	-
	PS 2	150,000	-	-	-	(150,000)	-	-
	Listed	-	-	177,757	-	-	177,757	177,757
G Doig	Incentive	300,000	-	-	-	(100,000)	200,000	200,000
	Listed	-	-	30,418	-	-	30,418	30,418
		3,350,000	2,150,000	644,127	-	(2,450,000)	3,694,127	3,694,127

Refer to Note 15 for a description of the share options' terms and conditions.

(d) Shareholdings of Key Management Personnel (Consolidated)

The movement during the reporting period in the number of ordinary shares of Clancy Exploration Limited held directly, indirectly or beneficially, by each specified director and each specified executive, including their personally related entities is as follows:

NOTES TO THE FINANCIAL STATEMENTS

(i) SHARES – 31 DECEMBER 2011

	Held at 1 January 2011	Granted as Remuneration	On Exercise of Options	Acquired	Net Change	Held at 31 December 2011
Director						
G Barnes	336,027	-	-	168,014	168,014	504,041
M Etheridge	345,898	-	-	172,949	172,949	518,847
J Macdonald	570,512	-	-	-	-	570,512
M Lester	134,617	-	-	67,309	67,309	201,926
Executives						
R Caren	84,616	-	-	-	-	84,616
G Doig	37,500	-	-	-	-	37,500
	<u>1,509,170</u>	-	-	<u>408,272</u>	<u>408,272</u>	<u>1,917,442</u>

(ii) SHARES – 31 DECEMBER 2010

	Held at 1 January 2010	Granted as Remuneration	On Exercise of Options	Acquired	Net Change	Held at 31 December 2010
Director						
M Stewart	715,542	-	-	288,515	288,515	1,004,057
J Macdonald	427,884	-	-	142,628	142,628	570,512
M Lester	100,962	-	-	33,655	33,655	134,617
Executives						
R Caren	63,462	-	-	24,154	21,154	84,616
G Barnes	158,270	-	-	177,757	177,757	336,027
G Doig	31,250	-	-	6,250	6,250	37,500
	<u>1,497,370</u>	-	-	<u>669,959</u>	<u>669,959</u>	<u>2,161,079</u>

Refer to Notes 14 and 15 for the types of share-based payment plans.

The ordinary shares acquired by directors and executives during the year were from participation in a rights issue (Refer to note 14 above). The ordinary shares acquired by the directors and executives during 2010 were from on-market trades as well as participation in a rights issue.

(f) Transaction with Related Entity

During 2010 minor tax advisory services were provided by Maxim Hall Chadwick, an accounting practice in which Mr Lester has an interest. The cost of these services was \$2,430. No services were provided during 2011.

Mr Stewart or his nominee, as a client of underwriter Patersons Securities Limited, sub-underwrote for a fee of \$650, on the same terms and conditions as other sub-underwriters, 625,000 shares (\$50,000) in the Company's 13 August 2010 renounceable rights issue. This arrangement covered the possible event that a shortfall arose in take up by shareholders of some or all those securities. Under that arrangement no sub-underwriter would acquire voting power in the Company of more than 20%. The rights issue closed over-subscribed.

24. SHARE-BASED PAYMENTS**(a) Recognised share-based payments expenses**

The expense recognised for the settlement price for the provision of drilling services and the expensing of employee and consultant services received is shown in the table below:

	Consolidated	
	2011	2010
	\$	\$
Expense arising from equity-settled share based payment - settlement price for the provision of drilling services	53,507	-
Expense arising from equity-settled share-based payment transactions – employees	-	71,940
Expense arising from equity-settled share-based payment transactions – directors	-	112,200
	<u>53,507</u>	<u>184,140</u>

NOTES TO THE FINANCIAL STATEMENTS
(b) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 31 December 2011 is 1.59 years (31 December 2010: 2.38 years).

(c) Range of exercise price

The range of exercise prices for directors, employees and consultants options outstanding at the end of the year was \$0.175 to \$0.195 (2010: \$0.175 to \$0.195).

