



TARUGA GOLD LIMITED

ACN 153 868 789

ANNUAL REPORT

2012



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COMPANY INFORMATION

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|--|--|
| ACN | 153 868 789 |
| Directors | Bernard Aylward Executive Chairman and Managing Director Peter Newcomb Finance Director Edmond Edwards Non-Executive Director |
| Secretary | Peter Newcomb |
| Registered Office | 24 Colin St West Perth, WA 6005 Telephone: +61 8 9222 5800 Facsimile: +61 8 9222 5810 Email: admin@tarugagold.com.au |
| Share Registry | Computershare Investor Services Pty Ltd Level 2, Reserve Bank Building 45 St Georges Terrace Perth, WA 6000 Telephone: +61 8 9323 2000 Facsimile: +61 8 9323 2033 |
| Auditor | HLB Mann Judd Level 4, 130 Stirling Street Perth, WA 6000 Telephone: +61 8 9227 7500 Facsimile: +61 8 9227 7533 |
| Bankers | Westpac Banking Corporation 116 James Street Perth, WA 6000 |
| Securities Exchange Listing | Taruga Gold Limited Shares are listed on the Australian Securities Exchange. The home exchange is Perth, Western Australia. ASX Code: TAR |
| Website | www.tarugagold.com.au |

CHAIRMAN'S LETTER

Fellow Shareholder,

Welcome to Taruga Gold Limited's first annual report following our listing on the Australian Securities Exchange in February 2012.

In January we completed a A\$6.12M initial public offering (IPO) that was very well supported with strong interest from sophisticated investors familiar with West African gold exploration, the excellent prospectivity of the Taruga projects and opportunities for the discovery of gold mineralisation.


Since listing, we've already completed 51,339m of reverse circulation, aircore and auger drilling across our projects and have had some excellent hits during this time. Highlights from our flagship Kossa project in Niger include 4m at 35.52g/t gold from 44m, 2m at 19.97g/t gold from 84m and 12m at 3.35g/t gold from 9m.

Kossa is our focus and we've commenced an extensive work program that is dedicated on defining and extending the known gold mineralised zones at the project. This program includes a combination of reverse circulation drilling and aircore drilling as well as delineating new prospect areas with extensive auger geochemical sampling. Our geological understanding of the controls on gold mineralisation is rapidly increasing and we will be continuing our exploration program during the year with a clear focus on delineating a maiden Mineral Resource early in 2013.

We also have a number of other highly prospective projects across West Africa in Ghana and Cote d'Ivoire. At the Ducie Project in Ghana we will be undertaking 40,000m of auger geochemical drilling as well as 27,000m aircore drilling at both these projects. In Cote d'Ivoire we've got licence applications for 2,000km² of Birimian greenstone geology underway, giving us plenty of exploration upside.

In closing, I'd like to extend my appreciation to our staff for their hard work over the past months, as well as thank you, the shareholders for the support you've given us in our first year.

This first year at Taruga has been a very successful one and I am looking forward to the further success that lies ahead.



Bernard Aylward

Executive Chairman and Managing Director

REVIEW OF OPERATIONS**Background**

Taruga Gold Limited (Taruga or the Company) listed on the Australian Securities Exchange (ASX) on 7 February 2012 following a successful Initial Public Offering (IPO) that raised \$6.12M.

Taruga is a mineral exploration company that was incorporated on 21 October 2011 to hold, or have the right to acquire, four highly prospective exploration projects located in West Africa. The objective of the Company is to provide a return to shareholders through successful exploration and the delineation of gold resources on the mineral licences in Niger, Ghana and Cote d'Ivoire. The Company is targeting, subject to successful exploration, the delineation of new mineral resources and the Company's objective is to exploit economic gold resources through downstream mine development.

Taruga is the 100% shareholder of the following companies:

- a) Gecko Gold Niger SARL ("Gecko Gold Niger") incorporated and registered under the laws of Niger which is the sole legal and beneficial holder of the Kossa Project, composed of two granted "Permis de Recherche" within Niger being Kossa I and Kossa II;
- b) MGS Ghana Limited ("MGS Ghana") incorporated and registered under the laws of Ghana which holds rights to use and the option to acquire the Ducie Reconnaissance Licence, Katua Prospecting Licence, Kundunga Prospecting Licence, Sambisi Prospecting Licence and Yala Prospecting Licence for the exploration of gold in Ghana; and
- c) Gecko Gold CI SARL ("Gecko Gold CI") incorporated and registered under the laws of Cote d'Ivoire has made an application for a mining licence for two gold exploration licences - the Mangkono and Tortiya licences in Cote d'Ivoire.

Gecko Gold Niger, Gecko Gold CI and MGS Ghana are collectively referred to as wholly owned subsidiaries of the Company and the licences held by Gecko Gold Niger and the licence applications made by Gecko Gold CI, and the rights to, and option over licences held by MGS Ghana are collectively referred to as "Tenements".

Taruga's projects are located within Birimian Greenstone Belts. They have been strategically selected adjacent to major structural zones and all contain identified gold mineralisation or untested artisanal workings. The Birimian sequence of West Africa is one of the world's great gold regions. Based on the current West African mining industry, the region has excellent endowment and high prospectivity, with many multi-million ounce gold discoveries to date. West Africa has also been the world leader in the discovery rate and development of new mines over the last 15 years. The Company believes that its current exploration focus opens up opportunities to make discoveries in previously untested regions through the application of advanced geochemistry and detailed geophysics.



Exploration Update

Following listing in February, Taruga prepared an extensive work program focused on defining and extending the known gold mineralized zones at Kossa with a combination of reverse circulation (RC) drilling, aircore drilling and delineating new prospect areas with extensive auger geochemical sampling. In addition the Company commenced auger geochemical sampling at Ducie targeting identified mineralized structures and undertaking an aircore drilling program to target highly anomalous geochemical samples from historic work.

To date Taruga has completed initial exploration programs at the Kossa Project, Niger and the Ducie Project, Ghana. The completed exploration work is summarised as:

Kossa

| | |
|-------------------------|-------------------|
| 72 RC drill holes | 6,369m completed |
| 366 aircore drill holes | 13,634m completed |
| 3,748 auger holes | 27,554m completed |

Ducie

| | |
|------------------------|------------------|
| 40 aircore drill holes | 365m completed |
| 700 auger holes | 3,782m completed |

No results have been received for the Ducie Project to date, and exploration programs have been halted due to the commencement of the rainy season.

Kossa Project Update

The Kossa Project consists of two granted exploration licences covering 970km² located in north-west Niger, 230km northwest of the capital city Niamey. The eastern boundary of the Kossa Project is defined by the border with Burkina Faso and lays approximately 15km east of the Essakane Gold Mine, located in Burkina Faso. The Essakane Gold Mine is operated by IAMGold of Canada and produces approximately 350,000oz gold per annum.

The Kossa Project is the company's focus and its potential has been highlighted by extensive artisanal workings and strong geochemical anomalies. Taruga has completed a maiden exploration campaign of RC drilling, aircore drilling and auger geochemical sampling.

Taruga's initial RC drilling campaign consisted of 72 drill holes for 6,369m targeting gold mineralisation at the Borobon, Kossa, Kole and Fatatako prospects. These prospects were identified for immediate drill testing on the basis of extensive artisanal workings, geochemical anomalism and gold mineralisation indicated by previous wide-spaced reconnaissance drilling.

Borobon

The Borobon Prospect is located at the southern end of the Kossa-Borobon trend and has been tested with RC drilling completed by Taruga and previous explorers. Taruga has completed 30 RC drill holes for 2,623m. The new RC drilling combined with drilling from TSX-listed Orezone Gold Corporation has highlighted a zone of extensive gold mineralisation currently extending more than 2.5km and remaining open at depth and along strike.

Final assay results have been received for 1m riffle split sampling of RC drilling with significant intersections including:

- Intersection of 5m at 1.24 g/t gold from 27m in drill hole TKRC001
- Intersection of 3m at 2.86 g/t gold from 49m in drill hole TKRC002
- Intersection of 12m at 3.35 g/t gold from 9m in drill hole TKRC005
- Intersection of 12m at 2.23 g/t gold from 15m in drill hole TKRC010
- Intersection of 9m at 1.47 g/t gold from 41m in drill hole TKRC010
- Intersection of 10m at 1.13 g/t gold from 29m in drill hole TKRC014
- Intersection of 2m at 19.97 g/t gold from 84m in drill hole TKRC017
- Intersection of 2m at 2.63 g/t gold from 29m in drill hole TKRC021
- Intersection of 2m at 5.70 g/t gold from 47m in drill hole TKRC040

Taruga's RC drilling program at the Borobon prospect has been very positive and has highlighted the continuity of gold mineralisation, identified new gold mineralisation in parallel structures and highlighted southern extensions indicated by the intersection of 2m at 19.97g/t gold from 84m in drill hole TKRC017. A second phase drilling program has been prepared aimed at defining and extending these mineralised zones, target the depth extensions and confirm the continuity of mineralisation to determine the potential for economic gold mineralisation to be outlined.

