

# DE GREY MINING LTD

## QUARTERLY REPORT

FOR THE QUARTER ENDING 31 MARCH 2013

**ASX: DEG**

**Shares on Issue**

464,665,646

**Board of Directors**

*Peter Batten*  
Executive Chairman

*Darren Townsend*  
Director

*Gary Brabham*  
Director  
(resigned 21/03/13)

*Jason Brewer*  
Director

**Company Secretary**

*Dennis Wilkins*

**Registered Office**

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A.B.N. 65 094 206 292

### HIGHLIGHTS

#### Argentina Projects (gold, silver)

- Site visit to Sierra Morena by independent consultant confirms exploration model and validates exploration program
- Completed 14.6 line km of CSAMT survey over SM6 and Vein Breccia Prospects at Sierra Morena. Multiple drill targets outlined
- At Sierra Morena detailed geological mapping was completed over the SM6 and Vein Breccia Zones
- New zone of mineralization identified at Vein Breccia Zone returned up to 15.8g/t Au, co-incident with a CSAMT anomaly at depth
- 1,500m diamond drilling program commenced on 22/4/13 at SM6 Prospect
- Appointed Christopher van Tienhoven as Country Manager - Argentina

#### New Zealand Project (gold, silver)

- Collected 245 sample soil samples over the Harrisons Fault Zone and Boundary Breccia Prospects to assist in drill targeting
- Collected 43 rock chip samples during prospecting of the project area
- Completed drill planning for Bush Hill target
- Negotiated land access agreement over a key property to enable drilling in the June 2013 quarter

#### Turner River Project (gold, base metals, Polymetals Mining Ltd earning 75%)

- Polymetals increase gold resource at the Wingina Well Gold Deposit
- Scoping study commenced over the Wingina Well Gold Deposit

#### Corporate

- Subsequent to the end of the quarter De Grey raised \$484,868 through a placement of 60,608,562 shares
- Gary Brabham resigns as a Director



## DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 31 MARCH 2013

### ARGENTINA PROJECTS

Through agreements and tenement applications in its own right, De Grey has secured mineral rights over approximately 4,675 sq km of ground in the Santa Cruz and Rio Negro Provinces of southern Argentina (Patagonia), making the Company one of the largest tenement holders in the region (Figure 1).

During the quarter De Grey appointed Christopher van Tienhoven as Country Manager – Argentina. Christopher has a Degree in Economics from the University of Pennsylvania and has worked in the mining industry for over 21 years.

The majority of this time was spent with the Anglo Group, operating around the world with stints in the UK, Chile, Brazil, Venezuela, South Africa and Argentina before culminating as Country Manager, General Manager and President of Anglo Gold Ashanti's Cerro Vanguardia mine, the largest low sulphidation epithermal gold and silver operation in the Patagonia region of southern Argentina.

In 2008 Christopher accepted the position of Country Manager and Vice President – Argentina of Andean Resources. Christopher managed the local community and government relations and led the company in Argentina and was instrumental in rationalizing the operations post the 2008 financial crisis and thereafter ensuring Andean's success in Argentina that ended with the Goldcorp (TSX:G, NYSE:GG) takeover of Andean in December 2010 for C\$3.6 billion.

Christopher brings with him to De Grey a wealth of experience and a degree of local knowledge and contacts that is unsurpassed in the mining industry in this region of South America.



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



# DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 31 MARCH 2013

## Santa Cruz Province

De Grey's Santa Cruz projects lie within the Deseado Massif, a geological region of prolific low-sulphidation epithermal gold-silver mineralization that has been recognised only relatively recently. Resources and ore reserves discovered in the region since about 1990 total 17.5Moz Au and 525Moz Ag (Figure 2.).