The range of exercise prices for brokers' options outstanding at the end of the year was \$0.15 (2010: \$0.20).

The range of exercise price for drilling service provider options outstanding at the end of the year was \$0.15 (2010: \$Nil).

As the range of exercise is wide, refer to Notes 15(a) and (b) above for further information in assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

(d) Weighted average fair value

The weighted average fair value of the directors and employees options granted during the year was \$Nil (2010: \$0.067). The weighted average fair value of drilling service provider options granted during the year was \$0.0054 (2010: \$Nil).

(e) Weighted average share price

The weighted average price per share during the year was \$0.07 (2010: \$0.09).

25. AUDITORS' REMUNERATION

The auditor of Clancy Exploration Limited is Deloitte Touche Tohmatsu ("Deloitte")

	Consolidated	
	2011	2010
	\$	\$
Amounts received or due and receivable for:		
- an audit or review of the financial statements of the entity and its controlled entity - Deloitte	29,118	24,835
- an audit or review of the financial statements of the entity and its controlled entity - PKF	-	2,272
- other services in relation to the entity and its controlled entity - tax compliance services - PKF	-	(380)
	<u>29,118</u>	<u>26,727</u>

NOTES TO THE FINANCIAL STATEMENTS

26. INFORMATION RELATING TO CLANCY EXPLORATION LIMITED ('the Parent Entity')

	2011	2010
	₹	₹
ASSETS		
Current Assets	3,982,315	2,155,590
Non-current Assets	157,761	136,345
TOTAL ASSETS	<u>4,140,076</u>	<u>2,291,935</u>
LIABILITIES		
Current Liabilities	386,098	330,944
Non-current Liabilities	37,471	-
TOTAL LIABILITIES	<u>423,569</u>	<u>330,944</u>
NET ASSETS	<u>3,716,507</u>	<u>1,960,991</u>
EQUITY		
Issued capital	13,869,970	10,626,441
Reserves	1,660,974	824,008
Accumulated losses	(11,814,437)	(9,489,458)
TOTAL EQUITY	<u>3,716,507</u>	<u>1,960,991</u>
Loss of the parent entity	<u>(2,324,980)</u>	<u>(2,743,747)</u>
Total comprehensive loss of the parent entity	<u>(2,324,980)</u>	<u>(2,744,309)</u>

Contingent liabilities of the parent entity: Nil

Commitments for the acquisition of property, plant and equipment by the parent entity: Nil

On 8 May 2007, 4,600,000 shares were issued to Geoinformatics Exploration Australia Pty Ltd ("GEA"), the Company's former parent, as consideration for the acquisition of the entire issued share capital of Geoinformatics Exploration Tasmania Pty Ltd ("GET"). The transaction has been accounted for at fair value of \$460,000 by the parent entity. At the time of this acquisition both the parent entity and GET were under the common control of GEA and the combination was accounted for using the pooling of interests method. On consolidation, the difference of \$459,999 between the consideration paid of \$460,000 and the net assets acquired of \$1 is taken to equity in the consolidated entity.

27. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

The consolidated entity's principal financial instruments comprise cash, short-term deposits and available-for-sale investments.

The main purpose of these financial instruments is to finance the consolidated entity's operations. The consolidated entity has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the entire period under review, the consolidated entity's policy that no trading in financial instruments shall be undertaken.

The various categories of the consolidated and parent entity's financial instruments and their carrying amounts coincide with the tables below which set out financial instrument exposure to interest rate risk. Accordingly financial instruments are not separately categorised elsewhere.

NOTES TO THE FINANCIAL STATEMENTS

The main risk arising from the consolidated entity's financial instruments is cash flow interest rate risk. Other minor risks are either summarised below or disclosed at Note 9 in the case of credit risk and Note 14 in the case of capital risk management. The Board reviews and agrees policies for managing each of these risks.