Kossa

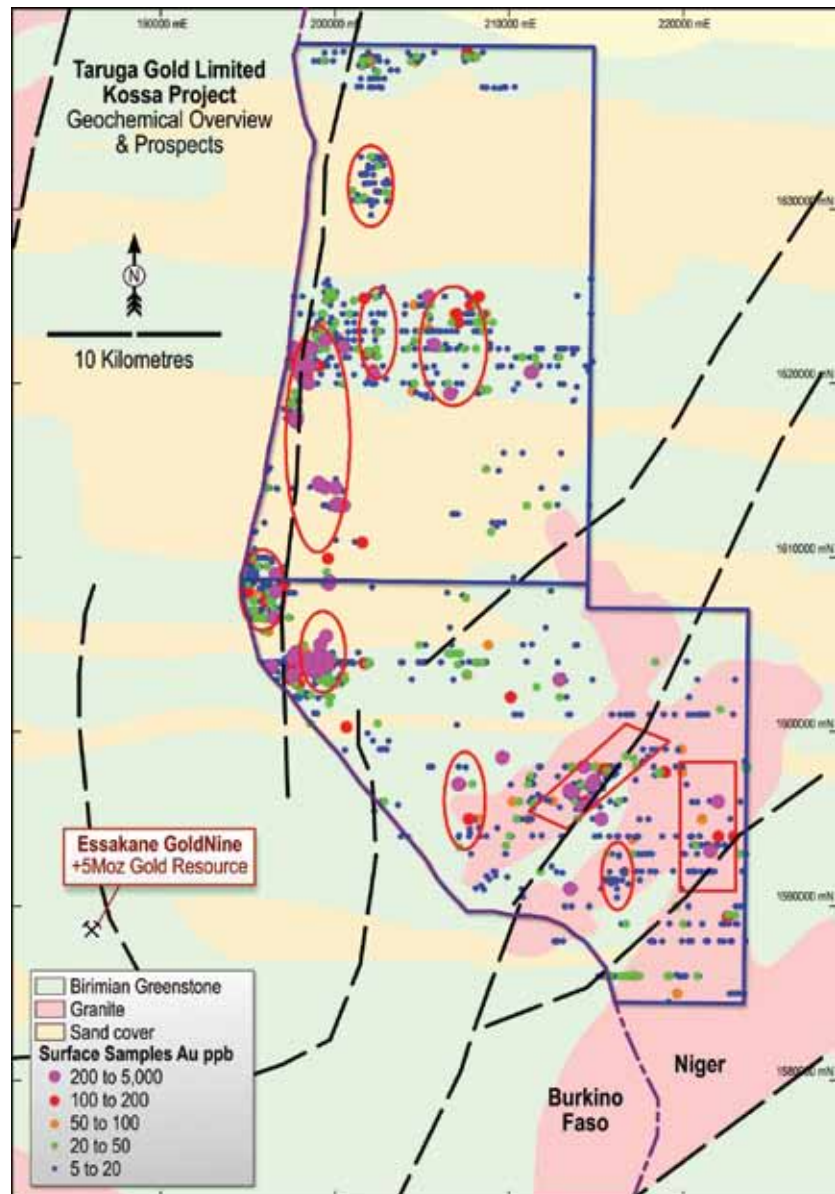
The Kossa prospect drilling results are very encouraging. Taruga completed a wide-spaced reconnaissance test consisting of 13 RC drill holes for 1,322m. The target area tested by this new drilling was defined by extensive artisanal workings and strong geochemical anomalism. No previous drilling had targeted this zone; however geological interpretation indicated an extension to a zone of high-grade gold mineralisation with results up to 1m at 278.8g/t gold, 1m at 10.0g/t gold and 1m at 8.96g/t gold located approximately 500m to the south.

Taruga's assay results confirm high-grade mineralisation associated with a series of quartz veins within a deeply weathered host rock, including:

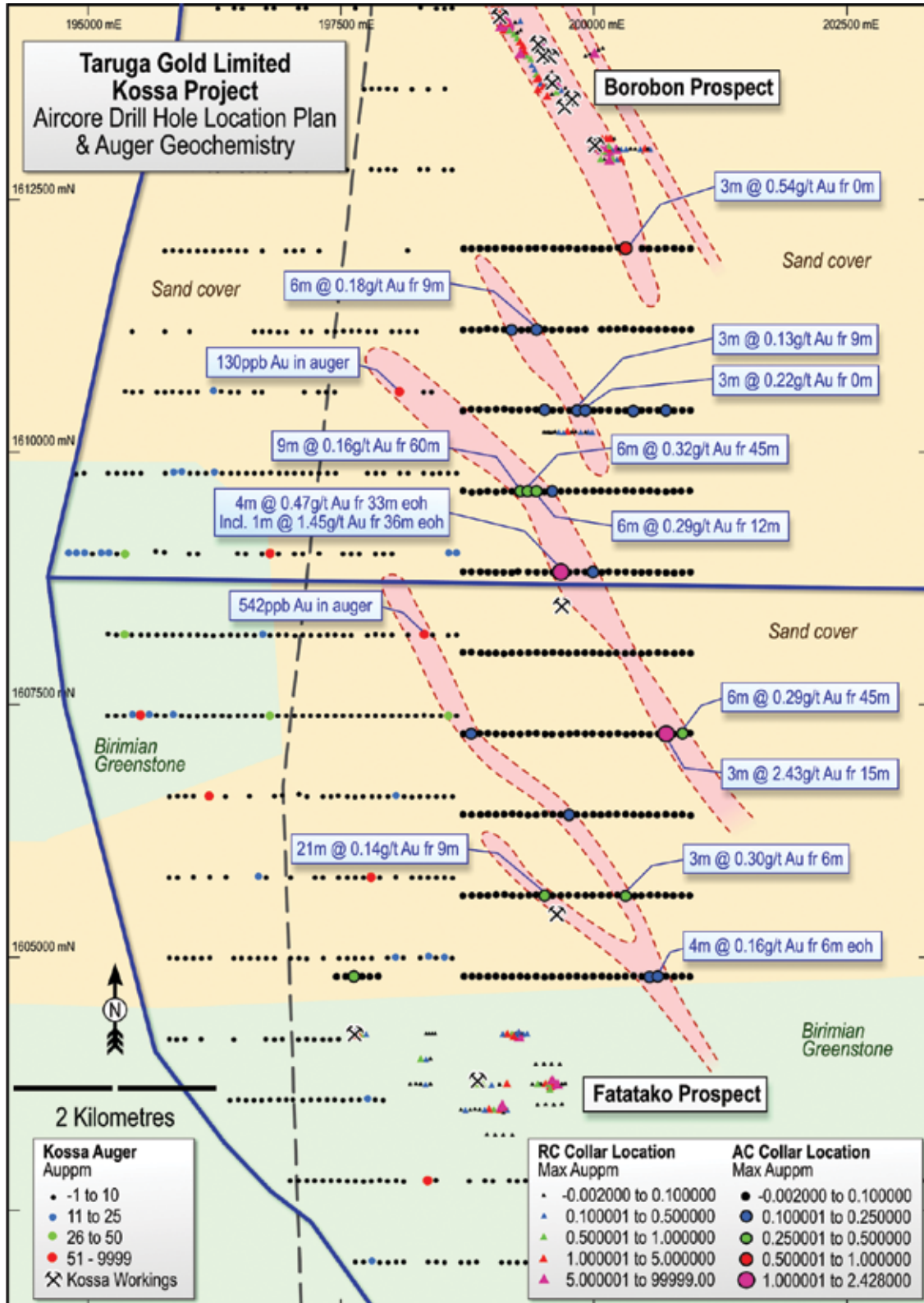
- Intersection of 4m at 35.52 g/t gold from 44m in drill hole TKRC028
- Intersection of 8m at 1.22 g/t gold from 28m in drill hole TKRC031
- Intersection of 4m at 1.52 g/t gold from the surface in drill hole TKRC027

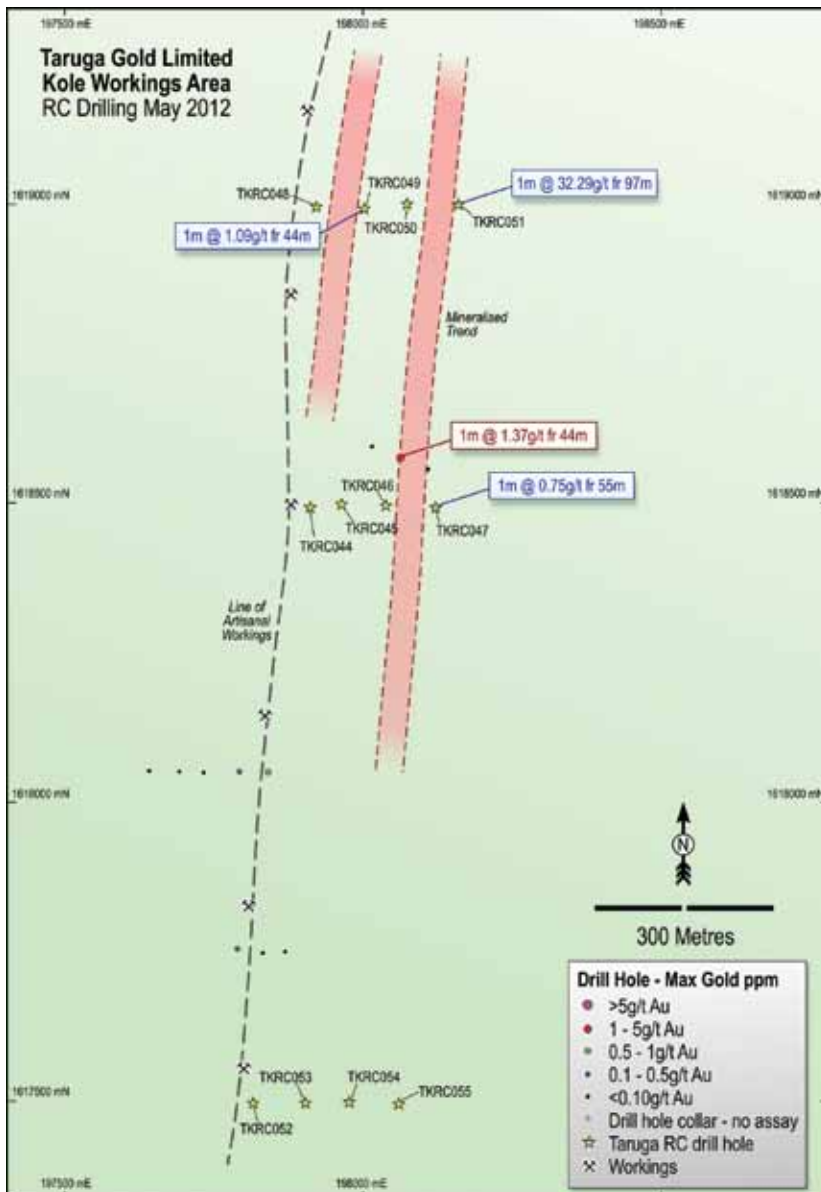
(Note 4m composite sampling pending final 1m riffle split assay results)

Geological reconnaissance of the area highlights the presence of multiple vein sets and parallel lines of artisanal workings. These initial results are highly encouraging, with a mineralised system now interpreted to extend for 1.7km. It remains open along strike. The high-grade gold mineralisation is hosted within broader gold anomalous structure and the presence of parallel lines of workings demonstrates this is a high-priority area for follow-up and definition drilling.









Kole

The Kole Prospect is located within the 10km strike of the Kossa – Borobon trend. The prospect is defined by extensive artisanal workings and anomalous geochemical sampling. Taruga completed 12 RC drill holes on three traverses with spacing varying up to 1,000m and 80m between drill holes. The drilling was designed as a preliminary test and has returned very encouraging results from final 1m riffle split sampling with intersections including:

- Intersection of 1m at 1.09 g/t gold from 44m in drill hole TKRC049
- Intersection of 1m at 32.29 g/t gold from 97m in drill hole TKRC051

Taruga is planning to undertake follow-up drilling at the Kole Prospect to define continuity and extensions to the high-grade gold mineralisation. In addition future drilling will test the extensive workings in more detail and target parallel mineralised structures.

Aircore Drilling

Taruga has completed an extensive reconnaissance campaign consisting of 366 aircore drill holes for 13,634m and 3,748 auger geochemical points for 27,554m. The program was designed as an initial test of areas identified as having potential to host gold mineralisation; however the prospective geology is masked by extensive sand cover.

