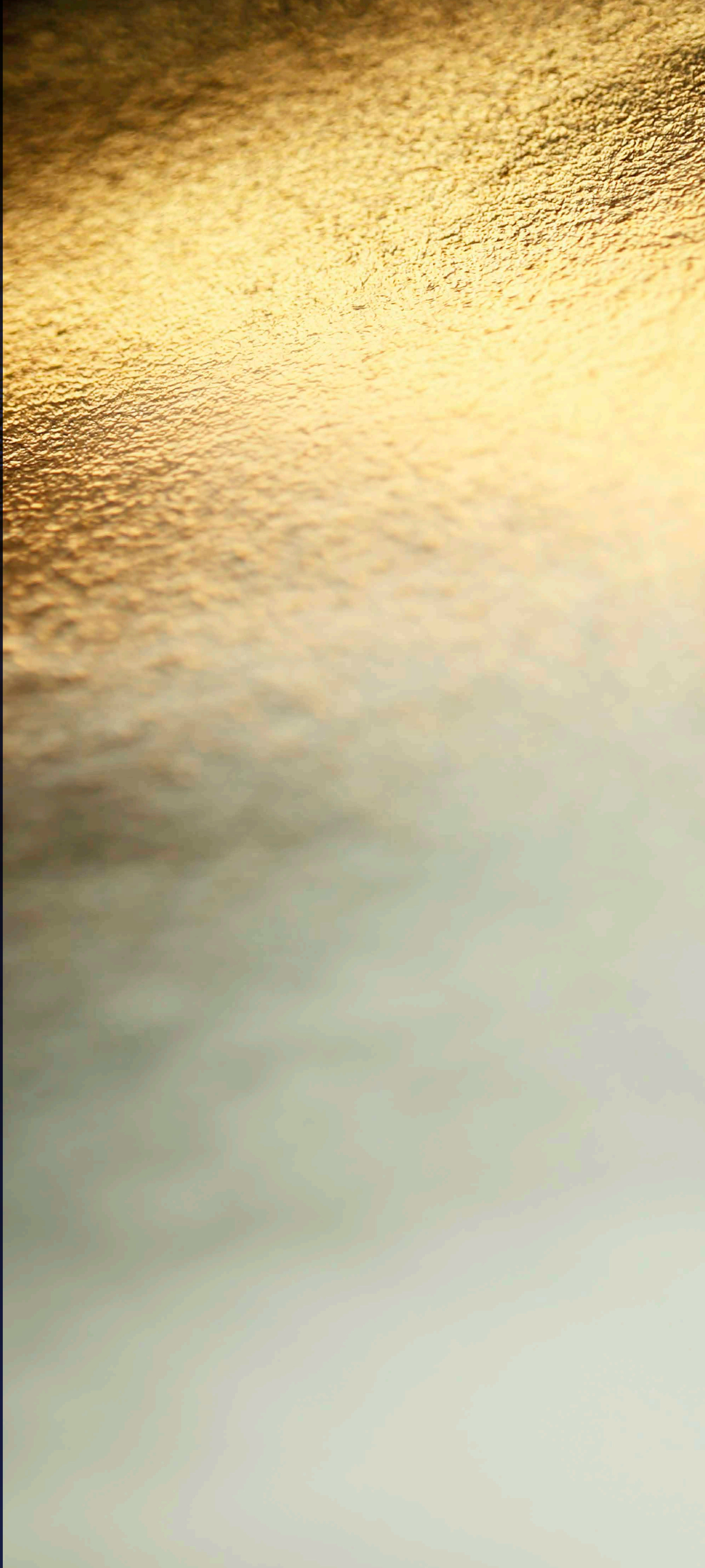
CONROY
GOLD AND NATURAL RESOURCES PLC

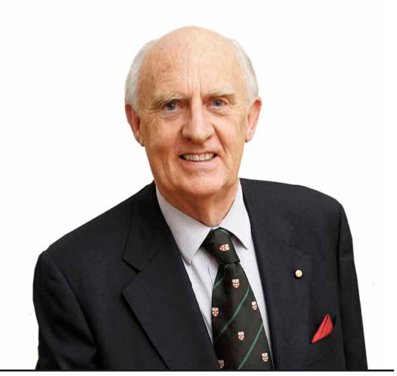
# Annual Report and Financial Statements 2012

# Contents





# Chairman's Statement



Professor Richard Conroy
*Chairman*

**I have pleasure in presenting your Company's Annual Report and Financial Statements for the 12 months ended 31 May 2012, a very successful year during which the positive results on both financial and technical grounds from the independent scoping study (the "Study") completed by Tetra Tech WEI Inc. ("Tetra Tech") to Joint Ore Reserves Committee ("JORC") standard indicated the viability of your Company's proposed gold mine in Clontibret, Co. Monaghan.**

Your Company now has under licence the entire 30 mile gold trend which it has discovered in the Longford-Down Massif in Ireland. A series of significant gold targets have been discovered by your Company along this 30 mile trend ranging from the Clay Lake Gold target in Co. Armagh in Northern Ireland to the Clontibret and Glenish targets in Co. Monaghan and Slieve Glah targets in Co. Cavan in the Republic of Ireland.