(a) Cash Flow Interest Rate Risk

The consolidated entity's exposure to the risks of changes in market interest rates relates primarily to the consolidated entity's short-term deposits with a floating interest rate. These financial assets with variable rates expose the consolidated entity to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The consolidated entity does not engage in any hedging or derivative transactions to manage interest rate risk. In regard to its interest rate risk, the consolidated entity continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates.

The following tables set out the carrying amount by maturity of the parent entity and consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments. Also included is the effect on profit and equity after tax if interest rates at that date had been 10% (2010: 30%) higher or lower with all other variables held constant as a sensitivity analysis.

Consolidated Entity

Notes	Floating Interest Rate ¹		Non-Interest Bearing		Total Carrying Amount		Interest Rate Risk Sensitivity 2011				Interest Rate Risk Sensitivity 2010			
							-10%		+10%		-30%		+30%	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
	2011	2010	2011	2010	2011	2010	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial Assets:														
Cash at bank	8	-	-	75,443	10,482	75,443	10,482	-	-	-	-	-	-	-
Short-term deposits	8	3,272,567	1,649,886	-	-	3,272,567	1,649,886	(13,908)	-	13,908	-	(24,436)	-	24,436
Trade and other receivables	9	-	-	631,841	493,043	631,841	493,043	-	-	-	-	-	-	-
Total		3,272,567	1,649,886	707,284	503,525	3,979,851	2,153,411	(13,908)	-	13,908	-	(24,436)	-	24,436
Weighted average interest rate		4.02%	4.6%											
Financial Liabilities:														
Trade and other payables	12	-	-	347,146	298,474	347,146	298,474	-	-	-	-	-	-	-
Total		-	-	347,146	298,474	347,146	298,474	-	-	-	-	-	-	-
Weighted average interest rate		-	-											
Net financial assets (liabilities)		3,272,567	1,649,886	360,138	205,051	3,632,705	1,854,937	(13,908)	-	13,908	-	(24,436)	-	24,436

¹ = Term deposits with a maturity of not more than 6 months have been included with short term deposits with floating interest rates.

A sensitivity of 10% (2010: 30%) has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 10% (2010: 30%) sensitivity would move short term interest rates at 31 December 2011 from around 4.25% representing a 42.5 basis points shift either down to 3.83% or up to 4.68% (2010: from around 4.94% representing a 148.1 basis points shift either down to 1.86% or up to 6.42%). This could represent one or two adjustments downwards in the context of:

- the Reserve Bank of Australia cutting rates in response to high funding costs experienced by local banks and continuing strength of the Australian dollar
- a potential economic downturn triggered by rising oil prices as a consequence of current unrest in the Middle East;
- a significant recession in Europe and Chinese growth slowing to a more sustainable pace; and
- local weakening of demand, provided inflation remains within target bands.

However, interest rates could move up as major Australian banks increase interest rates in response to increased costs of wholesale funding upon which they rely, particularly from offshore markets.

Based on the sensitivity analysis only interest revenue from variable rate deposits and cash balances is impacted, resulting in a decrease or increase in overall income.

NOTES TO THE FINANCIAL STATEMENTS
(b) Liquidity risk

The consolidated entity manages liquidity risk by maintaining sufficient cash reserves and through the continuous monitoring of budgeted and actual cash flows. Further, the consolidated entity only invests surplus cash with major financial institutions.

Contracted maturities of payables year ended 31 December:

	Consolidated	
	2011	2010
	\$	\$
Payable		
- less than 6 months	347,146	298,474
- 6 to 12 months	-	-
- 1 to 5 years	-	-
- later than 5 years	-	-
Total	347,146	298,474

(c) Commodity Price Risk

The consolidated entity is exposed to commodity price risk. This risk arises from its activities directed at exploration and development of mineral commodities. If commodity prices fall, the market for companies exploring for these commodities is affected. The consolidated entity does not hedge its exposures.

(d) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The consolidated entity's foreign transactions are immaterial and it is therefore not exposed to material foreign currency risk.

(e) Fair values

For financial assets and liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form, other than listed investments, when held. The consolidated entity has no financial assets where carrying amount exceeds net fair values at balance date.