The aircore drilling was completed on a wide-spacing of 800m x 80m with the drilling targeting the 10km gap between the Borobon Prospect and the Fatatako Prospect. This area was a high priority for reconnaissance drilling as field visits confirmed the presence of artisanal workings as well as identifying the continuation of the geological setting.

To date 80% of assay results have been received for the drilling with several new gold mineralised zones identified. The initial interpretation of the new zones is indicating structures that trend in a northwest-southeast strike which are parallel to the Borobon Prospect mineralisation. Key areas identified by the drilling include a 1,000m extension to the Borobon Prospect and a new gold mineralised zone extending for over 4,500m with +1g/t gold intersections. Significant intersections include:

- Intersection of 3m at 2.43 g/t gold from 15m in drill hole TKAC200
- Intersection of 4m at 0.47 g/t gold from 33m in drill hole TKAC129
- Intersection of 1m at 1.45 g/t gold from 36m eoh in drill hole TKAC129
- Intersection of 21m at 0.14 g/t gold from 9m in drill hole TKAC243
- Intersection of 9m at 0.16 g/t gold from 60m in drill hole TKAC095
- Intersection of 6m at 0.32 g/t gold from 45m in drill hole TKAC096

(Note 3m composite sampling except at end-of-hole (eoh))

A program of follow-up and extension drilling will be completed to define targets for RC drilling during this year.

Auger Geochemistry

Taruga has undertaken an extensive auger geochemical sampling program with over 3,748 samples collected during the year. The Company had two auger rigs operating on site, with first pass testing of large areas of the Kossa Project where sand cover has prevented previous explorers being able to complete first pass exploration. The extensive geochemical sampling initially focussed on extensions to the known mineralised structures at the Black Hills prospect where previous surface geochemical sampling had indicated a gold anomalous zone. The program was aimed at defining the anomalous zone and targeting extensions to the north and south.

The auger geochemical sampling has been completed on a 800m x 80m and 1,600m x 80m spacing targeting new zones within the Kossa Project. To date only 25% of assay results have been received for the 3,748 sample points. For the initial results, several strong anomalies have been identified, with results up to 542ppb Au and 130ppb Au indicating continuity of the new structures identified in the aircore drilling. A full interpretation of the auger sampling will be undertaken as final results are received

Competent person's statement

The information in this report that relates to geological information and exploration results is based on information compiled by Mr Bernard Aylward. Mr Aylward is the Executive Chairman and Managing Director of Taruga Gold Limited and is a full-time employee of the company. Mr Aylward is a member of The Australasian Institute of Mining and Metallurgy 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 Aylward consents to the inclusion in the report of the matters based on information in the form and context in which it appears.

DIRECTORS' REPORT

Your Directors submit their report on the consolidated entity consisting of Taruga Gold Limited and its controlled entities ("Taruga") for the period ended 30 June 2012.

DIRECTORS

The following persons were Directors of Taruga Gold Limited during the period and up to the date of this report unless otherwise stated:

| | | In office from | In office to |
|-----------------|--|-----------------|--------------|
| Bernard Aylward | Managing Director & Executive Chairman | 21 October 2011 | present |
| Peter Newcomb | Finance Director & Company Secretary | 21 October 2011 | present |
| Edmond Edwards | Non Executive Director | 21 October 2011 | present |

PARTICULARS OF DIRECTORS

Bernard Aylward **Executive Chairman and Managing Director BSc (Hons.), MAusIMM**

Qualifications and experience

A geologist with over 20 years experience as a manager and exploration geologist in the mining and exploration industry in a variety of commodities. Mr Aylward's experience includes serving as the Chief Operating Officer of International Goldfields Ltd, General Manager of Azumah Resources Ltd (Ghana), and Exploration Manager for Croesus Mining NL.

Mr Aylward has been involved in the discoveries and management of the Bepkong, Julie, Collette and Kunche deposits in Ghana, as well as the Deep South gold deposit, Gladstone North deposit, St Patrick's, Norseman Reef, and the Safari Bore gold deposit.

Mr Aylward brings considerable relevant skills and experience to the Board. He is a member of the Australasian Institute of Mining and Metallurgy.

Interest in Shares and Options

| | |
|-------------------|------------|
| Fully Paid Shares | 20,050,000 |
| Options | 5,000,000 |

Special Responsibilities

Mr Aylward is Executive Chairman and Managing Director and is responsible for the day to day running of the Company.

Directorships held in listed entities

| Company Name | Appointed |
|----------------------------------|--------------|
| Glory Resources Limited | 31 May 2011 |
| International Goldfields Limited | 30 June 2011 |

Peter Newcomb **Finance Director and Company Secretary** **FCA (ICAEW)**

Qualifications and experience

Mr Newcomb is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Chartered Accountants in Australia, with over 35 years professional and commercial experience.

He has worked in a number of industries and locations including London, Scotland, Singapore and Perth. The majority of his experience over the last 15 years has been in the Resources industry in Western Australia and overseas. Mr Newcomb is also Company Secretary of Scotgold Resources Limited, Gulf & Asian Mining Limited and Athena Resources Limited.

Interest in Shares and Options

| | |
|-------------------|---------|
| Fully Paid Shares | 140,000 |
|-------------------|---------|

Special Responsibilities

Mr Newcomb is Chief Financial Officer and Company Secretary of the Company.

Directorships held in listed entities

None

Edmond Edwards **Non-executive director** **BCom, ACA, FAICD**

Qualifications and experience

Mr Edwards has over 35 years experience in the mining industry in Western Australia. He is also Managing Director of Athena Resources Limited. He has previously Managing Director or Finance Director of a number of listed mining and exploration companies having taken many of these companies through the initial public offering, then exploration, feasibility and finally into production. These companies include Scotgold Resources Ltd, Resource Mining Corporation Ltd, Fox Resources Ltd, Aztec Resources Ltd, Acclaim Exploration NL and Matlock Mining NL.

Interest in Shares and Options

| | |
|-------------------|---------|
| Fully Paid Shares | 170,000 |
|-------------------|---------|

Directorships held in listed entities

| Company Name | Appointed | Resigned |
|----------------------------|------------|------------|
| Athena Resources Limited | 11/4/2005 | |
| Scotgold Resources Limited | 27/01/2009 | 25/10/2010 |

OPERATING AND FINANCIAL REVIEW

A review of the operations of the consolidated entity during the financial year is contained in the Review of Operations section of this Annual Report. The Company's strategy in West Africa is to continue with the targeted exploration program with a focus on the advanced Kossa Project in Niger. The Company also intends to undertake exploration activities on the grassroots projects in Ghana and Cote d'Ivoire. The Company will also continue to review opportunities as they arise with a focus on advanced gold projects located within West Africa.

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the year was mineral exploration in West Africa.

Operating Results

Consolidated loss after income tax for the financial period is \$332,343.

Financial Position

At 30 June 2012 the Company has cash reserves of \$4,501,262.

Dividends

No dividends were paid during the year and no recommendation is made as to dividends.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or in the consolidated accounts.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company intends to continue its exploration activities with a view to the commencement of mining operations as soon as possible.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the period ended 30 June 2012, and the number of meetings attended by each Director.

| | Number eligible to attend | Number attended |
|-----------------|---------------------------|-----------------|
| Bernard Aylward | 2 | 2 |
| Peter Newcomb | 2 | 2 |
| Edmond Edwards | 2 | 2 |

REMUNERATION REPORT (audited)

This report details the nature and amount of remuneration for each director and "key Management Personnel" of Taruga Gold Limited.

The information provided in the remuneration report includes remuneration disclosures that are required under Accounting Standards AASB 124 "Related Party Disclosures". These disclosures have been transferred from the financial report and have been audited. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, including any director.

Remunerations policy

The board policy is to remunerate Directors at market rates for time, commitment and responsibilities. The Board determines payment to the 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 Directors' fees that can be paid is subject to approval by shareholders in general meeting, from time to time. Fees for Non-Executive Directors are not linked to the performance of the consolidated entity. However, to align Directors' interests with shareholders interests, the Directors are encouraged to hold securities in the company.

The Company's aim is to remunerate at a level that will attract and retain high-calibre Directors and employees. Company officers and Directors are remunerated to a level consistent with size of the Company.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed.

Performance-based remuneration

The Company does not pay any performance-based component of salaries.

Details of remuneration for period ended 30 June 2012 (audited)

Directors' Remuneration

No salaries, commissions, bonuses or superannuation were paid or payable to Directors during the year. Remuneration was by way of fees paid monthly in respect of invoices issued to the Company by the Directors or companies associated with the Directors in accordance with agreements between the Company and those entities.

Details of the agreements are set out below.

Agreements in respect of cash remuneration of Directors:

Executive Directors

Bernard Aylward (through Matlock Geological Services Pty Ltd) is on a contract dated 1 November 2011 which provides for a fixed fee, with a termination period of 3 months. Peter Newcomb (through Symbios Pty Ltd) is on a contract dated 1 November 2011 which provides for a fixed monthly fee and additional fees at a fixed day rate for work performed outside the scope of the terms of the agreement, with a termination period of 3 months. In both cases the remuneration is reviewed annually. At the date of this report the annual remuneration for Bernard Aylward is \$270,000 and for Peter Newcomb is \$96,000 plus a day rate of \$1,000 for additional work performed. In the event of a termination of contract giving less notice than provided for in these contracts, the remaining notice period will be paid in full.

Non-Executive Directors

The Company's constitution provides that the Non-Executive Directors may collectively be paid as remuneration for their services a fixed sum not exceeding the aggregate sum determined by a general meeting. The aggregate remuneration has been set at an amount of \$300,000 per annum.

A Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties. Executive Directors may be paid on commercial terms as the Directors see fit.

The total remuneration paid to Directors and Executives is summarised below:

Period ended 30 June 2012

| Director | Associated Company | Fees | Consultancy | Total |
|-----------------|-------------------------------------|---------------|----------------|----------------|
| Bernard Aylward | Matlock Geological Services Pty Ltd | - | 180,000 | 180,000 |
| Peter Newcomb | Symbios Pty Ltd | - | 81,000 | 81,000 |
| Edmond Edwards | Tied Nominees Pty Ltd | 32,000 | - | 32,000 |
| | | <u>32,000</u> | <u>261,000</u> | <u>293,000</u> |

The consolidated entity does not have any full time Executive officers, other than the Managing Director as detailed above. There were no performance related payments made during the year.

End of Remuneration Report

ENVIRONMENTAL ISSUES

The consolidated entity has conducted exploration activities on mineral tenements. The right to conduct these activities is granted subject to environmental conditions and requirements. The consolidated entity aims to ensure a high standard of environmental care is achieved and, as a minimum, to comply with relevant environmental regulations. There have been no known breaches of any of the environmental conditions.