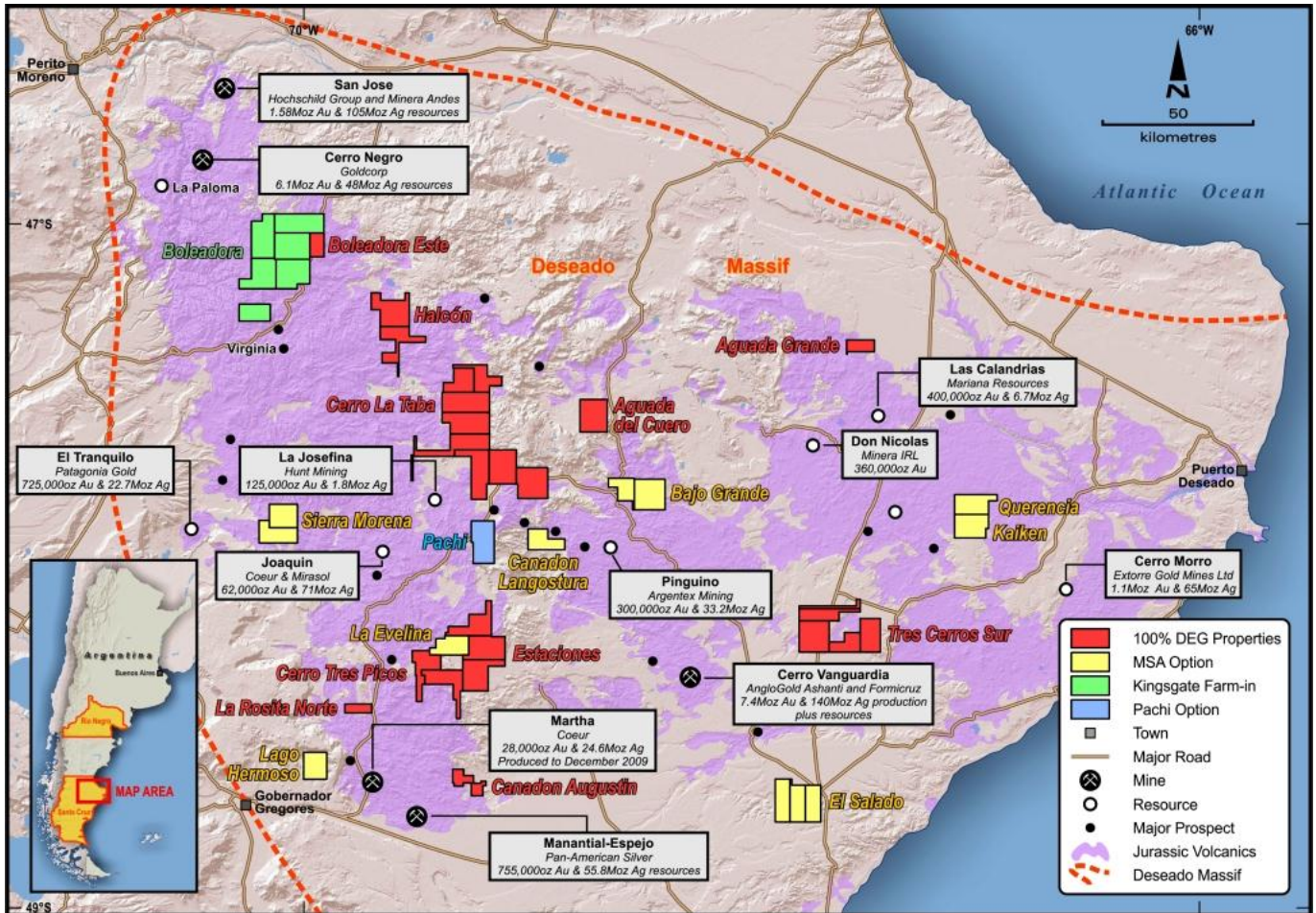


Figure 2: Locations of De Grey's projects, Santa Cruz, Argentina

## Santa Cruz Province – Sierra Morena Project

During the quarter the Sierra Morena site was visited by an internationally recognised epithermal consultant. The purpose of the visit was to review results over the project to date, confirm the exploration model, and validate the exploration strategy.

His report confirmed that **veining and mineralization at SM6 and VBZ were typical of the upper levels of low sulphidation epithermal systems** and that the relatively low tenor of mineralization intersected in the 2012 drilling was largely due to the target veins being hosted in the less competent Chon Aike Formation ignimbrites and not in more favourable competent units of the Chon Aike Formation at depth, or the underlying andesites of the Bajo Pobre Formation.



## DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 31 MARCH 2013

The report also stated that there are “many instances of poorly mineralized surficial breccias developed within incompetent host rocks passing downwards to quality banded veins in underlying host rocks (Hishikari, Japan; El Penon, Chile; Mariana Vein at Acata, Peru).”

The report highlighted that crystalline hypogene kaolinite in the mapped acid sulphate cap at SM6 indicates that **this cap represents the upper levels of an epithermal system, with significant potential at depth for mineral shoots to form where the collapsing acid cap intersects feeder structures.**

The report posed possible settings for quality vein mineralization at Sierra Morena including:

- “Competent host rocks, such as the welded tuff granoso unit which typically occurs at the base of the Chon Aike formation or the underlying Bajo Pobre andesite.
- Settings where rising ore fluids might mix with the low pH waters responsible for the formation of acid sulphate caps, promoting efficient gold deposition and elevated grades.
- Polymetallic Ag-Au mineralization with Mn carbonate discernible at surface as MnO.”

The report concluded by recommending that work continue at Sierra Morena and that the proposed detailed mapping at 1:2000 scale and CSAMT survey was fitting as the next phase of the exploration cycle for the prospects reported on.

A 14.6 line km CSAMT survey was completed during the quarter over the SM6 and Vein Breccia Zone Prospects. The aim of the survey was to identify deep resistors (zones of silicification) in both prospect areas to refine drillhole targeting.