DIRECTORS' DECLARATION

The directors of Clancy Exploration Limited declare that:

1. In the opinion of the directors:
 - (a) the attached financial statements and the notes thereto of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards;
 - (b) the attached financial statements and the notes thereto of the Company and of the consolidated entity are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; and
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 31 December 2011.

Signed in accordance with a resolution of directors made pursuant to Section 295(5) of the Corporations Act 2001.

On behalf of the Board



G. J. BARNES
Managing Director

Orange, NSW

Dated this 29th day of March 2012

INDEPENDENT AUDITOR'S REPORT



Deloitte Touche Tohmatsu
ABN 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

Independent Auditor's Report to the Directors of Clancy Exploration Limited

Report on the Financial Report

We have audited the accompanying financial report of Clancy Exploration Limited which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entity it controlled at the year's end or from time to time during the financial year as set out on pages 10 to 46.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT

Deloitte*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Clancy Exploration Limited would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Clancy Exploration Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 3 to 6 of the directors' report for the year ended 31 December 2011. 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.

Opinion

In our opinion the Remuneration Report of Clancy Exploration Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Neil Smith
Partner
Chartered Accountants
Perth, 30 March 2012

ASX ADDITIONAL INFORMATION

Shareholder Information as at 3 April 2012

A. TOTAL EQUITY SECURITIES

	Total on Issue	Restricted or Voluntary Escrow	Restriction Expiry Date
SHARES (CLY)	165,769,824	200,507 771,447 527,399	27 November 2012 19 December 2012 24 January 2013
LISTED OPTIONS (CLYO)	92,134,786	2,000,000	20 September 2012
UNLISTED OPTIONS			
- Officer Options	2,050,000	-	-
- Director Options	1,650,000	-	-
- Employee Incentive Options	1,100,000	-	-
TOTAL UNLISTED OPTIONS	4,800,000		

B. DISTRIBUTION OF EQUITY SECURITIES

	Shares	Listed Options	Employee Incentive	Officer	Director
1-1,000	64	4	-	-	-
1,001-5,000	30	36	-	-	-
5,001-1,0000	75	25	-	-	-
10,001-100,000	338	87	-	2	-
100,001 and over	176	79	3	5	3
Total Shareholders/Optionholders	683	231	3	7	3

	Shares	Listed Options
Marketable Parcel	\$500	\$500
Price of security shares used in calculation of marketable parcel (3 April 2012)	\$0.038	\$0.007
No of securities in a marketable parcel	13,158	71,429
No of unmarketable parcels	201	142

C. TOP 20 SHAREHOLDERS

	No. of shares	% of Total
1 Sandhurst Trustees Ltd <LMA A/c>	26,638,183	16.07
2 HSBC Custody Nominees (Australia) Limited	13,480,887	8.13
3 Tranquilo Investments Ltd	4,599,279	2.77
4 Centaurus Resources Pty Ltd	4,444,444	2.68
5 National Nominees Limited	4,000,000	2.41
6 Castle Bailey Pty Ltd <D&S Bailey Family A/c>	3,818,847	2.30
7 St Ives Gold Mining Company Pty Limited	3,479,069	2.10
8 143 Pty Ltd <JF Pearce Family A/c>	3,397,019	2.05
9 Mr Daniel Paul Wise <Ark Investments A/c>	3,252,354	1.96
10 Flue Holdings Pty Ltd	3,025,488	1.83
11 Tattersfield Securities Limited	2,838,040	1.71
12 WPG Securities Pty Ltd	2,200,000	1.33
13 Mr David Chong	2,076,735	1.25
14 Wythenshawe Pty Ltd	2,050,346	1.24
15 Citicorp Nominees Pty Limited	2,039,687	1.23
16 Mr Mark John Bahen & Mrs Margaret Patricia Bahen <Superannuation Account>	2,002,354	1.21
17 Kobia Holdings Pty Ltd <The Kobia A/c>	2,002,354	1.21
18 Ramsa Pty Ltd <The Bailey Super Fund A/c>	2,002,354	1.21
19 JP Morgan Nominees Australia Limited	2,000,000	1.21
20 Two Tops Pty Ltd	2,000,000	1.21
	91,347,440	55.10