INDEMNIFICATION OF DIRECTORS

During the financial year, the Company has not given an indemnity or entered into an agreement to indemnify any of the Directors.

AUDITOR

HLB Mann Judd continues in office in accordance with section 327 of the Corporations Act 2001.

NON-AUDIT SERVICES

During the current year our auditors, HLB Mann Judd, performed services in relation to the independent accountant's report contained in the Prospectus dated 20 December 2011, as set out in Note 19.

The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditors and none of the services undermine the general principles relative to audit independence as set out in Code of Conduct APES11 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration has been received for the year ended 30 June 2012 and forms part of the Directors' report.

PROCEEDINGS ON BEHALF OF COMPANY

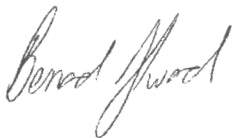
No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

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

AUDITORS' INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 21 and forms part of this directors' report for the period ended 30 June 2012.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to section 306(3) of the Corporations Act 2001.



Managing Director

Dated Perth 21 September 2012



The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable, the Company has adopted the Corporate Governance Principles and Best Practice Recommendations with 2010 Amendments (2nd Edition) ("Recommendations" or "Guide") as published by ASX Corporate Governance Council.

The following corporate governance charters, codes and policies have been implemented and are available on the Company's website at www.tarugagold.com.au:

- Board Charter
- Corporate Code of Conduct
- Diversity, Nomination and Remuneration Committee Charter
- Audit and Risk Committee Charter
- Shareholder Communication Guidelines and Policy
- Disclosure Policy
- Securities Trading Policy

For ease of comparison to the Recommendations, this Section addresses each of the Corporate Governance Principles and, where the Company has not followed a Recommendation, has explained the reasons for not following the Recommendation. This disclosure is in accordance with ASX Listing Rule 4.10.3. The Company was incorporated on 21 October 2011.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be reviewed and amended as required.

PRINCIPLE 1 – LAY SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT

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

The Board is accountable to Shareholders for the performance of the Company. The Board operates under the Board Charter that details the Board's functions, responsibilities and powers, as well as those delegated to management. Broadly the key responsibilities of the Board are:

1. reviewing, ratifying and monitoring the Company's compliance with its corporate policies and protocols consistent with the Recommendations;
2. reviewing, ratifying and monitoring the Company's operations in relation to, and in compliance with, relevant regulatory requirements;
3. considering the extent and types of risk that are acceptable for the Company to bear;
4. actively and regularly participating in and overseeing strategic planning and implementation of strategy based on the identification of opportunities and the full range of business risks;
5. reviewing, ratifying and monitoring management systems and processes for managing the business risks the Company is exposed to, or may become exposed to, including financial controls and systems, risk management and internal control, codes of conduct and legal compliance;
6. establish and review the roles and responsibilities of the Board and Management, evaluate the performance and remuneration of individual directors and the Board as a whole;
7. appointing, monitoring, managing the performance of, and if necessary, terminating the employment of, the managing director of the Company;
8. ratifying the appointment of senior management, including in relation to the terms of equity remuneration;
9. approving and monitoring the progress of major capital expenditure, capital management and all major corporate transactions, including the issue of any securities in the Company and ensuring appropriate resources are available to senior executives;
10. reporting to and communicating with shareholders; and
11. approving, monitoring and overseeing financial and other reporting.

All directors and key executives of the Company have entered into formal appointment agreements or executive service agreements outlining key terms and conditions of their appointment.

RECOMMENDATION 1.2: COMPANIES SHOULD DISCLOSE THE PROCESS FOR EVALUATING THE PERFORMANCE OF SENIOR EXECUTIVES.

As at the date of this Report, the Company has employed only one senior executive, the Executive Chairman and Managing Director. The Board (in the absence of the Executive Chairman and Managing Director) will formerly assess the performance of the Executive Chairman and Managing Director at least once in each financial year. The other non-executive directors will meet with the Executive Chairman and Managing Director to provide the Executive Chairman and Managing Director with feedback on the Board's assessment.

Induction procedures to provide new senior executives with good information on the Company and industry are in place. The Board and Managing Director will monitor the performance of senior executives on a regular basis. The Managing Director will conduct an annual evaluation of each senior executive's performance, at which the senior executive's performance during the previous 12 months will be assessed against relevant performance indicators, and role expectations and goals will be set for the following year.

RECOMMENDATION 1.3: COMPANIES SHOULD PROVIDE THE INFORMATION INDICATED IN THE GUIDE TO REPORTING ON PRINCIPLE 1.

This Section provides the information required under Principle 1. The Company's Board Charter is available from the Corporate Governance Section of its website and the Company will include the disclosure required by Recommendation 1.3 in its future annual reports.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

RECOMMENDATION 2.1: A MAJORITY OF THE BOARD SHOULD BE INDEPENDENT DIRECTORS.

The structure of the Board does not comply with Recommendation 2.11 as the majority of directors are not independent. Currently out of the three directors, Mr Edwards is independent. Mr Aylward is not considered to be independent due to his executive role as the Executive Chairman and Managing Director. Mr Newcomb is not considered independent due to his role as Finance Director.

The Board believes that Board composition is acceptable and appropriate given the small size of the Board and the early stage of the Company's development. Details of each Board member's experience, expertise and qualifications are set out in Section 3.1 of the Prospectus. All the Directors have the expertise and skills to make quality and independent judgements in the best interests of the Company. Further, each Director is entitled to seek independent professional advice (including but not limited to legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities, and non-executive directors are encouraged to meet without management on a regular basis in accordance with the procedures and subject to the conditions set out in the Board Charter.

Board structure and composition will be reviewed as and when the Company's scale, strategic directions and activities change. The Company will only recommend the appointment of additional Directors to your Board where it believes the expertise and value added outweighs the additional cost.

RECOMMENDATION 2.2: THE CHAIR SHOULD BE AN INDEPENDENT DIRECTOR.

The structure of the Board does not comply with Recommendation 2.2.

The Board considers that this is appropriate given the current size and composition of the Board, and given the Company's stage of development.

RECOMMENDATION 2.3: THE ROLES OF CHAIR AND CHIEF EXECUTIVE OFFICER SHOULD NOT BE EXERCISED BY THE SAME INDIVIDUAL.

The roles of Chairman and Managing Director are exercised by the same individual. The Board considers that this is appropriate given the current size and composition of the Board, and given the Company's stage of development. The Board Charter summarises the roles and responsibilities of the chairman and the managing director.

RECOMMENDATION 2.4: THE BOARD SHOULD ESTABLISH A NOMINATION COMMITTEE.

The Company does not comply with Recommendation 2.4. Given the current size and composition of the Board, and given the Company's stage of development, it has been decided that there are no efficiencies to be gained and it is not practicable to form a separate nomination committee. The Board considers that it is more appropriate to set aside time at Board meetings to specifically address matters that would ordinarily fall to a nomination committee.

RECOMMENDATION 2.5: COMPANIES SHOULD DISCLOSE THE PROCESS FOR EVALUATING THE PERFORMANCE OF THE BOARD, ITS COMMITTEES AND INDIVIDUAL DIRECTORS.

The Board will have access to and receive all the information necessary to discharge its responsibilities effectively as provided in the Board Charter.

The Chairman will conduct an informal evaluation of each Board member's performance at least once each financial year. The review process will include a combination of qualitative and quantitative assessments, the results of which shall be discussed with the individual Director and the Board. The Board (excluding the Chairman) will conduct the review of the Chairman.

Before each annual general meeting, the Board reviews the performance of each director retiring in accordance with the Company's constitution before determining its recommendation to Shareholders on the re-election of the director (in the absence of the director involved). Induction procedures are in place to provide new directors with information on the Company and industry, to allow them to participate fully and actively in Board decision-making at the earliest opportunity.

All directors will have access to the Company Secretary. The Company Secretary is accountable to the Board, through the Chair, on all governance matters. The appointment and removal of the Company Secretary is a matter for decision by the Board as a whole.

RECOMMENDATION 2.6: COMPANIES SHOULD PROVIDE THE INFORMATION INDICATED IN THE GUIDE TO REPORTING ON PRINCIPLE 2.

This Section provides the information required under Principle 2. The Company's Board Charter is available from the Corporate Governance section of its website and the Company will include the disclosure required by Recommendation 2.6 in its future annual reports.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING.**RECOMMENDATION 3.1: COMPANIES SHOULD 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; and***

- ***the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.***

The Board has established a Corporate Code of Conduct that states the Company's core values, responsibilities to and expectations of shareholders, employees, customers, suppliers, creditors, consumers and the broader community. The key requirements of the Corporate Code of Conduct are:

1. the treatment of each other and outside parties with honesty, fairness and integrity, and without engaging in deceptive practices;
2. respect for the law and acting accordingly;
3. procedures of dealing with real and apparent conflicts of interest;
4. promotion of ethical behaviour and procedures of dealing with the reporting of unlawful or unethical behaviour;
5. protection of the Company's assets and confidential information;
6. employment practises to maintain a safe workplace; and
7. responsibility to the individual and to the community.

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 FOR THE BOARD TO ASSESS ANNUALLY BOTH THE OBJECTIVES AND PROGRESS IN ACHIEVING THEM.

The Board has adopted a Diversity, Nomination and Remuneration Committee Charter which sets out the Company's diversity policy. It has been decided not to establish a separate diversity, nomination and remuneration committee due to the current size and composition of the board and the functions that would otherwise be undertaken by a separate diversity, nomination and remuneration committee would be carried out by the current Board. The objectives of Company's diversity policy are to:

1. attract, employ and retain a diverse pool of candidates for all positions, including the Board and senior management and to develop measurable objectives to monitor the Company's performance in this area;
2. to ensure that the Company's recruitment and employment procedures encourage, promote and develop diversity and comply with relevant legislative and regulatory requirements for the benefit of the Company and its employees;
3. to ensure that the Company's remuneration is appropriate and is not inequitable to any proportion of personnel who are employed by the Company;
4. to ensure that the Company's succession plan encourages, promotes and develops diversity within the Company and that there are appropriate personnel with the relevant skills, experience and capability to be able to manage the Company's business strategies and objectives, ongoing operations, future growth and development; and
5. to formulate and develop appropriate strategies and procedures to manage the Company's diversity including to prepare measurable objectives and develop and implement appropriate education, training and mentoring programs.

The Executive Chairman and Managing Director will monitor and report to the Board on the progress of the development and implementation of the Company's diversity policy and associated programs as required and the Board will review the Company's diversity policy on an annual basis and assess how the Company is meeting its diversity objectives.