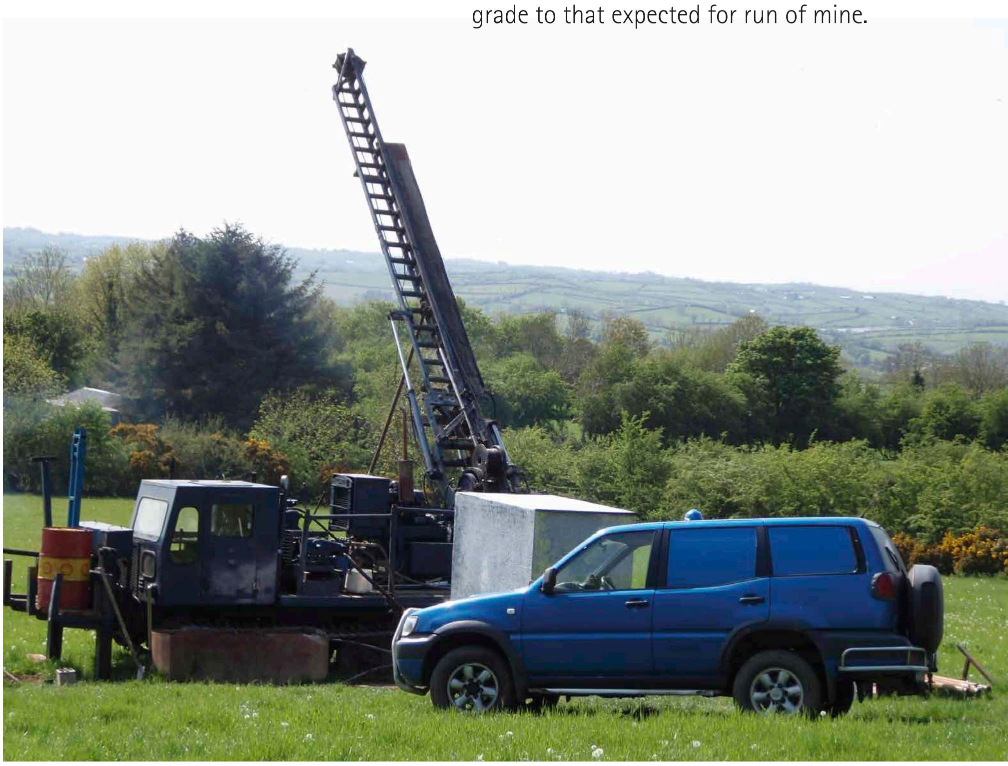
## Clontibret Gold Project

The updated resource evaluation (the "Evaluation") prepared by Tetra Tech on the 20 per cent portion of the Clontibret gold target was published in December 2011. The Evaluation was based on a long-term gold price of US$1,372 per oz gold, used a minimum mining width of 2 metres, a cut-off grade of 0.60g/t gold and concentrated on the high grade portions of the stockwork zones. This gave a tonnage of 11,709,700 tonnes and over 600,000 oz at 1.60 g/t gold (Indicated 259,956 oz gold, Inferred 341,148 oz gold). The mineral resource was evaluated for mining potential using Whittle pit optimisation software.

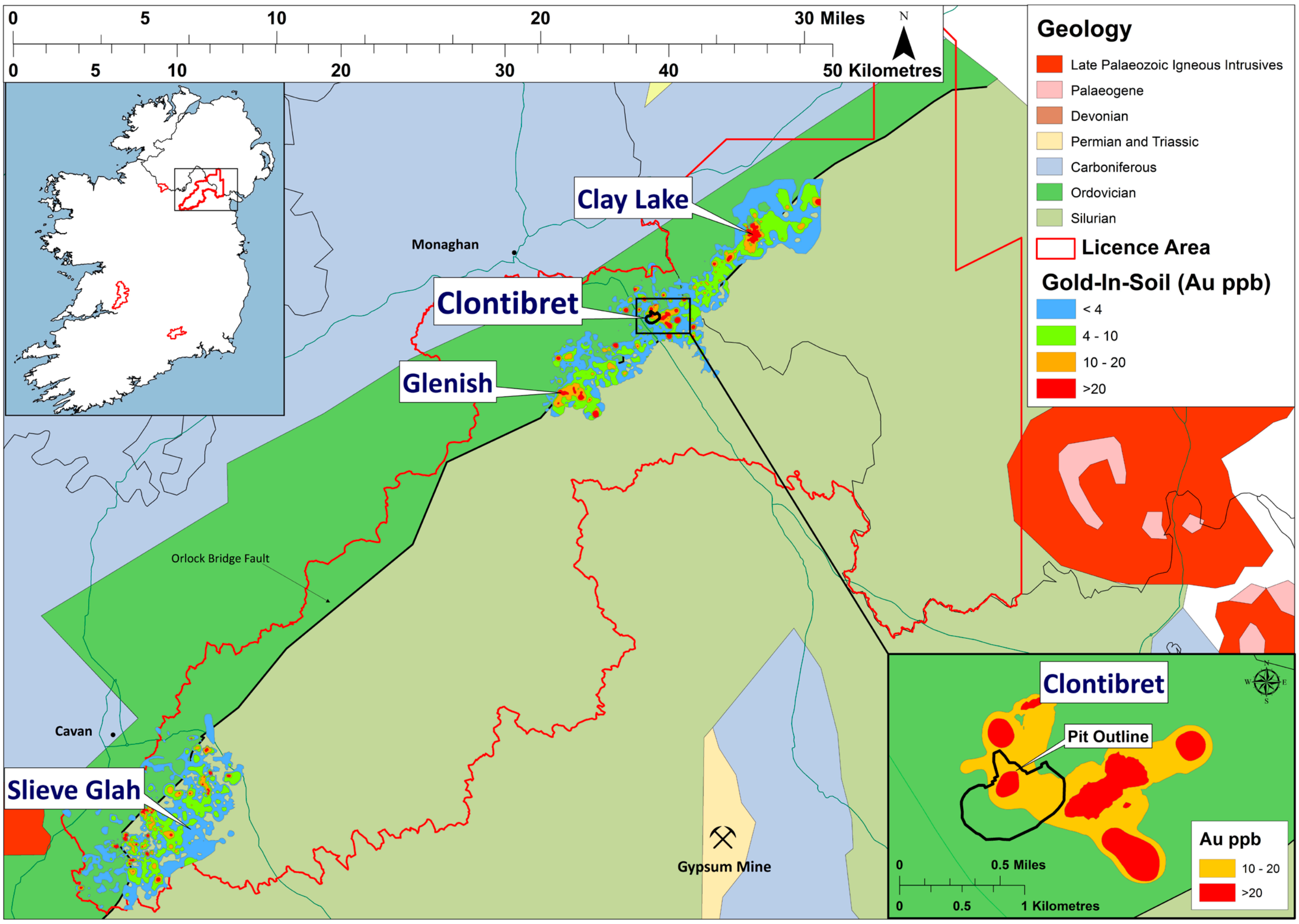
The Whittle evaluation showed within a conventional open pit configuration, a stripping ratio of 9.4, a production rate of 800,000 tonnes per annum, a gold head grade of 1.53g/t gold, an assumed overall recovery rate of approximately 85 per cent. using a bio-oxidation process; in-situ gold averaging over 50,000 oz per annum in the first five years of mine life and a mine life of 11.2 years with capital costs of US$77.8 million and a payback period of two years.

The economic evaluation was based on a pre-tax financial model, taking a base case commodity price for gold of US$1,372 per ounce, giving an IRR of 49.4 per cent. and a NPV, at an 8 per cent. discount rate, of US$72.3 million.

In March 2012, your Company announced further results from its infill drilling programme. This phase of the infill drilling programme concentrated on further defining the resource area within the pit area as proposed in the Study. The results confirmed good continuity with the known mineralisation in the area. These drill holes and the previous infill drill holes also provided geotechnical information for mine design purposes together with ore material for metallurgical testwork. Your Company announced subsequently that it had signed an agreement with Gold Fields Limited to undertake mineralogical characterisation and metallurgical test work on drill core samples provided from its Clontibret gold project. The samples total over 350kgs of drill core and have been dispatched to South Africa for testing. The samples are comprised of ore grade material with a 10 per cent. dilution factor and represent a similar grade to that expected for run of mine.