ASX ADDITIONAL INFORMATION

D. TOP 20 LISTED OPTION HOLDERS		No. of options	% of Total
1	HSBC Custody Nominees (Australia) Limited	8,000,000	8.68
2	Ramsa Pty Ltd <Bailey Super Fund A/c>	7,050,000	7.65
3	Citicorp Nominees Pty Limited	6,539,687	7.10
4	Tattersfield Securities Limited	5,400,000	5.86
5	Castle Bailey Pty Ltd <D&S Bailey Family A/c>	4,800,000	5.21
6	Tranquilo Investments Ltd	4,599,279	4.99
7	Seamist Enterprises Pty Ltd	4,500,000	4.88
8	Mr Christopher Paul Lawrence	3,002,515	3.26
9	Mr Robert Macfadyen Pty Ltd <Macfadyen Super Fund A/c>	2,036,667	2.21
10	Mr Mark John Bahen & Mrs Margaret Patricia Bahen <Superannuation Account>	2,002,354	2.17
11	Blu Bone Pty Ltd <The Share Trading A/c>	2,002,354	2.17
12	Flue Holdings Pty Ltd	2,002,354	2.17
13	Kobia Holdings Pty Ltd <The Kobia A/c>	2,002,354	2.17
14	Ramsa Pty Ltd <The Bailey Super Fund A/c>	2,002,354	2.17
15	Mr Daniel Paul Wise <Ark Investments A/c>	2,002,354	2.17
16	Liquipure Aust Pty Ltd	1,500,000	1.63
17	Damplin Investments Pty Ltd	1,416,667	1.54
18	Mr Franco Lombardi	1,300,000	1.41
19	Mr Chris Paul Lawrence	1,242,138	1.35
20	143 Pty Ltd <JF Pearce Family A/c>	1,222,019	1.33
		64,623,096	70.14

E. SUBSTANTIAL SHAREHOLDERS

The Company's Register of Substantial Shareholders, prepared in accordance with Chapter 6C of the Corporations Act 2011, recorded the following information as at 3 April 2012;

▪ Austock Capital Management	26,126,866	(15.9%)
▪ Evolution Master Fund Limited SPC, Segregated Portfolio M and Evolution Capital Management LLC	13,377,251	(8.1%)

F VOTING RIGHTS ATTACHING TO EQUITY SECURITIES

Subject to the Constitution of the Company and any rights or restrictions at the time being attached to a class of shares, at a general meeting of the Company every Shareholder present in person, or by proxy, attorney or representative has one vote on a show of hands, and upon a poll, one vote for each Share held by the Shareholder. In the case of an equality of votes, the chairperson has a casting vote.

Options to acquire ordinary shares do not carry any voting rights.