RECOMMENDATION 3.3: COMPANIES SHOULD DISCLOSE IN EACH ANNUAL REPORT THE MEASURABLE OBJECTIVES FOR ACHIEVING GENDER DIVERSITY SET BY THE BOARD IN ACCORDANCE WITH THE DIVERSITY POLICY AND PROGRESS TOWARDS ACHIEVING THEM.

The Company will include the disclosure required by Recommendation 3.3 in its future Annual reports.

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 will include the disclosure required by Recommendation 3.4 in its future Annual reports.

RECOMMENDATION 3.5: COMPANIES SHOULD PROVIDE THE INFORMATION INDICATED IN THE GUIDE TO REPORTING ON PRINCIPLE 3.

This Section provides the information required under Principle 3. The Company's Corporate Code of Conduct and Diversity, Nomination and Remuneration Committee Charter are available from the Corporate Governance Section of its website.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

RECOMMENDATION 4.1: THE BOARD SHOULD ESTABLISH AN AUDIT COMMITTEE

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; and
- has at least 3 members.

The Company does not comply with Recommendations 4.1 and 4.2 in that there is no separate audit committee. Given the current size and composition of the Board, and given the Company's stage of development, it has been decided that there are no efficiencies to be gained and it is not practicable to form a separate audit committee. The Board considers that it is more appropriate to set aside time at Board meetings to specifically address matters that would ordinarily fall to an audit committee.

RECOMMENDATION 4.3: THE AUDIT COMMITTEE SHOULD HAVE A FORMAL COMMITTEE CHARTER.

The role of an audit committee is taken by the Board as a whole. The Board has adopted a formal Audit and Risk Committee Charter that sets out the roles and responsibilities of the Board with respect to audit and risk management, and contains information on the procedures for the selection and rotation of the external auditor. When considering financial matters, the Board functions in accordance with this policy.

RECOMMENDATION 4.4: COMPANIES SHOULD PROVIDE THE INFORMATION INDICATED IN THE GUIDE TO REPORTING ON PRINCIPLE 4.

This Section provides the information required under Principle 4. The Company's Audit and Risk Committee Charter is available from the Corporate Governance Section of its website. The Company will include the disclosure required by Recommendation 4.4 in its future Annual reports.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Board has established a Shareholder Communication Guidelines and Policy and a Disclosure Policy outlining procedures for compliance with ASX continuous disclosure requirements and the Corporations Act, and to ensure accountability at a senior executive level for that compliance.

RECOMMENDATION 5.2: COMPANIES SHOULD PROVIDE THE INFORMATION INDICATED IN THE GUIDE TO REPORTING ON PRINCIPLE 5.

This Section provides the information required under Principle 5. The Company's Shareholder Communication Guidelines and Policy, and Disclosure Policy are available from the Corporate Governance Section of its website. The Company will include the disclosure required by Recommendation 5.2 in its future Annual reports.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

RECOMMENDATION 6.1: COMPANIES SHOULD DESIGN A COMMUNICATIONS POLICY FOR PROMOTING EFFECTIVE COMMUNICATION WITH SHAREHOLDERS AND ENCOURAGING THEIR PARTICIPATION AT GENERAL MEETINGS AND DISCLOSE THEIR POLICY OR A SUMMARY OF THAT POLICY.

The Board has established a Shareholder Communication Guidelines and Policy and Disclosure Policy outlining the procedures for ensuring timely disclosures and the various ways the Company will communicate with shareholders and encourage shareholders to attend general meetings. All information disclosed to the ASX is to be posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Company's operations, the material used in the presentation will be released to the ASX and posted on the company's website. Procedures are in place to determine where price sensitive information has been inadvertently disclosed, and if so, this information is released to the ASX.

RECOMMENDATION 6.2: COMPANIES SHOULD PROVIDE THE INFORMATION INDICATED IN THE GUIDE TO REPORTING ON PRINCIPLE 6.

This Section provides the information required under Principle 6. The Company's Shareholder Communication Guidelines and Policy, and Disclosure Policy are available from the Corporate Governance Section of its website and the Company will include the disclosure required by Recommendation 6.2 in its future Annual reports.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

RECOMMENDATION 7.1: COMPANIES SHOULD ESTABLISH POLICIES FOR THE OVERSIGHT AND MANAGEMENT OF MATERIAL BUSINESS RISKS AND DISCLOSE A SUMMARY OF THOSE POLICIES.

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 has adopted a formal Audit and Risk Committee Charter that sets out the roles and responsibilities of the Board with respect to risk management including identifying, managing and monitoring material business risks. The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Management is responsible for ensuring that appropriate processes and controls are in place to effectively manage risk, and reporting to the Board on whether risks are being managed effectively. The Board believes that it has a thorough understanding of the Company's key risks and is managing them appropriately.

RECOMMENDATION 7.3: THE BOARD SHOULD DISCUSS 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 EFFICIENTLY IN ALL MATERIAL RESPECTS IN RELATION TO FINANCIAL REPORTING RISKS.

The integrity of the Company's financial reporting relies upon a sound system of risk management and control. Accordingly, the persons performing the functions of Managing Director and Chief Financial Officer (or equivalent) will be asked to confirm that any declaration they provide 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 efficiently in all respects in relation to financial reporting risks.

RECOMMENDATION 7.4: COMPANIES SHOULD PROVIDE THE INFORMATION INDICATED IN THE GUIDE TO REPORTING ON PRINCIPLE 7.

This Section provides the information required under Principle 7. The Company's Audit and Risk Committee Charter is available from the Corporate Governance section of its website and the Company will include the disclosure required by Recommendation 7.4 in its future Annual reports.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

RECOMMENDATION 8.1: THE BOARD SHOULD ESTABLISH A REMUNERATION COMMITTEE.

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 does not comply with Recommendation 8.1. Given the current size and composition of the Board, and given the Company's stage of development, it has been decided that there are no efficiencies to be gained and it is not practicable to form a separate remuneration committee. The Board considers that it is more appropriate to set aside time at Board meetings to specifically address matters that would ordinarily fall to a remuneration committee.

The Board has adopted a formal Diversity, Nomination and Remuneration Committee Charter. The current Board members will, considering matters within the ambit of the Diversity, Nomination and Remuneration Committee Charter, be guided by and, to the extent practicable, act in accordance with that Charter.

RECOMMENDATION 8.3: COMPANIES SHOULD CLEARLY DISTINGUISH THE STRUCTURE OF NON-EXECUTIVE DIRECTORS' REMUNERATION FROM THAT OF EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES.

The structure of non-executive directors' remuneration is clearly distinguished from that of executive directors and senior executives. Remuneration for non-executive directors is fixed. The total remuneration for all non-executive directors is not to exceed \$300,000 per annum unless approved by Shareholders at the Company's Annual General Meeting.

Neither the non-executive directors nor the executives of the Company receive any retirement benefits, other than superannuation. The Executive Chairman and Managing Director is employed pursuant to an executive service agreement.

RECOMMENDATION 8.4: COMPANIES SHOULD PROVIDE THE INFORMATION INDICATED IN THE GUIDE TO REPORTING ON PRINCIPLE 8.

This Section provides the information required under Principle 8.

Securities Trading Policy

The Board has adopted a formal Securities Trading Policy that complies with ASX Listing Rule 12.12. Under the Securities Trading Policy, Directors and certain key management personnel are prevented from trading in the Company's shares during the period of 28 days prior to the announcement of quarterly, half year and full year reports.

This is a restriction over and above the requirement to not trade in the Company's securities when in possession of inside information which applies to all Directors, executives and employees of the Company. The Board may, in exceptional circumstances only, approve any member of key management personnel (or his or her associated parties) trading in the Company's securities during a restricted period. An exemption will not however be granted by the Board if it considers there is information that is not generally available, but if it were, would be likely to "materially affect" the price of the Company's securities.



AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Taruga Gold Limited for the period ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of Taruga Gold Limited.

A handwritten signature in blue ink, appearing to read 'Norman Neill'.

Perth, Western Australia
21 September 2012

N G NEILL
Partner, HLB Mann Judd

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HLB Mann Judd (WA Partnership) is a member of International, a worldwide organisation of accounting firms and business advisers.

STATEMENT OF COMPREHENSIVE INCOME

SECTION 06

FOR THE PERIOD ENDED 30 JUNE 2012

| | <i>Note</i> | CONSOLIDATED Period to 30 June 2012 \$ |
|--|-------------|---|
| Revenue | 2 | (108,769) |
| Depreciation | 3 | 8,462 |
| Consultants | | 169,189 |
| Professional fees | | 53,427 |
| Travel and accommodation | | 32,200 |
| Office and communication costs | | 60,416 |
| Other expenses | | 74,374 |
| | | <hr/> 289,299 |
| Exchange loss | | 43,044 |
| Loss before income tax | | <hr/> 332,343 |
| Income tax benefit | | - |
| Net loss for the period | | <hr/> 332,343 |
| Other comprehensive income | | - |
| Exchange (loss) on translation of foreign subsidiaries | | (45,932) |
| Total comprehensive loss for the period | | <hr/> 286,411 |
| Basic loss per share (cents per share) | 20 | 0.44 |

The accompanying notes form part of the financial statements.

STATEMENT OF
FINANCIAL POSITION

AS AT 30 JUNE 2012

| | <i>Note</i> | CONSOLIDATED 30 June 2012 \$ |
|------------------------------------|-------------|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | 5 | 4,501,262 |
| Trade and other receivables | 6 | 69,575 |
| Total Current Assets | | <u>4,570,837</u> |
| NON CURRENT ASSETS | | |
| Plant and equipment | 7 | 138,039 |
| Mineral exploration and evaluation | 8 | 5,738,108 |
| Total Non Current Assets | | <u>5,876,147</u> |
| TOTAL ASSETS | | <u>10,446,984</u> |
| CURRENT LIABILITIES | | |
| Trade and other payables | 9 | 851,117 |
| Other current liabilities | 9 | 17,745 |
| Total Current Liabilities | | <u>868,862</u> |
| TOTAL LIABILITIES | | <u>868,862</u> |
| NET ASSETS | | <u>9,578,122</u> |
| EQUITY | | |
| Issued capital | 11 | 9,215,589 |
| Reserves | 12 | 694,876 |
| Accumulated losses | 12 | (332,343) |
| TOTAL EQUITY | | <u>9,578,122</u> |

The accompanying notes form part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

SECTION 08

FOR THE PERIOD ENDED 30 JUNE 2012

| | <i>Issued Capital</i> | <i>Options Reserve</i> | <i>Accumulated Losses</i> | <i>Foreign Currency Translation Reserve</i> | <i>Total Equity</i> |
|---|---------------------------|----------------------------|-------------------------------|---|-------------------------|
| Period to 30 June 2012 | | | | | |
| Issue of shares | 10,374,450 | - | - | - | 10,374,450 |
| Share issue expenses | (1,158,861) | - | - | - | (1,158,861) |
| Issue of options | - | 648,944 | - | - | 648,944 |
| Loss for the period | - | - | (332,343) | - | (332,343) |
| Exchange loss on translation of foreign subsidiaries | - | - | - | 45,932 | 45,932 |
| As at 30 June 2012 | 9,215,589 | 648,944 | (332,343) | 45,932 | 9,578,122 |

The accompanying notes form part of the financial statements.