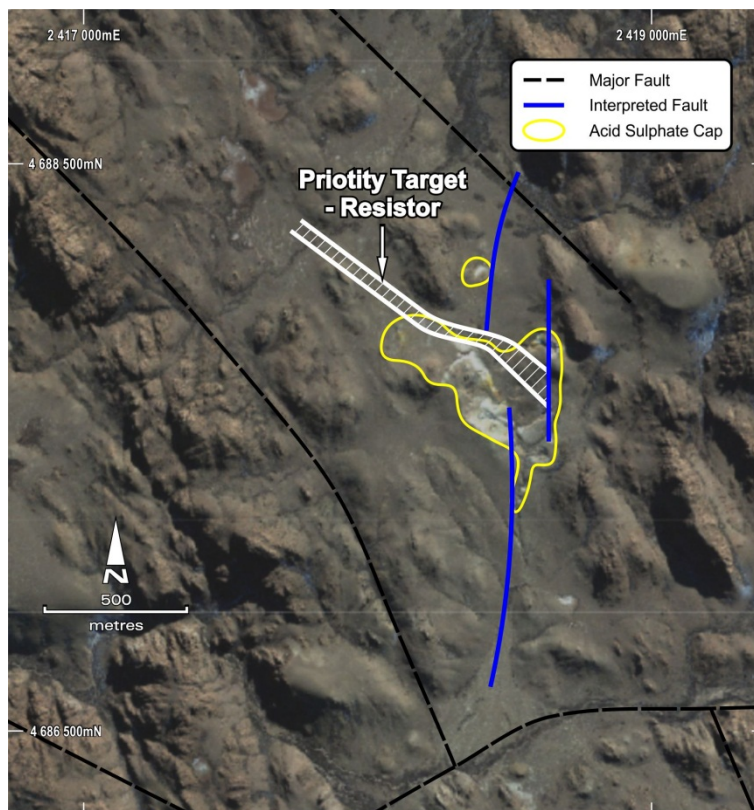


Figure 3: Acid cap resistor – SM6



# DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 31 MARCH 2013

The survey was successful in identifying a number of resistors at both SM6 and VBZ. Combining geological, structural and geochemical factors it has been a simple process to prioritize drilling targets from the CSAMT survey.

At SM6 a high priority vertical resistor was detected on the west vein at a depth consistent with the comments in the expert's report for favorable mineralization conditions (Figure 4). Similarly, a resistor has been identified over 3 of the CSAMT lines that has developed under the acid sulphate cap on the regionally favourable NW trend was outlined (Figure 3). Drilling of these targets will commence during April.