LIST OF MINERAL TENEMENTS

State	Project	Lease No	Manager	Clancy interest
NSW	Billabong Creek	EL6802	Clancy	100%
NSW	Genaren ¹	ELA4238	Clancy	100%
NSW	Condobolin	EL7748	Clancy	100%
NSW	Cundumbul	EL6661	Clancy	100%
NSW	Cundumbul	EL7399	Clancy	100%
NSW	Currumburrama	EL6784	Clancy	100%
NSW	East Parkes	EL7747	Clancy	100%
NSW	Fairholme	EL6552	Clancy	100%
NSW	Fairholme	EL6915	Clancy	100%
NSW	Gobondery	EL6534	Clancy	100%
NSW	Moonagee	EL7198	Clancy	100%
NSW	Nadbuck	EL6732	Clancy	100%
NSW	Orange East	EL6181	Clancy	100%
NSW	Roseholme	EL6822	Clancy	100%
NSW	Trundle	EL4512	Clancy	100%
NSW	Trundle	EL7187	Clancy	100%
NSW	Cowal East	EL6553	Gold Fields	18.46%
NSW	Cowal East	EL6554	Gold Fields	18.46%
NSW	Jemalong	EL6937	Gold Fields	20%
NSW	Moorefield	EL7675	Gold Fields	20%
NSW	Myall	EL6913	Gold Fields	49%
NSW	Parkes CLY	EL7677	Gold Fields	20%
NSW	Parkes CUR	EL7676	Gold Fields	20%
NSW	Wellington North	EL6178	Gold Fields	12.94%
NSW	Wellington North	EL6328	Gold Fields	12.94%
NSW	Wellington North	EL6662	Gold Fields	12.94%
NSW	Wellington North	EL7200	Gold Fields	12.94%
NSW	Wellington North	EL7440	Gold Fields	12.94%
TAS	Lake Margaret	EL28/2009	Bass Metals	25%
TAS	Sock Creek	EL20/2010	Bass Metals	25%
TAS	Oonah	EL63/2004	TNT Mines	25%
TAS	Waratah	EL64/2004	TNT Mines	25%
WA	Yalgoo	E59/1302	Clancy	100%

1 Under application at reporting date.

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the period ended 31 December 2011, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve, the Company has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. The ASX Corporate Governance Council ("the Council") issued the second edition of the Corporate Governance Principles and Recommendations with 2010 Amendments in June 2010.

To illustrate where the Company has addressed each of the Council's revised recommendations, the following summary cross-references to each revised recommendation. Details of all of the revised recommendations can be found on the ASX Corporate Governance Council's website.

Introduction

Clancy Exploration has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised below.

The following additional information about the Company's corporate governance practices is set out on the Company's website at www.clancyexploration.com :

- Board Code of Conduct;
- Code of Conduct
- Securities Trading Policy;
- Continuous Disclosure Strategy;
- Shareholder Communication Policy
- Risk Management Policy;
- Board Charter;
- Definition of an Independent Director
- Audit Committee Charter;
- Board Selection and Appointment Procedure; and
- Diversity Policy.

Explanations for Departures from Best Practice Recommendations

During the financial year the Company has complied with the majority of the Eight Essential Corporate Governance Principles and the corresponding Best Practice Recommendations as published by the Council and as detailed below:

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

<p>Council Principle 1:</p> <p><i>Companies should establish and disclose the respective roles and responsibilities of board and management.</i></p>
<p>Council Recommendation 1.1:</p> <p><i>Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.</i></p>
<p>The Company complies with this recommendation.</p> <p>The board has set out the responsibilities of the Board in the Board Charter which can be accessed on the company website. Any functions not reserved for the Board and not expressly reserved for members by the Corporations Act and ASX Listing Rules are reserved for senior executives.</p>
<p>Council Recommendation 1.2:</p> <p><i>Disclose the process for evaluating the performance of senior executives.</i></p>
<p>The Remuneration sub-committee of the Board meets annually to review the performance of executives. The senior executives' performance is assessed against the performance of the company as a whole by each of the directors individually and collectively.</p>

CORPORATE GOVERNANCE STATEMENT

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

The Company has complied with this recommendation.

The evaluation process was not undertaken in accordance with this process in the past 12 months due to the significant changes to the board and senior management during 2011. A review is to be undertaken in the first half of 2012.

2. STRUCTURE THE BOARD TO ADD VALUE***Council Principle 2:******Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties****Council Recommendation 2.1:**A majority of the Board should be independent directors.*

A definition of director independence can be accessed at www.clancyexploration.com. Currently the Board of Clancy Exploration has three independent directors, Dr Etheridge, Mr Lester and Dr Macdonald and one non-independent director, Mr Barnes. This was the case for the entire reporting period, subject to Dr Etheridge having been appointed to the Board on 11 March 2011.

The Company complies with Recommendation 2.1.

*Council Recommendation 2.2:**The chair should be an independent director.*

The Company's Chairman, Dr Mike Etheridge, is considered by the Board to be independent. The previous Chairman, Dr James Macdonald, was also considered by the Board to be independent.