STATEMENT OF
CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2012

| | <i>Note</i> | CONSOLIDATED |
|---|-------------|-----------------------------------|
| | | <i>Period to 30 June 2012</i> |
| | | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Payments to suppliers | | (388,921) |
| Interest income received | | 52,394 |
| Net cash used in operating activities | 16 | (336,527) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for exploration expenditure | | (860,184) |
| Payment for plant and equipment | | (146,501) |
| Net cash used in investing activities | | (1,006,685) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of shares | | 6,624,450 |
| Share issue transaction costs | | (776,618) |
| Net cash provided by financing activities | | 5,847,832 |
| Net increase/(decrease) in cash held | | 4,504,620 |
| Cash and cash equivalents at the beginning of the period | | - |
| Effect of exchange rate fluctuations on cash held | | (3,358) |
| Cash and cash equivalents at the end of the period | | 4,501,262 |

The accompanying notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SECTION

10

FOR THE PERIOD ENDED 30 JUNE 2012

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report has also been prepared on a historical cost basis. The financial report is presented in Australian dollars.

The company is a listed public company, incorporated in Australia and operating in West Africa. The entity's principal activity is mineral exploration.

The Company was incorporated on 21 October 2011 and as a result this is the first full financial report of the Company.

No comparative information is available.

The accounting policies detailed below have been consistently applied to all of the periods presented unless otherwise stated. The financial statements are for the consolidated entity consisting of Taruga Gold and its subsidiaries.

Reporting Basis and Conventions

The financial report has been prepared on the basis of accounting principles applicable to a going concern, which assumes the commercial realisation of the future potential of the Company's and consolidated entity's assets and the discharge of their liabilities in the normal course of business.

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

Statement of Compliance

The financial report was authorised for issue on 21 September 2012.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2012, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

The Directors have reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to consolidated entity accounting policies.

Accounting Policies

(a) Basis of Consolidation

A controlled entity is any entity controlled by Taruga Gold Limited. Control exists where Taruga Gold Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Taruga Gold Limited to achieve the objectives of Taruga Gold Limited. All controlled entities have a 30 June financial year-end.

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

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

The charge for current income tax expenses is based on the result for the year adjusted for any non-assessable or disallowable items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary difference can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

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

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 consolidated 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

The depreciable amount of all fixed assets including capitalised lease assets, but excluding computers, is depreciated on a reducing balance commencing from the time the asset is held ready for use. Computers are depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

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

| | |
|-----------------------|--------------------|
| Class of Fixed Asset: | Depreciation Rate: |
| Plant and Equipment | 15 – 50% |

NOTES TO THE FINANCIAL STATEMENTS

SECTION

10

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(d) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Tenement acquisition costs are initially capitalised. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the areas, sale of the respective areas of interest or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the areas is made.

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

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

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure.

(e) Impairment of Assets

At each reporting date, the Directors review the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the assets, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

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

(f) Provisions

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

(g) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(h) Revenue

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

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expenses. Receivables and payables in the statement of financial position are shown inclusive of GST.

(j) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any

transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(k) Segment Reporting

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

(l) Critical accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Key Estimates – Impairment

The Directors assess impairment at each reporting date by evaluating conditions specific to the consolidated entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of costs carried forward as exploration assets. The ultimate recoupment of value is dependent on the successful development and commercial exploitation or sale of the respective areas.

(m) Share based payments – shares and options

The fair value of shares and share options granted is recognised as an expense with a corresponding increase in equity. Fair value is measured at grant date and recognised over the period during which the grantees become unconditionally entitled to the shares or share options.

The fair value of share grants at grant date is determined by the share price at that time.

The fair value of share options at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, any vesting and performance criteria, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

Upon the exercise of the option, the balance of the share-based payments reserve relating to the option is transferred to share capital.

(n) Foreign currency translation

Both the functional and presentation currency of Taruga Gold Limited is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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 balance date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

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. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

NOTES TO THE FINANCIAL STATEMENTS

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The functional currency of the foreign operations Gecko Gold Niger, Gecko Gold CI and MGS Ghana is Australian Dollars.

As at the balance date the assets and liabilities of these subsidiaries are translated into the presentation currency of Taruga Gold Limited at the rate of exchange ruling at the balance date and income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

The exchange differences arising on the translation are taken directly to a separate component of equity, being recognised in the foreign currency translation reserve.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

In addition, in relation to the partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(o) Parent entity financial information

The financial information for the parent entity, Taruga Gold Limited, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements, except for Investments in subsidiaries which are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

NOTE 2 – REVENUE

| | 2012 |
|-------------------|----------------|
| | \$ |
| Interest received | 108,769 |
| Total revenue | <u>108,769</u> |

NOTE 3 – LOSS FROM ORDINARY ACTIVITIES BEFORE TAX EXPENSES

Expenses

| | |
|--|--------------|
| Depreciation of non-current assets | |
| Plant and Equipment | 1,361 |
| Office furniture and equipment | 1,329 |
| Motor vehicles | 5,772 |
| Total depreciation of non-current assets | <u>8,462</u> |

NOTE 4 – INCOME TAX

The prima facie tax benefit at 30% on loss from ordinary activities is reconciled to the income tax benefit in the financial statements as follows:

| | 2012 \$ |
|---|------------------------------|
| Loss from ordinary activities | 332,343 |
| Prima facie income tax benefit at 30% | 99,702 |
| Tax effect of permanent differences | |
| Share Issue Costs amortised | 69,532 |
| Other non-deductible expenses | (614) |
| Income tax benefit adjusted for permanent differences | 168,620 |
| Deferred tax asset not brought to account | (168,620) |
| | <u> -</u> |

INCOME TAX BENEFIT

The directors estimate the cumulative unrecognised deferred tax asset attributable to the company and its controlled entity at 30% is as follows:

DEFERRED TAX ASSETS

| | |
|--|----------------|
| Revenue Losses after permanent differences | 168,620 |
| Capital Raising Costs yet to be claimed | 278,126 |
| | <u>446,746</u> |

The potential deferred tax asset has not been brought to account in the financial report at 30 June 2012 as the Directors do not believe it is appropriate to regard the realisation of the asset as probable. This asset will only be obtained if:

- (a) The company and its controlled entity derive future assessable income of an amount and type sufficient to enable the benefit from the deductions for the tax losses and the unrecouped exploration expenditure to be realised;
- (b) The company and its controlled entity continue to comply with the conditions for deductibility imposed by tax legislation; and
- (c) No changes in tax legislation adversely affect the company and its controlled entity in realising the benefit from the deductions for the tax losses and unrecouped exploration expenditure.

Franking Credits

No franking credits are available at balance date for the subsequent financial year.

NOTES TO THE FINANCIAL STATEMENTS

SECTION

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NOTE 5 – CASH AND CASH EQUIVALENTS

| | 2012 \$ |
|--------------------------|------------|
| Cash at bank and on hand | 4,501,262 |

NOTE 6 – TRADE AND OTHER RECEIVABLES

Current

| | |
|-------------------------|---------------|
| Interest income accrued | 56,375 |
| GST receivable | 13,200 |
| | <u>69,575</u> |

NOTE 7 – PLANT AND EQUIPMENT

| | Motor Vehicles | Plant & Equipment | Fixtures & Fittings | Total |
|---------------------------------|-------------------|-------------------------|---------------------------|----------------|
| Cost | | | | |
| Balance Brought Forward | - | - | - | - |
| Additions | 104,494 | 19,470 | 22,537 | 146,501 |
| Disposals | - | - | - | - |
| Balance Carried Forward | <u>104,494</u> | <u>19,470</u> | <u>22,537</u> | <u>146,501</u> |
| Accumulated Depreciation | | | | |
| Balance Brought Forward | - | - | - | - |
| Charge | 5,772 | 1,361 | 1,329 | 8,462 |
| Disposals | - | - | - | - |
| Balance Carried Forward | <u>5,772</u> | <u>1,361</u> | <u>1,329</u> | <u>8,462</u> |
| Net Book Value June 30 2012 | <u>98,721</u> | <u>18,110</u> | <u>21,208</u> | <u>138,039</u> |

NOTE 8 – MINERAL EXPLORATION AND EVALUATION

| | 2012 \$ |
|-----------------------------|------------------|
| Acquisition costs | 4,016,701 |
| Expenditure during the year | 1,721,407 |
| Closing balance | <u>5,738,108</u> |

The ultimate recoupment of exploration expenditure carried forward is dependent upon successful development and commercial exploitation, or sale of the respective areas.

NOTE 9 – TRADE AND OTHER PAYABLES

| | 2012 |
|-----------------|----------------|
| | \$ |
| Trade creditors | 847,196 |
| Other payables | 3,921 |
| Other accruals | 17,745 |
| | <u>868,862</u> |

NOTE 10 – INTEREST BEARING LIABILITIES**Financing Agreements**

No overdraft facilities have been formalised at 30 June 2012 and neither the company nor its controlled entity have lines of credit at 30 June 2012.

NOTE 11 – ISSUED CAPITAL**(a) Issued capital**

| | |
|------------------------------|------------------|
| 85,616,000 shares fully paid | <u>9,215,589</u> |
|------------------------------|------------------|

(b) Movements in ordinary share capital of the Company were as follows:

| | Number | \$ |
|---|-------------------|------------------|
| Issued on Registration issued 21 October 2011 | 12,500,000 | 1,250 |
| Seed Capital issued 6 December 2011 | 5,000,000 | 500,000 |
| Vendor capital issued 6 December 2011 | 37,500,000 | 3,750,000 |
| IPO subscriptions issued 7 February 2012 | 30,616,000 | 6,123,200 |
| Transaction costs | - | (1,158,861) |
| Closing balance at 30 June 2012 | <u>85,616,000</u> | <u>9,215,589</u> |

(c) Movements in options were as follows:

| | Number | \$ |
|--|-------------------|----------------|
| Vendor options issued 6 December 2011, as part consideration | 10,000,000 | 266,701 |
| Broker options issued 7 February 2012 | 5,000,000 | 382,243 |
| Closing balance at 30 June 2012 | <u>15,000,000</u> | <u>648,944</u> |

Options are exercisable at \$0.20 on or before 31 January 2016.