Drilling at Clontibret Gold Target




Geology and Licence areas

The prefeasibility metallurgical testwork will comprise Comminution, Flotation and BIOX® Testwork. The testwork will be managed and executed by SGS South Africa (Pty) Limited under the supervision and direction of Gold Fields Limited. BIOX® is a well established bacterial oxidation process and Gold Fields Limited is a world leader in this environmentally friendly, proven technology with a number of plants currently in operation worldwide, including South Africa, Ghana, Brazil, China and Australia. Tetra Tech who carried out the scoping studies at Clontibret has been appointed to review the metallurgical studies on behalf of your Company and compile the metallurgical report for the feasibility studies.

## Clay Lake Gold Target

The Clay Lake gold target is a very large gold target extending for 2 km by 1 km, (c.140 ha/350 acres) 4.5 miles to the North-East of the Clontibret gold target. The anomaly is named after the Clay Lake Nugget; a 30.05g nugget with a gold content of 28g found in the 1980's which is now in the Ulster Museum. Gold-in-soil values averaging over 50 ppb, with the highest gold-in-soil value seen to date in the Company's licence area of 1,531 ppb gold (1.53g/t gold) were recorded in the soil samples collected over the target area. The surface area of the discovery is greater than that of Clontibret (c.125 ha/310 acres) and the gold-in soil concentrations are double the average of those recorded at Clontibret.

Rock chip samples identified gold in bedrock which comes to the surface in the Northern part of the Clay Lake target in the form of a black carbonaceous stockwork. The rock chip samples in the exposed rock returned 18 metres at 0.47 g/t gold and included 3 metres at 1.30 g/t gold before the exposure ceased.

A drilling programme, in the North-Western corner of the Clay Lake target, returned positive results identifying a 450 metre open ended zone of black carbonaceous stockwork with the second drill hole intersecting 63 metres at 0.62 g/t gold including 9 metres at 1.48 g/t gold. Some other highlights from this drilling included 11 metres at 1.44g/t gold, 53 metres of stockwork at 0.60g/t gold including 10.25 metres at 1.37g/t gold and 8 metres at 0.93g/t gold including 3 metres at 2.13g/t gold.

# Chairman's Statement continued

Drill core – Black Carbonaceous shale showing folding, at Clay Lake Gold Target

A ground geophysical survey at Clay Lake has now been conducted by Golder Associates, totalling 960 line metres in four survey lines over the Northern area of the target. The survey was performed to determine the geophysical signature of the mineralisation and hosting lithologies, together with geological information on the subsurface features.

Strong features were seen in all four lines and interpretation of the results depicted an anticlinal folding sequence of the gold bearing black carbonaceous stockwork zone, which had been seen in the drill holes previously.

These geophysical results, combined with the drilling results, provide excellent information for future drilling in particular regarding the apexes of the anticlinal structures as mineralisation tends to accumulate in such structures and supports the view that the Clay Lake gold target could host a large gold deposit.

## Slieve Glah Gold Target

Slieve Glah is approximately 40km South-West of Clontibret. Following a detailed gold-in-soil survey this month, your Company announced the discovery of a series of further large gold-in-soil targets within its Slieve Glah licence areas in County Cavan. Two new targets (Targets 3 and 4) each over 3 km (1.9 miles) in length were discovered. In addition the assay results of the survey, which comprised over 900 soil samples, extended the surface area of the two known gold targets (Targets 1 and 2) at Slieve Glah by over 1 km (0.6 miles), both now also totalling over 3 km (1.9 miles) in length. Anomalous gold values returned from the assay analysis ranged from 4 ppb gold to over 300ppb gold. In Ireland, over 10ppb gold is considered highly anomalous in soil samples and during follow-up drilling and/or trenching over such anomalies typically proves positive for gold-in bedrock.

In one of the newly discovered targets at Slieve Glah (Target 4) a highly anomalous area has been identified which measures approximately 1,000 metres in length by 500 metres in width, trending Northwest to Southeast. The area has been defined by over a hundred soil samples collected on an approximately 100 metre grid. Assay analysis returned maximum gold values of up to 140ppb gold with over 30 per cent. of the soil samples returning elevated gold values of greater than 10ppb gold. Gold had previously been confirmed by your Company in bedrock in the Slieve Glah target area through trenching and drilling.

The gold in soil targets identified by the soil sampling survey appear to be structurally controlled and occur as a series of right angle zones adjacent to the Orlock Bridge Fault, a major sinistral fault believed to be an influencing factor on mineralisation in the region. In the Slieve Glah area the Orlock Bridge Fault undergoes a marked swing from its normal Northeast - Southwest strike, producing a dilatational zone allowing greater permeation and circulation of mineralising fluids, which also may assist in concentration of mineralisation and thus can be associated with substantial accumulations of minerals.

## Total Gold Potential

The in-house studies by your Company, though conceptual in nature, suggest that the total gold potential of the Company's exploration licences in the Longford-Down Massif could lie in the 15 million – 20 million ounce range. This projection is based on the 1 million ounce JORC-compliant resource outlined in only 20 per cent of the Clontibret project, the potential of the remaining 80 per cent of that target, the discovery at Clay Lake and other large gold-in-soil anomalies that have been outlined elsewhere on its licences. Whilst there has been insufficient exploration to date to define such a mineral resource, and there is no certainty that further exploration will result in a resource of this magnitude being realised, your directors believe that the potential of the area is clear and the possibilities exciting.

Senior Management at Company core facility: Maureen Jones (Managing Director) Kevin McNulty (Senior Geologist) Richard Conroy (Chairman)

Black Carbonaceous shale outcrop at Clay Lake Gold Target

## Mining in Ireland

Ireland is currently a major base metal producer. There is a long established mining tradition, a favourable business climate and excellent infrastructure. The Conroy executive team who were involved in the discovery and development of the Galmoy zinc ore bodies which led to the revival of the Irish base metal industry now look forward to the development of a gold mine at Clontibret and of a possible multi deposit gold strategy in the Longford-Down Massif.

## Share Price

Your Board believes that your Company's value, as measured by the share price, is yet to reflect the increasing value of its underlying assets as it moves towards development and production.

## Finance

The loss after taxation for the year ended 31 May 2012 was €533,262 (2011: €427,970) and the net assets as at 31 May 2012 were €12,678,448 (2011: €11,647,817).

During the year £1,230,417 (prior to expenses) was raised by the issue of 39,944,055 shares for cash and I personally subscribed for 13,896,552 of those. Details of the share issues are in Note 13 to the accounts.

As in previous years, I have supported the working capital requirements of the Company. The balance of the loans due to me at the period end was €665,318. The loans have been made on normal commercial terms. The other directors consider, having consulted with the Company's Nominated Adviser and the Company's ESM Adviser, that the terms of the loans are fair and reasonable in so far as the Company's shareholders are concerned.