*Council Recommendation 2.3:**The roles of chair and chief executive officer should not be exercised by the same individual.*

The roles of chairman and chief executive officer are not exercised by the same individual.

*Council Recommendation 2.4:**The Board should establish a nomination committee.*

The board does not comply with this recommendation.

It is not a company policy to have a nomination committee, given the size and scale of Clancy Exploration Limited. The role of a nomination committee is carried out by the full Board. The full board considers the appointment of new directors on an informal basis. The Board's policy for the appointment of new directors to the Board can be accessed at www.clancyexploration.com

*Council Recommendation 2.5:**Disclose the process for evaluating the performance of the board, its committees and individual directors.*

The Company complies with this recommendation.

The performance evaluation of board members occurs by way of a formal review of each director by that director and by each fellow director followed by a meeting between the Chairman and the relevant director or, in the case of the Chairman's own evaluation, by the Chairman and the non-executive directors.

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

The Company complies with this recommendation and provides the following disclosures.

The skills, experience and expertise relevant to the position held by each director are disclosed in the Directors Report.

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. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

CORPORATE GOVERNANCE STATEMENT

The period of office held by each director as at 31 March 2011 is as follows;

Gordon Barnes	1 year and 3 months
Dr James Macdonald	5 years, 3 months
Mr Mark Lester	5 years, 1 month
Dr Mike Etheridge	1 year and 1 month

The evaluation process was not undertaken in accordance with this process in the past 12 months due to the significant changes to the board during 2011. A review is to be undertaken in the first half of 2012.

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Council Principle 3:

Companies should actively promote ethical and responsible decision-making.

Council Recommendation 3.1:

Establish a code of conduct and disclose the code or a summary of the code as to:

- *the practices necessary to maintain confidence in the Company's integrity;*
- *the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;*
- *the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

The Company complies with this recommendation.

The Company has adopted a Code of Conduct for Directors which can be accessed on the website.

Council Recommendation 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

The Company partly complies with this recommendation.

A diversity policy has been adopted and a copy of the Company's Diversity policy is available on the website. The policy does not contain measurable objectives because the Company is not of a sufficient size to justify these objectives.

Council Recommendation 3.3:

Companies should disclose in each annual report the measurable objectives for achieving gender diversity.

The Company does not comply with this recommendation as it has not implemented a policy containing measurable objectives.

Council Recommendation 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.

The Company complies with this recommendation and provides the following disclosure;

No. of female employees as at 31 March 2012	2
No. of female employees in senior positions as at 31 March 2012	1
No. of female contractors as at 31 March 2012	1
No. of female contractors in senior positions as at 31 March 2012	1

Council Recommendation 3.5:

Provide the information indicated in the Guide to reporting on Principle 3.

The Company complies with this recommendation.

CORPORATE GOVERNANCE STATEMENT

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**Council Principle 4:**

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting

Council Recommendation 4.1:

The Board should establish an audit committee.

An audit committee has been established.

The Company complies with this Recommendation.

Council Recommendation 4.2:

The audit committee should be structured so that it:

- *consists only of non-executive directors;*
- *consists of a majority of independent directors;*
- *is chaired by an independent chair, who is not chair of the board;*
- *has at least three members.*

The Audit Committee has three members, consisting of the independent directors, Dr Macdonald, Dr Etheridge (appointed 1 March 2012) and Mr Lester. Until 1 March 2012 the Company Secretary was also a member of the Audit Committee.

The Audit Committee is chaired by Mr Lester, who is an independent director and is not the Chairman of the Board.

Council Recommendation 4.3

The audit committee should have a formal charter.

The audit committee has a charter.

Council Recommendation 4.4:

Provide the information indicated in the Guide to reporting on Principle 4.

The Company complies with this recommendation and provides the following disclosure.

The audit committee met once during the year. All members of the Committee attended the meeting.

The external auditor, Deloitte Touche Tohmatsu, has a rotation policy such that partners must rotate off a client after five successive years, for at least two years.