(d) Voting and dividend rights

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

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

NOTES TO THE FINANCIAL STATEMENTS

SECTION

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NOTE 12 – RESERVES AND ACCUMULATED LOSSES

| | 2012 |
|--|-----------------|
| | \$ |
| Options Reserve | 648,944 |
| Foreign Currency Translation Reserve | 45,932 |
| | <u>694,876</u> |
| Accumulated Losses | |
| Balance at beginning of the year | - |
| Net loss from ordinary activities | 332,343 |
| Balance at end of the year | <u>332,343</u> |
| Options Reserve | |
| Balance at beginning of the year | - |
| Reserve arising on issue of options | 648,944 |
| Balance at end of the year | <u>648,944</u> |
| Foreign Currency Translation Reserve | |
| Balance at beginning of the year | - |
| Reserve arising on translation of foreign subsidiaries | (45,932) |
| Balance at end of the year | <u>(45,932)</u> |

Nature and purpose of Reserves

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

The Share Option Reserve contains amounts received on the issue of options over unissued capital of the company.

NOTE 13 – COMMITMENTS FOR EXPENDITURE

(a) Mineral Tenement Leases

In order to maintain current rights of tenure to mining tenements, the consolidated entity will be required to outlay in the year ending 30 June 2012 amounts of \$700,000 in respect of minimum tenement expenditure requirements and lease rentals.

The obligations are not provided for in the financial report and are payable as follows :

| | Total |
|---|------------------|
| Not later than one year | 700,000 |
| Later than 1 year but not later than 2 years | 700,000 |
| Later than 2 years but not later than 5 years | 700,000 |
| | <u>2,100,000</u> |

NOTE 14 – INVESTMENT IN CONTROLLED ENTITIES

| | Registered Number | Country of Incorporation | Interest Held | Value of investment |
|-----------------------|-------------------------|--------------------------|---------------|---------------------|
| Parent | | | | |
| Taruga Gold Limited | 153 868 789 | Australia | | |
| Subsidiaries | | | | |
| Gecko Gold Niger SARL | RCCM-NI-NIA-2010-B-2625 | Niger | 100% | 1,316,675 |
| MGS Ghana Limited | CA-80, 601 | Ghana | 100% | 1,383,351 |
| Gecko Gold CI SARL | RCCM-CI-ABJ-2010-B-1899 | Cote d'Ivoire | 100% | 1,316,675 |

NOTE 15 – SEGMENT INFORMATION

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

The company operates in one operating segment therefore disclosures are consistent with the financial report.

NOTE 16 – NOTES TO THE STATEMENT OF CASH FLOWS

2012
\$

Reconciliation of loss after income tax to net operating cash flows

| | |
|---|------------------|
| Loss from ordinary activities | 332,343 |
| Depreciation | (8,462) |
| | <u>323,881</u> |
| Movement in assets and liabilities | |
| Receivables | 52,301 |
| Other current assets | 13,200 |
| Payables | (52,855) |
| Net cash used in operating activities | <u>336,527</u> |
| Non cash financing activities | |
| Shares issued for acquisition of subsidiaries | <u>4,016,701</u> |

NOTES TO THE FINANCIAL STATEMENTS

SECTION

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NOTE 17 – KEY MANAGEMENT PERSONNEL

(a) Directors

The names and positions of Directors in office at any time during the financial year are:

| | | In office from | In office to |
|-----------------|--|-----------------|--------------|
| Bernard Aylward | Managing Director & Executive Chairman | 21 October 2011 | present |
| Peter Newcomb | Finance Director & Company Secretary | 21 October 2011 | present |
| Edmond Edwards | Non Executive Director | 21 October 2011 | present |

(b) Remuneration Policies

Remuneration policies are disclosed in the Remuneration Report which is contained in the Directors' Report.

(c) Directors' Remuneration

No salaries, commissions, bonuses or superannuation were paid or payable to Directors during the year. Remuneration was by way of fees paid monthly in respect of invoices issued to the Company by the Directors or Companies associated with the Directors in accordance with agreements between the Company and those entities.

The Directors are entitled to reimbursement of out-of-pocket expenses incurred whilst on company business.

The total remuneration paid to directors is summarised below:

| Director | Associated Company | Fees | Consultancy | Total |
|-----------------|-------------------------------------|---------------|----------------|----------------|
| Bernard Aylward | Matlock Geological Services Pty Ltd | - | 180,000 | 180,000 |
| Peter Newcomb | Symbios Pty Ltd | - | 81,000 | 81,000 |
| Edmond Edwards | Tied Nominees Pty Ltd | 32,000 | - | 32,000 |
| | | <u>32,000</u> | <u>261,000</u> | <u>293,000</u> |

(d) Shareholding

| | Share Sale Agreement | Purchases | Balance 30 June 2012 |
|-----------------|----------------------|------------------|----------------------|
| Bernard Aylward | 12,500,000 | 7,550,000 | 20,050,000 |
| Peter Newcomb | - | 140,000 | 140,000 |
| Edmond Edwards | - | 170,000 | 170,000 |
| | <u>12,500,000</u> | <u>7,860,000</u> | <u>20,360,000</u> |

(e) Aggregate amounts payable to Directors and their personally related entities.

| | Consolidated Entity | | |
|-------------------|--------------------------------|----------|-------------------------|
| | 2012 | | |
| | \$ | | |
| Accounts payable | | | 46,351 |
| (f) Optionholding | | | |
| | Share Sale Agreement | Issues | Balance 30 June 2012 |
| Bernard Aylward | 5,000,000 | - | 5,000,000 |
| Peter Newcomb | - | - | - |
| Edmond Edwards | - | - | - |
| | <u>5,000,000</u> | <u>-</u> | <u>5,000,000</u> |

NOTE 18 – RELATED PARTY INFORMATION

Under a Consultancy Agreement 2011 between the Company and Matlock Geological Services Pty Ltd (Matlock) (of which Bernard Aylward is the legal owner as trustee for the Galbraith Family Trust), Matlock is to provide the Company with certain services which Matlock has nominated Bernard Aylward to perform. The Consultancy Agreement has been entered into on an arms-length basis and the Company considers the remuneration in the table above to be reasonable remuneration and without the need for shareholder approval.

Under the MGS Ghana Sale Agreement, the Company acquired from Matlock all of the issued share capital in MGS Ghana Limited which holds the rights to use and an exclusive option to acquire the Ducie Reconnaissance Licence, Katua Prospecting Licence, Kundunga Prospecting Licence, Sombisi Prospecting Licence, and Yala Prospecting Licence, for the exploration of gold in Ghana, from Maintenance Culture Limited, a company incorporated under the laws of Ghana. As stated previously, Matlock is an entity controlled by Bernard Aylward, the Managing Director and Executive Chairman, who is a related party of the Company.

Matlock received 12,500,000 shares and 5,000,000 options to acquire shares in Taruga Gold Limited as consideration for the acquisition of all of the shares in MGS Ghana was issued with a deemed value of \$0.10 per share, valuing the acquisition at \$1.25 million.

Considering the prospectivity of the rights held by MGS Ghana pursuant to the Option Agreement and taking into account the exploration nature and status of the rights, the Company considers that the MGS Ghana Sale Agreement is on arms-length terms, and therefore the Company entered into the agreement without obtaining any shareholder approval.

The transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

During the period Athena Resources Limited an entity associated with Edmond Edwards charged the Company \$18,000 for office support.

NOTES TO THE FINANCIAL STATEMENTS

SECTION

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NOTE 19 – REMUNERATION OF AUDITORS

| | 2012 \$ |
|---|---------------|
| Auditing and reviewing of the financial statements of Taruga Gold Limited and of its controlled entities. | 6,000 |
| Investigating accountant' report for the initial public offering | 7,000 |
| | <u>13,000</u> |

NOTE 20 – LOSS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic loss per share is as follows:

| | |
|--|-------------------|
| Earnings | <u>332,343</u> |
| | Number |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share | <u>64,698,435</u> |

There are no potential ordinary shares on issue at the date of this report.

NOTE 21 – FINANCIAL INSTRUMENTS

(a) Financial Risk Management Policies

The consolidated entity's financial instruments consist mainly of deposits with banks, accounts receivable, accounts payable and hire purchase liabilities.

The Board's overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst maintaining potential adverse effects on financial performance. The Group has developed a framework for a risk management policy and internal compliance and control systems that covers the organisational, financial and operational aspects of the group's affairs. The Chairman is responsible for ensuring the maintenance of, and compliance with, appropriate systems.

Financial Risk Exposures and Management

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

Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of change in the market, interest rate and the effective weighted average interest rate on these financial assets, is as follows:

| Financial Assets | Weighted Average Effective Interest Rate 2012 | Floating Interest Rate 2012 \$ |
|-------------------------|---|--------------------------------------|
| Cash at Bank | 5.5% | 4,439,270 |
| Total Financial Assets | | <u>4,439,270</u> |

There are no financial liabilities subject to interest rate fluctuations.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to and forming part of the financial statements.

Interest Rate Sensitivity Analysis

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk. This sensitivity analysis demonstrates the effect on the current year results and equity which could result in a change in these risks.

At 30 June 2012 the effect on the loss and equity as a result of changes in the interest rate with all other variables remaining constant is as follows:

| | | |
|------------------------------|--|----------|
| Change in Loss | | |
| · Increase in interest by 2% | | (40,996) |
| · Decrease in interest by 2% | | 40,996 |
| Change in Equity | | |
| · Increase in interest by 2% | | 40,996 |
| · Decrease in interest by 2% | | (40,996) |

Foreign Currency Risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

| Currency | Liabilities 2012 \$ | Assets 2012 \$ |
|-----------------|---------------------------|----------------------|
| US Dollars | 628,423 | 6,849 |
| Euros | 228,711 | - |
| West Africa CFA | - | 125,595 |
| Ghanaian Cedi | 12,690 | 4,665 |
| | <u>869,824</u> | <u>136,749</u> |

NOTES TO THE FINANCIAL STATEMENTS

SECTION

10

Foreign currency

Other than translational risk the Group has no significant exposure to foreign currency risk at the balance date.

Liquidity Risk

The group manages liquidity risk by monitoring forecast cash flows.

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date, is the carrying amount net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statement.

In the case of cash deposited, credit risk is minimised by depositing with recognised financial intermediaries such as banks, subject to Australian Prudential Regulation Authority Supervision.

The consolidated entity does not have any material risk exposure to any single debtor or group of debtors under financial instruments entered into by it.

Capital Management Risk

Management controls the capital of the Group in order to maximise the return to shareholders and ensure that the group can fund its operations and continue as a going concern.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels and share and option issues.

There have been no changes in the strategy adopted by management to control capital of the Group since the prior year.

Net Fair Values

For financial assets and liabilities, the net fair value approximates their carrying value. The consolidated entity has no financial assets or liabilities that are readily traded on organised markets at balance date and has no financial assets where the carrying amount exceeds net fair values at balance date.