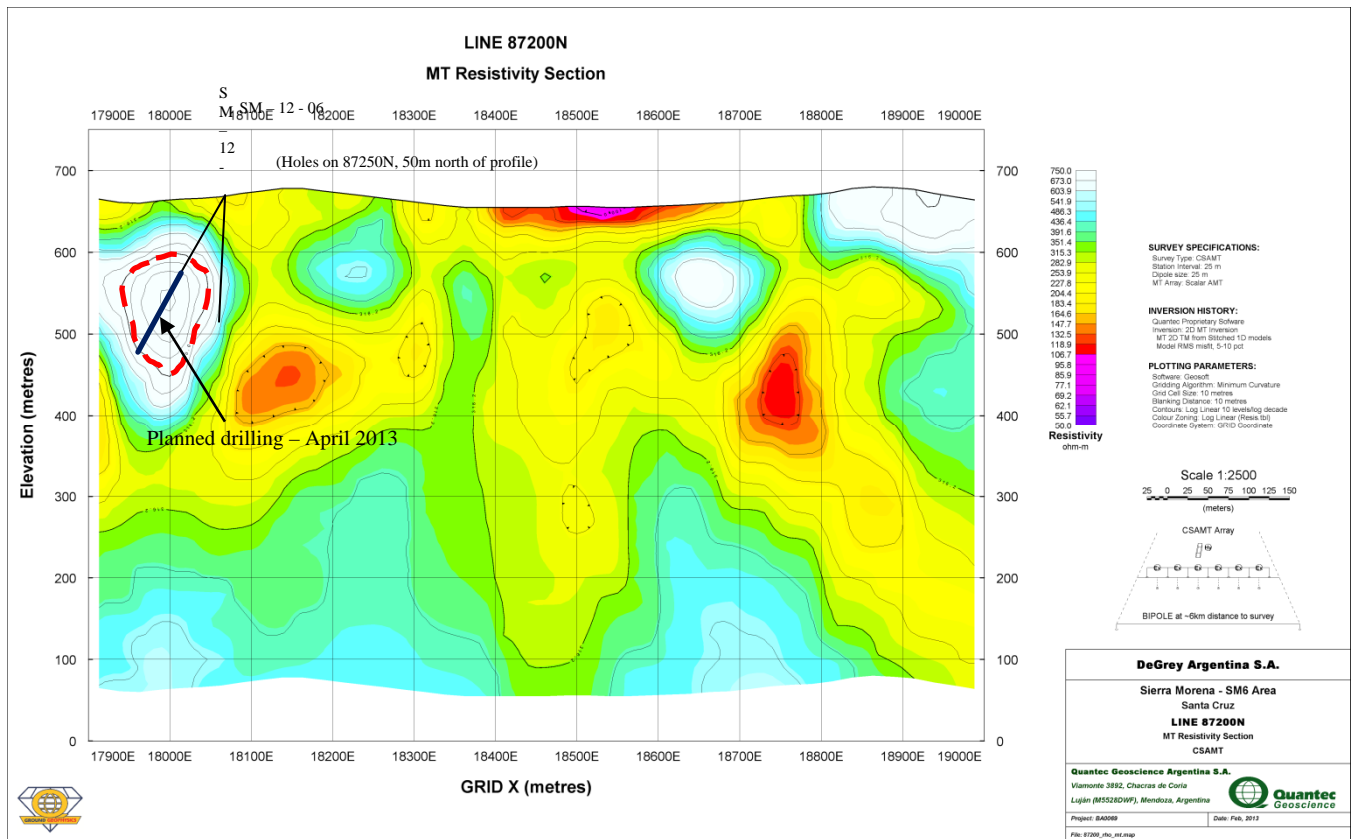


Figure 4: West Vein deep resistor – SM6

At Vein Breccia Zone 4 strong continuous resistors were defined in the CSAMT survey coincident with mapped structures, alteration and anomalous surface geochemistry. The highest rated resistor detected during the survey was at VBZ where a NW trending resistor intersects with a NNW resistor.

The NW trend is regionally significant being the predominant orientation of gold mineralized veins at nearly all the resource deposits in the Deseado Massif and specifically at Cerro Vanguardia, Cerro Negro and San Jose. The NNW trend is interpreted as a pressure release structural orientation and is commonly mineralized.

Geological mapping showed the NNW trending vein to be up to 0.5m wide on the surface and outcrops over a distance of 390m, sampling has returned grades of up to 15.85g/t Au. This vein represents the upper levels of a polymetallic type vein, and is developed within less competent rocks of the Chon Aike Formation. Where this vein is hosted in more competent units at depth, excellent potential exists for the



# DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 31 MARCH 2013

discovery of a significant zone of mineralization. This vein is also evidenced on CSAMT line 4688600N, and on adjoining lines to the north, and south (Figure 5).