5. MAKE TIMELY AND BALANCED DISCLOSURE**Council Principle 5:**

Companies should promote timely and balanced disclosure of all material matters concerning the Company

Council Recommendation 5.1:

Establish written policies and procedures 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.

The Company complies with this recommendation.

The Company has adopted a Continuous Disclosure Policy which is available on its website.

Council Recommendation 5.2:

Provide the information indicated in the Guide to reporting on Principle 5.

The Company complies with this recommendation.

CORPORATE GOVERNANCE STATEMENT

6. RESPECT THE RIGHTS OF SHAREHOLDERS**Council Principle 6:**

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights

Council Recommendation 6.1:

Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.

The Company complies with this recommendation.

The Company has adopted a Shareholder Communication Strategy which is available on its website.

Council Recommendation 6.2:

Provide the information indicated in the Guide to reporting on Principle 6.

The Company complies with this recommendation.

7. RECOGNISE AND MANAGE RISK**Council Principle 7:**

Companies should establish a sound system of risk oversight and management and internal control

Council Recommendation 7.1:

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Company complies with this recommendation.

The Company has a Risk Management Policy which is available on the website.

Council Recommendation 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.

The Board believes the risk management and internal control systems designed and implemented by the Chief Executive Officer and the Chief Financial Officer are adequate given the size and nature of the company's activities. The Board confirms that management reported to it as to the effectiveness of the Company's management of its material business risks in March 2012.

Council Recommendation 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.

Company complies with this recommendation.

The Board receives assurance from the Chief Executive Officer and the Chief Financial Officer in the form of a declaration, prior to approving the financial statements.

Council Recommendation 7.4:

Provide the information indicated in the Guide to reporting on Principle 7.

The Company complies with this recommendation and provides the following disclosure;

CORPORATE GOVERNANCE STATEMENT

The board has received assurance from the Chief Executive Officer and the Chief Financial Officer 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.

8. REMUNERATE FAIRLY AND RESPONSIBLY***Council Principle 8:***

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Council Recommendation 8.1

The Board should establish a remuneration committee.

The company has a Remuneration Committee.

The formal charter of the Remuneration Committee was adopted on 20 March 2007.

Council Recommendation 8.2

The remuneration committee should be structured so that it;

- *Consists of a majority of independent directors;*
- *Is chaired by an independent chair*
- *Has at least three members*

The Company complies with this recommendation.

The Remuneration Committee has three members, consisting of the independent directors, Dr Macdonald, Dr Etheridge (appointed 1 March 2012) and Mr Lester. The Company Secretary was a member of the Remuneration Committee until 1 March 2012. There were two meetings of the Remuneration Committee during the reporting period which were attended by all members of the Remuneration Committee.

The Remuneration Committee is chaired by Dr Macdonald. The Remuneration committee charter can be accessed at www.clancyexploration.com

Council Recommendation 8.3

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

The Company complies with this recommendation.

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and executives with a remuneration package consisting of;

- (i) fixed components that reflect the person's responsibilities, duties and personal performance; and
- (ii) share based payments in the form of options as an incentive.

The remuneration of Non-Executive Directors is determined by the Board as a whole having regard to the level of fees paid to Non-Executive Directors by other companies of similar size in the industry.

The aggregate amount payable to the Company's Non-Executive Directors in respect of non-executive director fees must not exceed the maximum annual amount approved by the Company's shareholders, which is currently set at \$200,000 per annum.

As part of their remuneration packages, non-executive directors of the company were (in 2010) granted options to acquire shares in the company. For a company of the size and cash resources of Clancy Exploration this is a useful tool for attracting and retaining quality directors without diminishing the company's cash resources.

Council Recommendation 8.4:

Provide the information indicated in the Guide to reporting on Principle 8.

CORPORATE GOVERNANCE STATEMENT

The Company complies with this recommendation and provides the following disclosures;

- The Company currently has no schemes for retirement benefits, other than superannuation for directors.
- The Company does not have any unvested entitlements under any equity-based remuneration schemes.