NOTE 23 - PARENT ENTITY DISCLOSURES**Financial Position**2012
\$**CURRENT ASSETS**

| | |
|-----------------------------|------------------|
| Cash and cash equivalents | 4,439,270 |
| Trade and other receivables | 69,200 |
| Total Current Assets | 4,508,845 |

NON CURRENT ASSETS

| | |
|---------------------------------------|------------------|
| Investment in subsidiaries | 4,016,701 |
| Loans to subsidiaries less impairment | 1,120,499 |
| Total Non Current assets | 5,137,200 |

TOTAL ASSETS

9,646,045

CURRENT LIABILITIES

| | |
|----------------------------------|---------------|
| Trade and other payables | 67,923 |
| Total Current Liabilities | 67,923 |

TOTAL LIABILITIES

67,923

NET ASSETS

9,578,122

EQUITY

| | |
|--------------------|-----------|
| Issued capital | 9,215,589 |
| Reserves | 648,944 |
| Accumulated losses | (286,410) |

TOTAL EQUITY

9,578,122

Financial Performance

| | |
|-------------------------------------|----------------|
| Loss for the year | 208,415 |
| Impairment of loans to subsidiaries | 77,995 |
| Total comprehensive income | 286,410 |

The parent entity has not entered into any guarantees in relation to debts of its subsidiaries, has no contingent liabilities, and has no commitments for acquisition of plant and equipment.

DIRECTORS' DECLARATION

SECTION

11

FOR THE PERIOD ENDED 30 JUNE 2012

In the opinion of the directors of Taruga Gold Limited ("the company"):

- 1) The attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
 - (a) complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements; and
 - (b) giving a true and fair view of the Group's financial position as at 30 June and of its performance for the period then ended; and
- 2) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- 3) The financial statements and notes thereto are in accordance with international financial reporting standards issued by the International Accounting Standards Board.
- 4) This declaration has been made after reviewing the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2012.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.



Bernard Aylward

Managing Director

Dated Perth 21 September 2012



Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Taruga Gold Limited

Report on the Financial Report

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

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT

SECTION

12



Accountants | Business and Financial Advisers

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report and remuneration report

This auditor's report relates to the financial report and remuneration report of Taruga Gold Limited for the financial period ended 30 June 2012 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report and remuneration report.

Auditor's opinion

In our opinion:

- (a) the financial report of Taruga Gold 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 30 June 2012 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

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

Auditor's opinion

In our opinion the remuneration report of Taruga Gold Limited for the period ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink that reads 'HLB Mann Judd'.

HLB MANN JUDD
Chartered Accountants

A handwritten signature in blue ink that reads 'Norman Glueck'.

N G NEILL
Partner

Perth, Western Australia
21 September 2012

ANALYSIS OF SHAREHOLDING

| | | | Shares | Shareholders |
|----------------|---|---------|---------------|---------------------|
| 1 | - | 1,000 | 31 | 3 |
| 1,001 | - | 5,000 | 23,825 | 6 |
| 5,001 | - | 10,000 | 1,608,020 | 162 |
| 10,001 | - | 100,000 | 10,472,627 | 212 |
| 100,001 | - | or more | 73,511,497 | 84 |
| Total on Issue | | | 85,616,000 | 467 |

Voting Rights

Article 16 of the Constitution specifies that on a show of hands every member present in person, by attorney or by proxy shall have :

- a) for every fully paid share held by him one vote
- b) for every share which is not fully paid a fraction of the vote equal to the amount paid up on the share over the nominal value of the shares

Substantial Shareholders

The following substantial shareholders have notified the Company in accordance with Corporations Act 2001.

| | Shares | % |
|---------------------------|---------------|----------|
| Bernard Aylward | 20,050,000 | 23.42 |
| Redstar Resources Limited | 20,000,000 | 23.09 |

Directors' Shareholding

The interest of each director in the share capital of the Company is detailed at Note 17.

SHAREHOLDERS DETAILS

SECTION

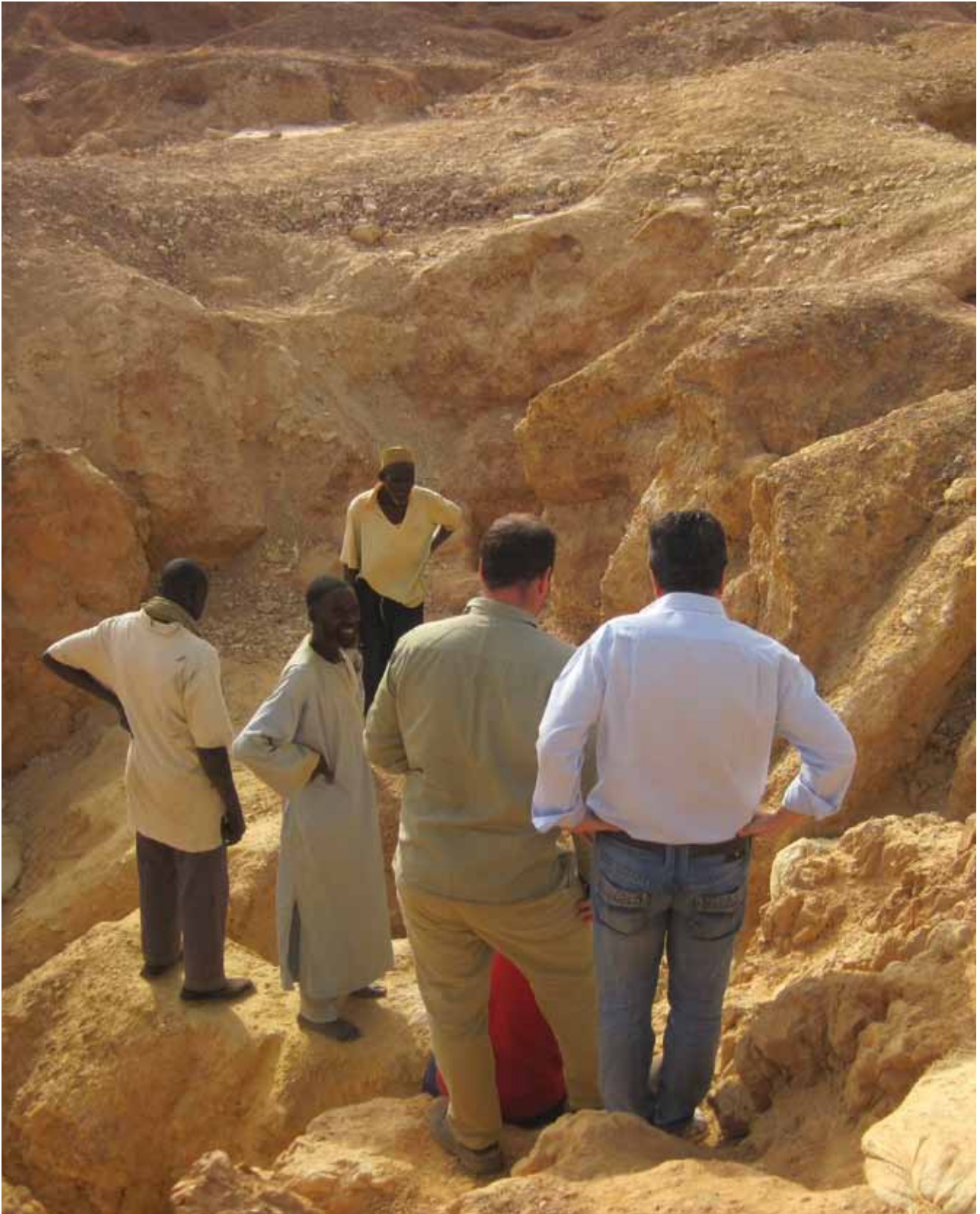
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TOP TWENTY SHAREHOLDERS

| Name | Shares | % | Rank |
|---|------------|--------|------|
| Redstar Resources Limited | 20,000,000 | 23.09% | 1 |
| Matlock Geological Services Pty Ltd | 12,510,000 | 14.44% | 2 |
| Mr Bernard Aylward <The Galbraith Family A/C> | 7,510,000 | 8.67% | 3 |
| Berringer Limited | 3,125,000 | 3.61% | 4 |
| Mr Alexandre Atcho Ake | 1,250,000 | 1.44% | 5 |
| Barriag Pty Ltd <The Hadley Super Fund A/C> | 1,250,000 | 1.44% | 6 |
| Citicorp Nominees Pty Ltd | 1,250,000 | 1.44% | 7 |
| Ms Fiona Lee Dixon Fowler | 1,250,000 | 1.44% | 8 |
| Mr MJ Fowler + Ms FLD Fowler <MJ & FLD Fowler Family A/C> | 1,250,000 | 1.44% | 9 |
| J P Morgan Nominees Australia Limited | 1,250,000 | 1.44% | 10 |
| Topsfield Pty Ltd | 1,250,000 | 1.44% | 11 |
| Woolsthorpe Investments Limited | 1,250,000 | 1.44% | 12 |
| Mr Reuben (Amoako-Atta) | 1,000,000 | 1.15% | 13 |
| HSBC Custody Nominees (Australia) Limited | 900,000 | 1.04% | 14 |
| Mr David Michael Harper | 700,000 | 0.81% | 15 |
| Berringer Limited | 625,000 | 0.72% | 16 |
| Elinora Investments Pty Ltd | 625,000 | 0.72% | 17 |
| RAH (STC) Pty Ltd <MEH Retirement A/C> | 625,000 | 0.72% | 18 |
| Mr Ousmane Sidien | 625,000 | 0.72% | 19 |
| Hargrave Holdings Pty Ltd | 600,000 | 0.69% | 20 |
| | 58,845,000 | 67.94% | |

UNLISTED OPTIONHOLDERS

| | | | |
|-------------------------------------|------------|---------|---|
| Matlock Geological Services Pty Ltd | 5,000,000 | 33.33% | 1 |
| Blackwood Capital | 5,000,000 | 33.33% | 1 |
| Redstar Resources Limited | 4,000,000 | 26.67% | 3 |
| Berringer Limited | 375,000 | 2.50% | 4 |
| Berringer Limited | 250,000 | 1.67% | 5 |
| Mr Alexandre Ake Atcho | 250,000 | 1.67% | 5 |
| Mr Ousman Sidien | 125,000 | 0.83% | 7 |
| | 15,000,000 | 100.00% | |



INTEREST IN
EXPLORATION LEASES

| Country | Project name | Area | |
|---------------|--------------|----------------------|--------------------------------------|
| Niger | Kossa | 970km ² | Granted licence |
| Ghana | Ducie | 1,126km ² | Granted licenses |
| Cote d'Ivoire | Tortiya | 870km ² | Application for exploration licences |
| Core d'Ivoire | Mangkono | 1,000km ² | Application for exploration licences |





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