## Auditors

I would like to take this opportunity to thank the partners and staff of Deloitte & Touche for their services to your Company during the course of the year.

## Directors

I would also like to express my deep appreciation of the support and dedication of the directors, consultants and staff, which has made possible the continued progress and success, which your Company has achieved.

## Future Outlook

Your Company has made further excellent progress in the financial year to the 31 May 2012. I look forward to the future with confidence as we move from the exploration phase into the development phase.

Richard Conroy

**Professor Richard Conroy**
*Chairman*

30 November 2012

# Company Information

## Directors

**Professor Richard Conroy**
*Chairman**

**Maureen T.A. Jones**
*Managing Director**

**James P. Jones FCA**
*Finance Director**

**Dr Sorċa Conroy**
*Non-Executive Director*

**Seamus P. FitzPatrick**
*Non-Executive Director+§*

**Louis J. Maguire**
*Non-Executive Director*+§*

**Michael E. Power**
*Non-Executive Director*§*

**C. David Wathen**
*Non-Executive Director+*

**Henry H. Rennison**
*Non-Executive Director**

* Member of the Executive Committee
+ Member of the Remuneration Committee
§ Member of the Audit Committee

## Company Secretary and Registered Office

**James P. Jones FCA**
10 Upper Pembroke Street
Dublin 2
Ireland

## Nominated Adviser

**Merchant Securities Limited**
51-55 Gresham Street
London EC2V 7HQ
UK

## Joint Brokers

**Hybridan LLP**
29 Throgmorton Street
London EC2N 2AT
United Kingdom

**Shore Capital Stockbrokers Limited**
Bond Street House
14 Clifford Street
London W1S 4JU
United Kingdom

## ESM Adviser

**IBI Corporate Finance**
40 Mespil Road
Dublin 4

## Statutory Audit Firm

**Deloitte & Touche**
**Chartered Accountants**
Deloitte & Touche House
Charlotte Quay
Limerick

## Principal Banker

**Danske Bank**
Airton Close
Tallaght
Dublin 24

## Registrars

**Capita Registrars (Ireland) Limited**
Unit 5
Manor Street Business Park
Manor Street
Dublin 7

*www.capitaregistrars.ie*

## Legal Advisers

**William Fry Solicitors**
Fitzwilton House
Wilton Place
Dublin 2

## Head Office

**Conroy Gold and Natural Resources plc**
10 Upper Pembroke Street
Dublin 2

Tel: +353-1-661 8958
Fax: +353-1-662 1213

For further information visit the Company's website at:

*www.conroygoldandnaturalresources.com*

or contact:

**Lothbury Financial**
36 Old Jewry
London EC2R 8DD
U.K.

Tel: +44 20 3440 7620

Standing, left-right: Louis J. Maguire, Non-Executive Director; C. David Wathen, Non-Executive Director; Seamus P. FitzPatrick, Non-Executive Director; Dr Sorċa Conroy, Non-Executive Director; and Michael E. Power, Non-Executive Director.

Seated, left-right: Maureen T.A. Jones, Managing Director; Professor Richard Conroy, Chairman; James P. Jones, Finance Director; and Henry H. Rennison, Non-Executive Director.

# Report of the Directors

The Directors present their annual report, together with the audited financial statements of Conroy Gold and Natural Resources plc for the year ended 31 May 2012.

## Principal Activities and Business Review

The Company's exploration programme in Ireland is focused on the Longford-Down Massif. It is engaged in active exploration there, which has already led to the discovery of a series of gold targets along a 30 mile (50 km) area stretching from County Armagh across Counties Monaghan and Cavan.

At the most advanced of these targets, Clontibret in County Monaghan, a Scoping Study prepared by independent consultants Tetra Tech Wardrop demonstrated that the project was technically and financially viable with a mine life of 11.2 years, a payback of 2 years, an net present value of US$72.3m using a discount rate of 8%, and an internal rate of return of 49.4% at a gold price of US$1,372. The study was done on an area representing less than 20% of the target. Drilling on the remaining 80% of the Clontibret anomaly is expected to further increase this resource.

The Company has also acquired licences in Finland's Central Lapland Greenstone Belt, which it believes to be highly prospective for gold and has an ongoing exploration programme there.

Further information concerning the activities of the Company and its future prospects is contained in the Chairman's Statement.

## Future Development of the Business

It is the intention of the Directors to continue to develop the activities of the Company. Further strategic opportunities in mineral resources, both in Ireland and abroad, will be sought by the Company.

## Risks and Uncertainties

The Company's activities are directed towards the discovery, evaluation and development of mineral deposits. Exploration for and development of mineral deposits is speculative. Whilst the rewards can be substantial, there is no guarantee that exploration on the Company's properties will lead to the discovery of commercially extractable mineral deposits. The directors recognise that the future realisation of exploration and evaluation assets is dependent on the successful further development and ultimate production of the mineral reserves and the availability of sufficient finance to bring the reserves to economic maturity and profitability.

## Going Concern

The company made a loss of €533,262 (2011: €427,970) for the year ended 31 May 2012 and had net current liabilities of €270,110 (2011: net current asset of €511,611) at that date. The directors have confirmed that they will not seek repayment of amounts owed to them by the company of €269,431 within 12 months of the date of approval of the financial statements, unless the company has sufficient funds to repay such amounts.

The directors have considered the proposed work programme for exploration and evaluation assets and on the basis of the cash balances on hand, the very encouraging results from the exploration programme and the prospects for raising additional funds as required, consider it appropriate to prepare the financial statements on the going concern basis.

## Key Performance Indicator

Currently the Company's main key performance indicator is in relation to the estimated resource potential on the discovery and development of economic deposits of gold in Ireland and Finland. In addition, the Company reviews expenditure incurred on exploration projects together with maintaining review of ongoing operating costs.

## Results for the Year and State of Affairs at 31 May 2012

The statement of financial position as at 31 May 2012 and the income statement for the year are set out on pages 15 and 16. The Company recorded a loss for the financial year of €533,262 (2011: €427,970). Taking account of the current year loss and the share capital issued during the year, equity increased to €12,678,448 at 31 May 2012 from €11,647,817 at 31 May 2011.

## Important Events Since the Year End

For important events which have occurred since year end, refer to Note 19 which accompanies these financial statements.

## Directors

The Directors who served during the year are as follows:

| | |
|---|---|
| R.T.W.L. Conroy | S. P. FitzPatrick |
| J.P. Jones | L.J. Maguire |
| M.T.A. Jones | M. E. Power |
| H.H. Rennison | C. D. Wathen |
| S. C. Conroy | |

In accordance with the Company's Articles of Association, Mr. C. David Wathen, Mr James Jones and Mr. Henry Rennison will retire by rotation and, being eligible, will offer themselves for re-election at the Annual General Meeting.