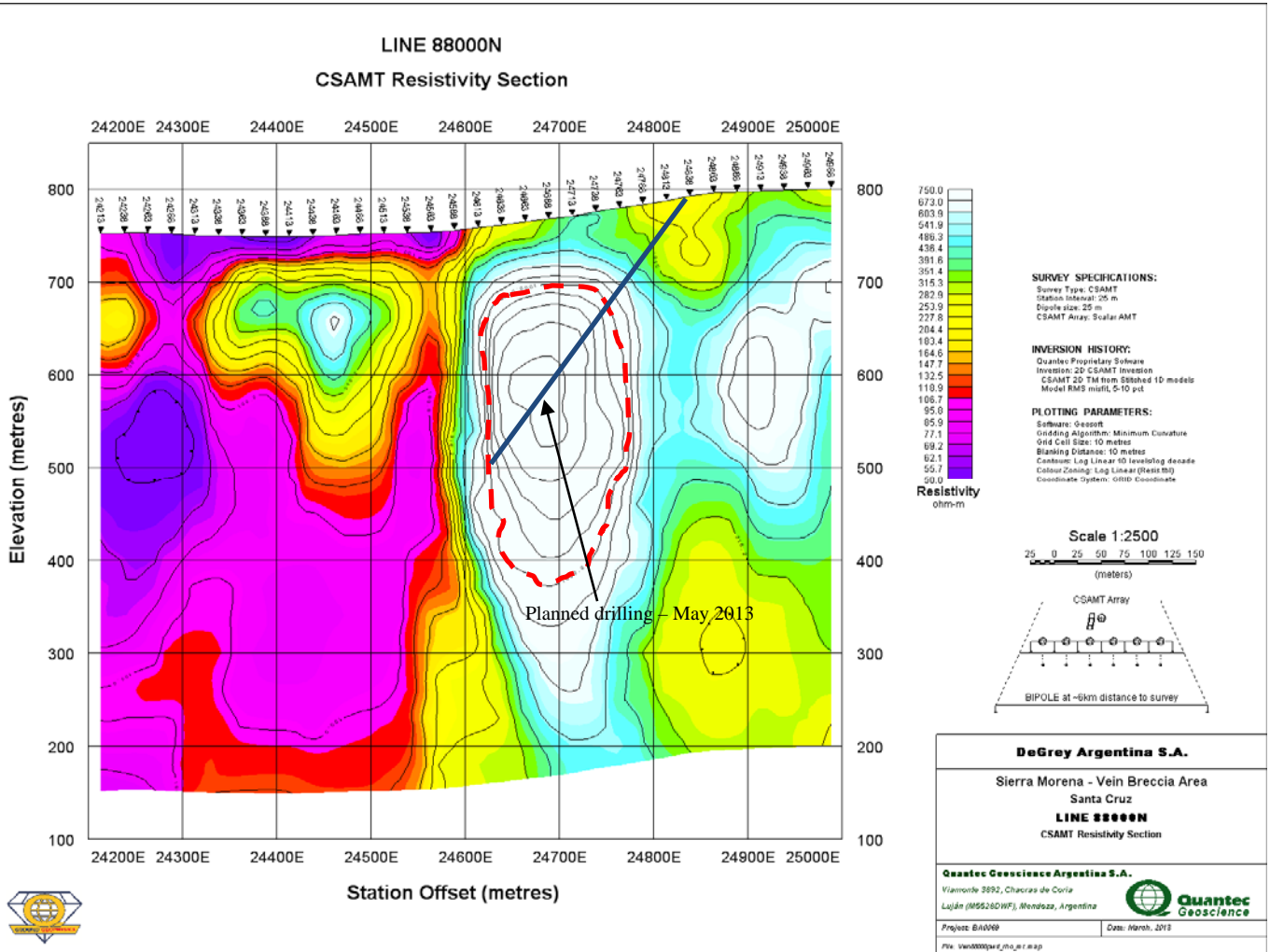


Figure 5: Vein Breccia Zone – priority resistor

Drilling is planned for these resistors in 2013 following the drilling at SM6 and results from this programme with programme completion in May and the laboratory results are expected in June.

## Santa Cruz Province – Pachi Project

Land owner access agreement discussions over the Pachi Project continued during the quarter and it is now expected that drilling of defined targets will not occur until the 2013-2014 field season.

An extension has been granted on the Pachi project that will allow De Grey to complete the planned drilling of the Pachi targets after winter 2013.



# DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 31 MARCH 2013

## Santa Cruz Province – Other Properties

No work was completed on other Santa Cruz Properties during the quarter.

## Rio Negro Province

De Grey intends to re-commence exploration in Rio Negro during the winter when fieldwork is difficult in Santa Cruz Province.

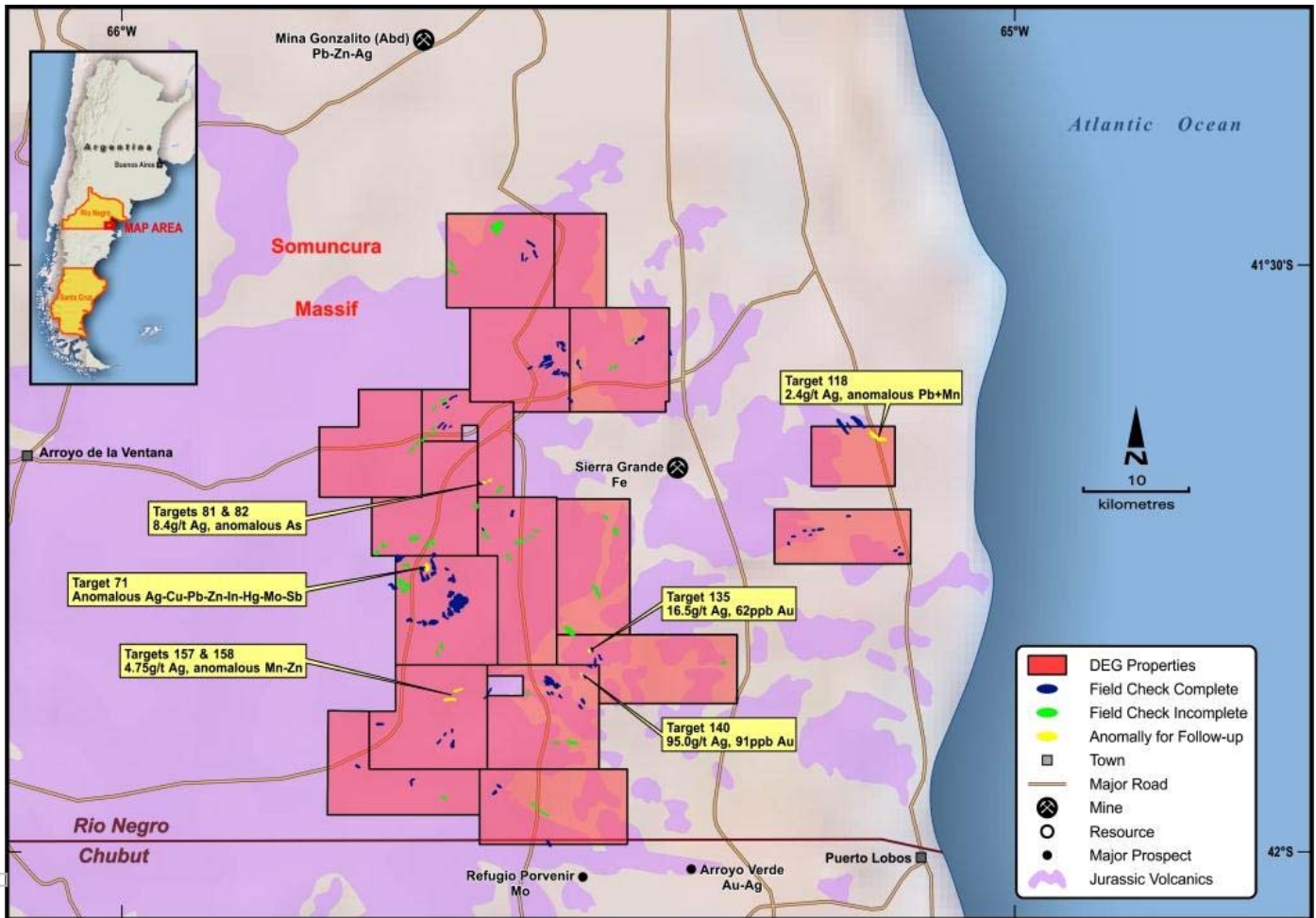


Figure 6: Locations of De Grey's projects, Rio Negro, Argentina

## NEW ZEALAND – PUHIPUHI EPITHERMAL GOLD/SILVER PROJECT

During the quarter, De Grey received Ministerial consent from the New Zealand Ministry of Economic Development for the transfer of Exploration Permit EP51985.