## Details of Directors

**Professor Richard Conroy**, Chairman of the Board, has been involved in natural resources for many years. He established Trans-International Oil in 1974, which was primarily involved in Irish offshore oil exploration, and initiated the Deminex Consortium which included Deminex, Mobil, Amoco & DSM. Trans-International Oil was merged with Aran Energy Plc in 1979.

# Report of the Directors continued

Professor Conroy founded Conroy Petroleum and Natural Resources Plc which in 1986 made the very significant discovery of the Galmoy zinc deposit in Co. Kilkenny. Conroy Petroleum was also a founding member of the Stoneboy consortium, an exploration group which discovered the POGO gold field in Alaska, now in production as a major gold mine. Conroy Petroleum acquired Atlantic Resources plc in 1992 and was renamed ARCON International Resources Plc (ARCON). Professor Conroy was Chairman and Chief Executive of ARCON from 1980 to 1994.

Professor Richard Conroy is an Emeritus Professor of Physiology in the Royal College of Surgeons in Ireland. His research has included pioneering work on the effects of Circadian Rhythms including Jet Lag, Shift Working and Decision Taking in Business after Intercontinental Flights.

Professor Conroy served for two terms in the Irish Parliament as a member of the Senate. As a Senator he was at various times front bench spokesman for the Government party in the Upper House on Energy, Industry and Commerce, Foreign Affairs and Northern Ireland.

**Miss Maureen Jones**, Managing Director, has many years experience in natural resources. She also has a medical background, as a radiographer specialising in Nuclear Medicine. She became a manager with International Medical Corporation in 1977 and joined Professor Conroy at Conroy Petroleum and Natural Resources Plc in 1980. She served as a director of that company from 1986 to 1994, when she joined Professor Conroy in the formation of Conroy Gold and Natural Resources plc. She has been managing director since 1998.

**Mr. James Jones**, Finance Director, has been associated with the natural resources industry for over 20 years. He is a chartered accountant. He served as finance director of Conroy Petroleum and Natural Resources Plc from its formation until 1994, when he joined with Professor Conroy to create Conroy Gold and Natural Resources plc. He has served as finance director and secretary of the Company since its inception in 1995. He is also a director of Karelian Diamond Resources Plc.

**Mr. Séamus FitzPatrick**, Non-executive Director, has worked in both corporate finance and private equity in London and New York with Morgan Stanley, J.P. Morgan and Bankers' Trust. In 1999 he co-founded CapVest, which has raised funds in excess of £2.0 billion. He is chairman of the Mater Private Hospital and Valeo Foods, and is a board member of Reno Norden He is also a member of the board of Karelian Diamond Resources Plc.

**Mr. Louis Maguire**, Non-executive Director, is an Auctioneer by profession and land valuation expert with particular expertise in the purchase of mineral rights and in land acquisition for mining. He is a founding director of the Company.

**Mr. Michael Power**, Non-executive Director, has over forty years experience in the mining industry in Canada and internationally. A chartered financial analyst, and a professional engineer he was formerly vice-president of Corporate Development at Hemlo Gold Mines Inc. (now Newmont Gold Corporation).

**Mr. Henry Rennison**, Non-executive Director, is a geologist. He worked with Burmah Oil for thirty years and later as a consultant with the international petroleum consultancy firm – DeGolyer and McNaughton. He was also a director of Conroy Petroleum and Natural Resources Plc. and its subsidiaries including ARCON Mines Limited for number of years. He is a founding director of the Company.

**Mr. David Wathen**, Non-executive Director, has been involved in business and finance throughout his career, most recently as a stockbroker managing private client portfolios for Redmayne-Bentley Stockbrokers. He has previously served as a director of several quoted and private companies in the UK, the Republic of Ireland and the USA, including a number of natural resource companies.

**Dr Sorča Conroy**, Non-executive Director, graduated in medicine from The Royal College of Surgeons in Ireland in 1995 and held a number of clinical appointments in medicine before entering the business world. She joined the institutional sales group of stockbrokers, Hoodless Brennan, in 2004. She moved to Canaccord Adams in 2005 as a specialist salesperson for life sciences and biotechnology institutional equities. While at Canaccord Adams she achieved a ranking of 4th place in the 2006 Extel Survey for Biotechnology Specialist Sales. Dr. Conroy was recruited to ING Bank in 2006 as Vice President, Biotech and Pharmaceutical Specialist Sales and whilst there was ranked 2nd in the Extel Survey for Biotechnology Specialist Sales.

## Directors' and Secretary's Shareholdings and Other Interests

The interests of the Directors and Secretary, all of which were beneficially held, in the ordinary share capital of the Company at 31 May 2012 and 1 June 2011 were as follows:

| | At 31 May 2012 | | | At 1 June 2011 | | |
|---|---|---|---|---|---|---|
| | Ordinary shares of €0.03 each | Options | Warrants | Ordinary shares of €0.03 each | Options | Warrants |
| R.T.W.L. Conroy | **65,249,191*** | **1,100,000** | **34,934,765** | 50,377,639* | 1,100,000 | 34,934,765 |
| M.T.A. Jones | **1,180,010** | **825,000** | **22,507,028** | 880,010 | 825,000 | 22,507,028 |
| J.P. Jones | **1,075,010** | **550,000** | **13,188,420** | 475,010 | 550,000 | 13,188,420 |
| H.H. Rennison | **1,330,010** | **–** | **2,457,288** | 330,010 | – | 2,457,288 |
| S.P. FitzPatrick | **2,951,000** | **–** | **359,593** | 179,000 | – | 359,593 |
| L.J. Maguire | **310,010** | **–** | **2,457,288** | 310,010 | – | 2,457,288 |
| M.E. Power | **175,000** | **–** | **1,307,893** | 175,000 | – | 1,307,893 |
| C.D. Wathen | **223,500** | **–** | **507,641** | 223,500 | – | 507,641 |
| S. Conroy | **488,177** | **–** | **–** | 488,177 | – | – |

* Of the 65,249,191 (2011: 50,377,639) Ordinary Shares beneficially held by Professor Richard Conroy, 19,294,286 (2011: 19,294,286) are held by Conroy Plc, a company in which Professor Conroy has a controlling interest.

Details of warrants, all of which are exercisable currently, are as follows:

| Directors | At 31 May 2012 | Granted During Year | At 1 June 2011 | Price € | Expiry Date |
|---|---|---|---|---|---|
| R.T.W.L. Conroy | 22,814,920 | – | 22,814,920 | 0.037 | 15 November 2015 |
| R.T.W.L. Conroy | 12,119,845 | – | 12,119,845 | 0.0433 | 16 November 2017 |
| M.T.A. Jones | 13,839,858 | – | 13,839,858 | 0.037 | 15 November 2015 |
| M.T.A. Jones | 8,667,170 | – | 8,667,170 | 0.0433 | 16 November 2017 |
| J.P. Jones | 8,058,129 | – | 8,058,129 | 0.037 | 15 November 2015 |
| J.P. Jones | 5,130,291 | – | 5,130,291 | 0.0433 | 16 November 2017 |
| H.H. Rennison | 1,450,427 | – | 1,450,427 | 0.037 | 15 November 2015 |
| H.H. Rennison | 1,006,861 | – | 1,006,861 | 0.0433 | 16 November 2017 |
| S.P. FitzPatrick | 359,593 | – | 359,593 | 0.0433 | 16 November 2017 |
| L.J. Maguire | 1,450,427 | – | 1,450,427 | 0.037 | 15 November 2015 |
| L.J. Maguire | 1,006,861 | – | 1,006,861 | 0.0433 | 16 November 2017 |
| M.E. Power | 301,032 | – | 301,032 | 0.037 | 15 November 2015 |
| M.E. Power | 1,006,861 | – | 1,006,861 | 0.0433 | 16 November 2017 |
| C.D. Wathen | 507,641 | – | 507,641 | 0.0433 | 16 November 2017 |

# Report of the Directors continued

Details of options, all of which are exercisable currently, are as follows:

| Directors | At 31 May 2012 | Granted During Year | At 1 June 2011 | Price € | Expiry Date |
|---|---|---|---|---|---|
| R.T.W.L. Conroy | 500,000 | – | 500,000 | 0.08 | 14 March 2013 |
| R.T.W.L. Conroy | 600,000 | – | 600,000 | 0.10 | 26 November 2013 |
| M.T.A. Jones | 375,000 | – | 375,000 | 0.08 | 14 March 2013 |
| M.T.A. Jones | 450,000 | – | 450,000 | 0.10 | 26 November 2013 |
| J.P. Jones | 275,000 | – | 275,000 | 0.08 | 14 March 2013 |
| J.P. Jones | 275,000 | – | 275,000 | 0.10 | 26 November 2013 |

Except as disclosed above, neither the Directors nor their families had any beneficial interest in the share capital of the Company. Apart from loans from a shareholder, who is also a director (Note 12) there have been no contracts or arrangements entered into during the financial year in which a Director of the Company had a material interest and which were significant in relation to the Company's business.

## Substantial Shareholdings

So far as the Board is aware, no person or company, other than the Directors' interests disclosed above and the shareholders listed below, held 3% or more of the issued ordinary share capital of the Company at 31 May 2012.

| Name | Number of Ordinary Shares | % |
|---|---|---|
| Professor Conroy | 65,249,191* | 24.13 |
| SF Webb Capital Smaller Companies Gold Fund | 21,328,029 | 7.89 |
| Mr. Patrick O'Sullivan | 16,637,931 | 6.15 |
| Mr. Bruce Rowan | 10,450,000 | 3.86 |

* Of the 65,249,191 Ordinary Shares beneficially held by Professor Conroy, 19,294,286 are held by Conroy Plc, a company in which Professor Conroy has a controlling interest.

## Political Donations

No political donations were made during the year.

## Books of Account

The measures which the Directors have taken to ensure that proper books of account are kept are the adoption of suitable policies for recording transactions, assets and liabilities, the employment of appropriately qualified staff and the use of computer and documentary systems. The Company's books of account are kept at 10 Upper Pembroke Street, Dublin 2.

## Auditor

The auditor, Deloitte & Touche, Chartered Accountants, continue in office in accordance with Section 160 (2) of the Companies Act, 1963.

**Signed on behalf of the Board**

**R.T.W.L. Conroy**
*Director*

**J.P. Jones**
*Director*

30 November 2012

# Statement of Directors' Responsibilities

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies for the financial statements and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and comply with Irish statute comprising the Companies Acts, 1963 to 2012. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Corporate Governance Statement

## Introduction

The Board of Directors is accountable to the Company's shareholders for good corporate governance.

## Board of Directors

The board supports standards in corporate governance and endeavours to implement such standards constructively and in a sensible and pragmatic fashion with the objective of enhancing and protecting shareholder value.

Regular board meetings are scheduled to take place throughout the year. During the year five meetings were held. All major policies are approved by the board. All directors are subject to re-election. A Statement of Directors' Responsibilities in relation to the annual financial statements is set out at page 11.

## Remuneration Committee

The remuneration committee comprises Mr. Louis Maguire, Mr. Séamus FitzPatrick and Mr. David Wathen. It is responsible for making recommendations to the board on the company's executive remuneration. The committee determines any contract terms, remuneration and other benefits, including share options, for each of the executive directors. The board itself determines the remuneration of the non-executive directors.

## Audit Committee

The committee's terms of reference have been approved by the board. The audit committee comprises Mr. Louis Maguire, Mr. Michael Power and Mr. Séamus FitzPatrick. The audit committee reviews the interim and annual financial statements before they are presented to the board, focusing in particular on accounting policies and areas of management judgement and estimation. The committee is responsible for monitoring the controls which are in force to ensure the information reported to the shareholders is accurate and complete. The committee considers internal control issues and contributes to the board's review of the effectiveness of the Company's internal control and risk management systems. It also considers the need for an internal audit function, which it believes is not required at present because of the company's limited operations. The members of the committee have agreed to make themselves available should any member of staff wish to make representations to them about the conduct of the affairs of the company.

The committee advises the board on the appointment of external auditors and on their remuneration and discusses the nature and scope of the audit with the external auditors. It meets formally at least once a year with the Company's external auditors. An analysis of the fees payable to the external audit firm in respect of audit services during the year is set out in Note 4 to the financial statements.

The audit committee also undertakes a formal assessment of the auditors' independence each year which includes: a review of any non-audit services provided to the Company; discussion with the auditors of all relationships with the Company and any other parties that could affect independence or the perception of independence; and a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit.

## Executive Committee

The Executive Committee comprises of Professor Richard Conroy, Miss Maureen Jones, Mr. James P. Jones, Mr. H. H. Rennison, Mr. Louis Maguire and Mr. Michael Power. Its purpose is to support the Managing Director in carrying out the duties delegated to him by the board. It also ensures that regular financial reports are presented to the board, that effective internal controls are in place and functioning, and that there is an effective risk management process in operation throughout the company.

## Internal Control

The board of directors is responsible for, and annually reviews, the company's systems of internal control, financial and otherwise. Such systems provide reasonable but not absolute assurance of the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information.

There are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable and not absolute assurance with respect to the preparation of financial information and the safeguarding of assets.

## Communication with Shareholders

Extensive information about the company and its activities is given in the annual report and financial statements. Further information is available on the company's website, www.conroydiamondsandgold.com, which is promptly updated whenever announcements or press releases are made.