The Project comprises one exploration permit (EP51985) that was granted in 2009 and has a term of five years (with the right to a further five year extension available). The permit area comprises 6,116 hectares located approximately 30km NNW of Whangarei, in the Northland Region of New Zealand.



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The Project is wholly contained within an area defined by the New Zealand Government's Ministry of Economic Development as being open for mineral exploration. The majority of the project is located on private lands, predominantly farmland and the area provides straightforward access, an educated workforce and good availability of drilling contractors.

The Project is interpreted to represent a well preserved hot spring sinter/breccia system that formed as an outflow from a venting geothermal system. Mineralization in these systems is commonly restricted to fluid upflow settings and very low gold contents are deposited at surficial levels. Fluid upflow settings typically form fissure vein systems at depth, developed in competent basement rocks and fluid quenching in such an environment may produce good gold grades. Fissure vein epithermal gold-silver mineralization commonly forms in dilatant structural environments and examples of these systems include Hishikari (Japan), Cracow (Queensland), Sleeper (Nevada) and Waihi (New Zealand).

The potential for Puhipuhi to host such a fissure vein system has been recognized by several explorers during the last 30 years, however drilling to date has only been relatively shallow, and hasn't tested the deeper parts of the system where the gold-silver mineralization is expected to occur. Other drill targets generated from multi-element surface geochemistry and ground based geophysical surveys (IP and CSAMT) also remain untested within the Project area.

During the quarter De Grey collected a total of 245 close spaced soil samples over the Harrison's Fault Zone and Boundary Breccia Prospects. A total of 45 rock chip samples were collected throughout the project area, including around the Northern Silver workings.

Results from this work are expected to be reported next quarter.

A land access agreement was also negotiated during the quarter with a key landowner, which will allow the completion of drilling over the Bush Hill Prospect. This drilling is expected to commence in 2013.

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# DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 31 MARCH 2013