The company encourages communication with private shareholders throughout the year and welcomes their participation at general meetings. All Board members attend the Annual General Meeting and are available to answer questions. Separate resolutions are proposed on substantially different issues and the agenda of business to be conducted at the Annual General Meeting includes a resolution to receive and consider the Annual Report and financial statements. The chairmen of the Board's committees will also be available at the Annual General Meeting. The Board regards the Annual General Meeting as a particularly important opportunity for shareholders, directors and management to meet and exchange views.

# Independent Auditor's Report

*To the Members of Conroy Gold and Natural Resources plc*

We have audited the financial statements of Conroy Gold and Natural Resources plc for the year ended 31 May 2012 which comprise the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including as set out in the Statement of Directors Responsibilities, the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our responsibility, as independent auditor, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2012. We also report to you whether in our opinion: proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit and whether the company's balance sheet and its income statement are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Report of the Directors and the Corporate Governance Statement. Our responsibilities do not extend to other further information.

## Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union of the state of the affairs of the company as at 31 May 2012 and of the loss for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2012.

### Emphasis of Matter – Realisation of Intangible Assets and Going Concern

Without qualifying our opinion, we draw your attention to:

- the disclosures made in Notes 2 and 7 to the financial statements concerning the realisation of exploration and evaluation assets included as intangible assets in the statement of financial position of €13,603,186. The realisation of these assets is dependent on the successful further development and ultimate production of the mineral reserves and the availability of sufficient finance to bring the reserves to economic maturity and profitability. The financial statements do not include any adjustments in relation to these uncertainties and the ultimate outcome cannot at present be determined.

# Independent Auditor's Report continued

- the disclosures in Notes 2 and 11 to the financial statements which indicate that the company incurred a loss of €533,262 during the year ended 31 May 2012 and had net current liabilities of €270,110 at that date. The directors have confirmed that they will not seek repayment of amounts owed to them by the company of €269,431 within 12 months of the date of approval of the financial statements unless the company has sufficient funds to repay such amounts. The directors have reviewed the proposed work programme for exploration and evaluation assets and on the basis of the cash balances on hand, the very encouraging results from the exploration programme and the prospects for raising additional funds as required they consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments to the carrying amount, or classification of assets and liabilities, if the company was unable to continue as a going concern in the future.

We have obtained all the information and explanations we consider necessary for the purpose of our audit. In our opinion proper books of account have been kept by the company. The company's statement of financial position and income statement are in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the company, as stated in the statement of financial position are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 May 2012 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

**Cathal Treacy**

For and on behalf of
Deloitte & Touche

*Chartered Accountants*
*and Registered Auditors*

Limerick

30 November 2012

# Statement of Financial Position

*As at 31 May 2012*

| | Note | 2012 € | 2011 € |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current Assets** | | | |
| Intangible assets | 7 | 13,603,186 | 11,759,028 |
| Investment in subsidiary | 8 | 2 | 2 |
| Property, plant and equipment | 9 | 10,688 | 23,849 |
| | | 13,613,876 | 11,782,879 |
| **Current Assets** | | | |
| Trade and other receivables | 10 | 73,940 | 81,323 |
| Cash and cash equivalents | | 238,647 | 749,459 |
| | | 312,587 | 830,782 |
| **Total Assets** | | 13,926,463 | 12,613,661 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and Reserves** | | | |
| Called up share capital | 13 | 8,112,257 | 6,913,935 |
| Share premium | 13 | 7,872,573 | 7,656,028 |
| Capital conversion reserve fund | 13 | 30,617 | 30,617 |
| Share based payments reserve | | 880,709 | 731,682 |
| Retained losses | | (4,217,708) | (3,684,445) |
| **Total Equity** | | 12,678,448 | 11,647,817 |
| **Non-current Liabilities** | | | |
| Financial Liabilities | 12 | 665,318 | 646,673 |
| **Total non-current liabilities** | | 665,318 | 646,673 |
| **Current Liabilities** | | | |
| Trade and other payables | 11 | 582,697 | 319,171 |
| **Total Current Liabilities** | | 582,697 | 319,171 |
| **Total Liabilities** | | 1,248,015 | 965,844 |
| **Total Equity and Liabilities** | | 13,926,463 | 12,613,661 |

The financial statements were approved by the Board of Directors on 30 November 2012 and signed on its behalf:

**R.T.W.L. Conroy**
*Director*

**J.P. Jones**
*Director*

# Income Statement

*For the year ended 31 May 2012*

| | Note | 2012 € | 2011 € |
|---|---|---|---|
| OPERATING EXPENSES | 3 | (524,888) | (419,858) |
| Finance income – bank interest receivable | | 779 | 5,764 |
| Finance costs – interest on shareholder loan | 12 | (9,153) | (13,876) |
| LOSS BEFORE TAXATION | 4 | (533,262) | (427,970) |
| Taxation | 5 | – | – |
| LOSS FOR THE YEAR | | (533,262) | (427,970) |
| Basic and diluted loss per share | 6 | (€0.0022) | (€0.0020) |

# Statement of Comprehensive Income

*For the year ended 31 May 2012*

| | 2012 € | 2011 € |
|---|---|---|
| LOSS FOR THE YEAR | (533,262) | (427,970) |
| Total income and expense recognised in other comprehensive income | – | – |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | (533,262) | (427,970) |

The financial statements were approved by the Board of Directors on 30 November 2012 and signed on its behalf:

**R.T.W.L. Conroy**
*Director*

**J.P. Jones**
*Director*

# Statement of Changes in Equity

*For the year ended 31 May 2012*

| | Share Capital € | Share Premium € | Capital Conversion Reserve Fund € | Share-based Payment Reserve € | Retained Earnings (Deficit) € | Total Equity € |
|---|---|---|---|---|---|---|
| At 1 June 2010 | 5,713,935 | 6,273,383 | 30,617 | 582,656 | (3,256,475) | 9,344,116 |
| Share issue | 1,200,000 | – | – | – | – | 1,200,000 |
| Share premium | – | 1,550,160 | – | – | – | 1,550,160 |
| Share issue expenses | – | (167,515) | – | – | – | (167,515) |
| Share-based payments | – | – | – | 149,026 | – | 149,026 |
| Loss for the year | – | – | – | – | (427,970) | (427,970) |
| **At 31 May 2011** | **6,913,935** | **7,656,028** | **30,617** | **731,682** | **(3,684,445)** | **11,647,817** |
| At 1 June 2011 | 6,913,935 | 7,656,028 | 30,617 | 731,682 | (3,684,445) | 11,647,817 |
| Share issue | 1,198,322 | – | – | – | – | 1,198,322 |
| Share premium | – | 265,077 | – | – | – | 265,077 |
| Share issue expenses | – | (48,532) | – | – | – | (48,532) |
| Share-based payments | – | – | – | 149,026 | – | 149,026 |
| Loss for the year | – | – | – | – | (533,262) | (533,262) |
| **At 31 May 2012** | **8,112,257** | **7,872,573** | **30,617** | **880,708** | **(4,217,707)** | **12,678,448** |

## Share Capital

The share capital comprises of share capital issued for cash and non-cash consideration.