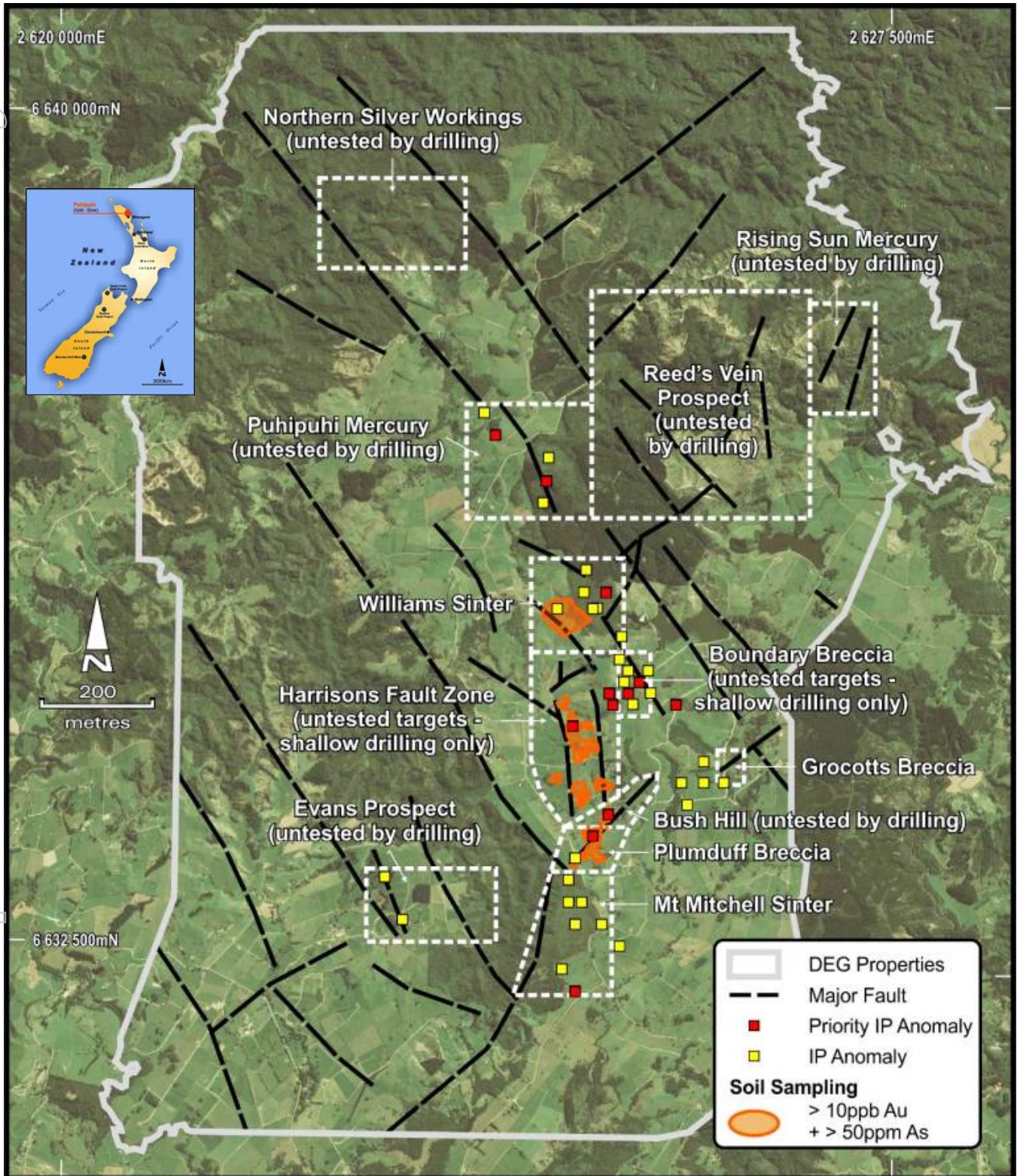


Figure 7: Locations of Puhipuhi project, New Zealand



# DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 31 MARCH 2013

## WESTERN AUSTRALIA - TURNER RIVER PROJECT

In September 2012, Polymetals acquired 100% of Lansdowne Resources, which gives Polymetals the rights to earn into a 75% share of the Turner River Gold and Base Metals Joint Venture (Figure 8), and the option to purchase a 75% interest in the Wingina Well gold resource.

Upon Polymetals earning its interest, a 75:25 joint venture will be formed and Polymetals will continue to fund all expenditures up to a Decision to Mine. Upon a Decision to Mine, a mining joint venture area will be declared and mine development expenditures will be funded by De Grey and Polymetals in proportion to their JV interests. De Grey's free carried interest will continue in respect of project areas outside of the mining joint venture area. Upon earning into the Gold Project joint venture Polymetals has the option to purchase a 75% interest in the Wingina Well gold resource with a milestone payment of \$4.1 million to De Grey.

### Turner River Base Metals

Since assuming management, Polymetals has completed 1,948m of RC drilling, 860m of diamond core drilling, and a surface channel sampling and geological mapping programme over the Wingina Well project. Drill holes were targeted for resource extension and representative geotechnical and metallurgical testing sampling of the deposit.

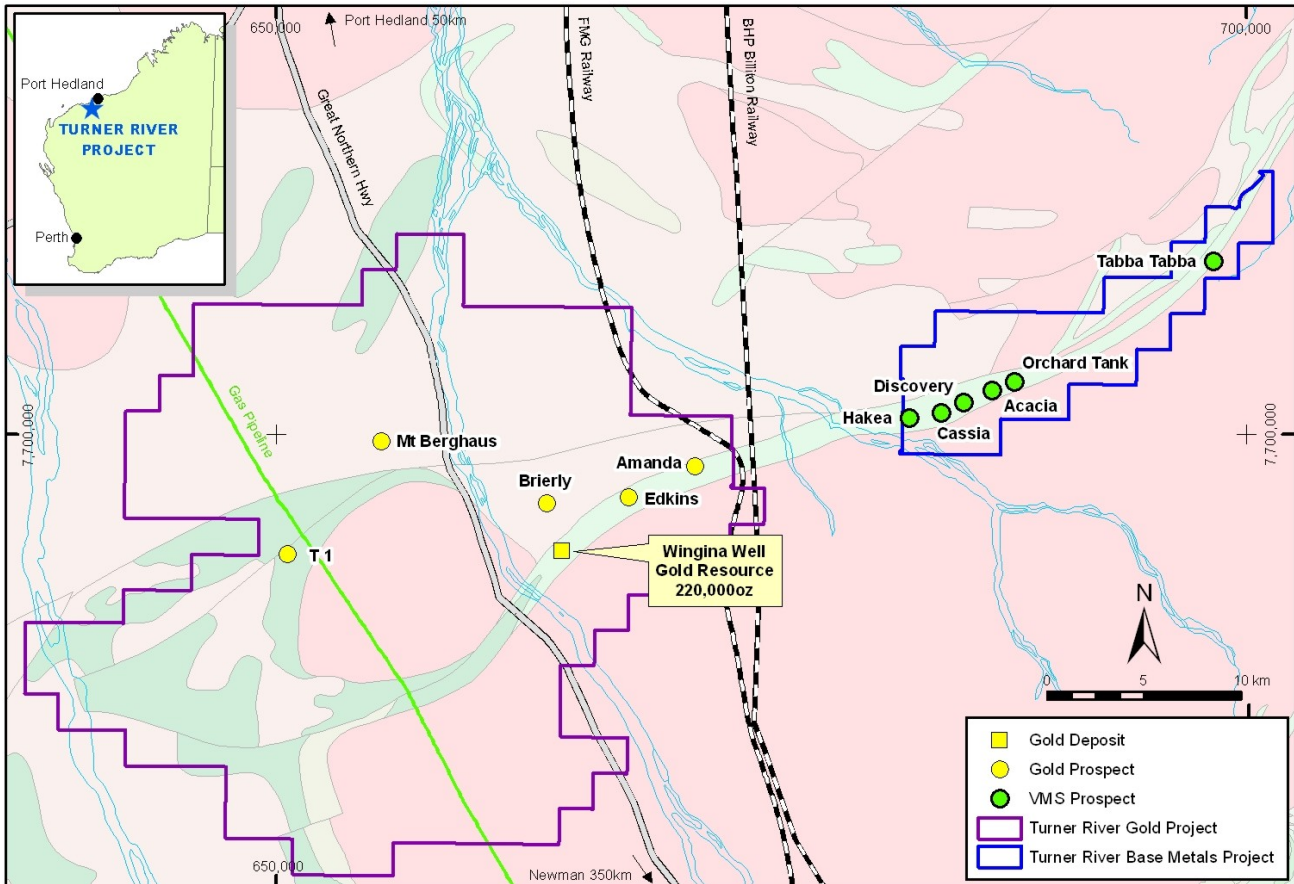


Figure 8: Turner River Gold and Base Metals project areas



## DE GREY MINING LTD QUARTERLY OPERATIONS REPORT FOR THE QUARTER ENDING 31 MARCH 2013

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A scoping study into the Turner River Project will be conducted in the first half of 2013. The study will consider heap leaching and CIL processing of the ore from the Wingina Well, Amanda and Mt Berghaus prospects. Any plant design and capital works will factor in the possible synergies from potential additional base metal recovery from the Discovery and Orchard Tank deposits.

Preliminary open pit optimization work has indicated economic mining development scenario's for Wingina Well, Amanda, and Mt Berghaus gold deposits, and the Discovery and Orchard Tank base metal deposits. Further work will be undertaken with a revised resource model to finalize these assessments for the scoping study.

### CORPORATE

On April 4th, 2013 De Grey announced a share placement of 60,608,562 shares in the company at an issue price of 0.8 cents per share to raise \$484,868. De Grey also has provided existing shareholders with an opportunity to participate in a renounceable entitlement offer that will raise up to \$1,858,662 by offering eligible shareholders one (1) fully paid share for every two (2) shares held at 0.8 cents each.

The capital raising will fund drilling programs in Argentina and New Zealand which will both commence in the June 2013 quarter.

Non-Executive Director Gary Brabham resigned from the board of directors on 21 March 2013. Gary first joined De Grey as a Non-Executive Director in November 2005 and was appointed Managing Director in January 2008. Gary stepped down as Managing Director in June 2012 and had continued with the Company in a Non-Executive role. Gary's eight year involvement with De Grey has helped establish the Company as a committed gold explorer in Argentina and the Board thanks him for his contribution.

The information in this report that relates to exploration results is based on information compiled by Mr Glenn Martin, who is a Member of the Australasian Institute of Mining and Metallurgy and a full time employee of De Grey Mining Limited. Mr Martin has sufficient experience which is relevant to the style of mineralization 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." (the JORC Code). Mr Martin consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

**De Grey Mining Limited**

ABN

65 094 206 292

Quarter ended ("current quarter")

31 March 2013

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(418)	(1,189)
(b) development	-	-
(c) production	-	-
(d) administration	(255)	(922)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	6	43
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(667)</b>	<b>(2,068)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(3)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>(3)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(667)</b>	<b>(2,071)</b>

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

1.13	Total operating and investing cash flows (brought forward)	(667)	(2,071)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	150
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	(2)
	<b>Net financing cash flows</b>	-	148
	<b>Net increase (decrease) in cash held</b>	(667)	(1,923)
1.20	Cash at beginning of quarter/year to date	1,119	2,418
1.21	Exchange rate adjustments to item 1.20	(214)	(257)
1.22	<b>Cash at end of quarter</b>	238	238

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

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	121
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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

**Non-cash financing and investing activities**

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

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

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**Financing facilities available**

Add notes as necessary for an understanding of the position.

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

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**Estimated cash outflows for next quarter**

		\$A'000
4.1	Exploration and evaluation	1,792
4.2	Development	-
4.3	Production	-
4.4	Administration	295
<b>Total</b>		<b>2,087</b>

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	76	167
5.2 Deposits at call	162	952
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>238</b>	<b>1,119</b>

**Changes in interests in mining tenements**

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

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

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

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

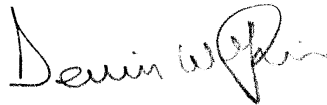
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	404,057,084	404,057,084		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	6,500,000 6,500,000 6,500,000 2,500,000 7,000,000 10,500,000		<i>Exercise price</i> 2.2 cents 2.3 cents 2.6 cents 3.0 cents 6.5 cents 6.5 cents	<i>Expiry date</i> September 2014 September 2015 September 2015 January 2016 April 2014 June 2014
7.8 Issued during quarter	2,500,000		3.0 cents	January 2016
7.9 Exercised during quarter				
7.10 Expired/cancelled during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

Date: 26 April 2013

(Company secretary)

Print name:

**Dennis Wilkins**

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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