## Share Premium

The share premium reserve comprises of the excess consideration received in respect of share capital over the nominal value of share issued.

## Capital Conversion Reserve Fund

The ordinary shares of the company were renominalised from €0.03174435 each to €0.03 each in 2001 and the amount by which the issued share capital of the company was reduced was transferred to capital conversion reserve fund.

## Share Based Payment Reserve

The share based payment reserve represents the amount expensed to the income statement and the amount capitalised as part of intangible assets of share-based payments granted which are not yet exercised and issued as shares.

## Retained Earnings (Deficit)

This reserve represents the accumulated losses absorbed by the company to the Statement of Financial Position date.

# Cash Flow Statement

*For the year ended 31 May 2012*

| | Notes | 2012 € | 2011 € |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | 14 | **(211,386)** | (623,060) |
| Tax paid | | **–** | – |
| **Net cash used in operating activities** | | **(211,386)** | (623,060) |
| **Cash flows from investing activities** | | | |
| Investment in exploration and evaluation | | **(1,687,013)** | (1,780,526) |
| Payments to acquire property, plant and equipment | | **(938)** | (24,158) |
| **Net cash used in investing activities** | | **(1,687,951)** | (1,804,684) |
| **Cash flows from financing activities** | | | |
| Issue of share capital | | **1,414,867** | 1,895,105 |
| Repayment of shareholder loan | | **–** | (42,424) |
| Bank interest received | | **779** | 5,764 |
| Interest paid on shareholder loan | | **(27,121)** | (329,402) |
| **Net cash generated from financing activities** | | **1,388,525** | 1,529,043 |
| **Decrease in cash and cash equivalents** | | **(510,812)** | (898,701) |
| **Cash and cash equivalents at beginning of year** | | **749,459** | 1,648,160 |
| **Cash and cash equivalents at end of year** | | **238,647** | 749,459 |

# Notes to the Financial Statements

*For the year ended 31 May 2012*

## 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpretations adopted by the International Accounting Standards Board.

These financial statements have also been prepared in accordance with the Companies Acts, 1963 to 2012. The financial statements are prepared under the historical cost convention.

### Adoption of New and Revised Standards

The following standards and interpretations are effective for the current period. These are:

| | |
|---|---|
| *IAS 24 (revised November 2009)* | Related Party Disclosures |

### Standards and Interpretations in Issue Not Yet Adopted

The following standards and interpretations are in issue but not yet effective for the current period. These are:

| | |
|---|---|
| *Amendments to IFRS 10, IFRS 12 and IAS 27 (October 2012)* | Investment Entities |
| *Annual Improvements to IFRSs: 2009-2011 Cycle (May 2012)* | Annual Improvements to IFRSs: 2009-2011 Cycle |
| *Amendments to IFRS 1 (March 2012)* | Government Loans |
| *Amendments to IAS 32 (December 2011)* | Offsetting Financial Assets and Financial Liabilities |
| *Amendments to IFRS 7 (December 2011)* | Disclosures – Offsetting Financial Assets and Financial Liabilities |
| *IFRS 9* | Financial Instruments |
| *Amendments to IAS 1 (June 2011)* | Presentation of Items of Other Comprehensive Income |
| *IAS 19 (revised June 2011)* | Employee Benefits |
| *IFRS 13* | Fair Value Measurement |
| *IFRS 12* | Disclosure of Interests in Other Entities |
| *IFRS 11* | Joint Arrangements |
| *IFRS 10* | Consolidated Financial Statements |
| *IAS 28 (revised May 2011)* | Investments in Associates and Joint Ventures |
| *IAS 27 (revised May 2011)* | Separate Financial Statements |
| *Amendments to IAS 12 (December 2010)* | Deferred Tax: Recovery of Underlying Assets |
| *Amendments to IFRS 1 (December 2010)* | Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters |
| *Amendments to IFRS 7 (December 2010)* | Disclosures – Transfers of Financial Assets |

# Notes to the Financial Statements continued

## 1. ACCOUNTING POLICIES *continued*

### A. Intangible Assets

The Company accounts for mineral expenditure in accordance with International Financial Reporting Standard 6 – Exploration For and Evaluation of Mineral Resources.

#### (i) Capitalisation

Certain costs (other than payments to acquire the legal rights to explore) incurred prior to acquiring the rights to explore are charged directly to the income statement. Exploration, appraisal and development expenditure incurred on exploring, and testing exploration prospects are accumulated and capitalised as intangible exploration and evaluation (E&E) assets. Capitalised costs include geological and geophysical costs, and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities). In addition, capitalised costs includes an allocation from operating expenses, including share based payments, all such costs are directly related to exploration and evaluation activities.

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying amount of the relevant E&E asset will be reclassified as a development and production asset, once the carrying value of the asset has been assessed for impairment.

If following completion of appraisal activities in an area, it is not possible to determine technical feasibility and commercial viability, or if the right to explore expires, then the costs of such unsuccessful exploration and evaluation is written off to the income statement in the period in which the event occurred.

#### (i) Impairment

If facts and circumstances indicate that the carrying value of an E&E asset may exceed its recoverable amount, an impairment review is performed. The following are indicators of impairment.

- The right to explore in an area has expired, or will expire in the near future, without renewal.
- No further exploration or evaluation is planned or budgeted for.
- A decision has been made to discontinue exploration and evaluation in an area, because of the absence of commercial reserves.
- Sufficient data exists to indicate that the book value will not be fully recovered from future development and production.

For E&E assets, where the above indicators exist, an impairment test is carried out. The E&E assets are categorised into Cash Generating Units ("CGU"). The carrying value of the CGU is compared to its recoverable amount and the resulting impairment loss is written off to the income statement. The recoverable amount of the CGU is assessed as the higher of its fair value, less costs to sell, and its value in use.

### B. Issue Expenses

Issue expenses arising on the issue of equity securities are accounted for as a deduction from equity, against the share premium account, net of any related income tax benefit.

### C. Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on a straight line basis to write off the cost less estimated residual value of the assets over their estimated useful lives as follows:

| | |
|---|---|
| Motor vehicles | 5 years |
| Plant and office equipment | 10 years |

## 1. ACCOUNTING POLICIES *continued*

### D. Taxation

The tax expense represents the sum of the current and deferred tax charge.

The tax currently payable is based on taxable profits for the year. Taxable profit differs from net profit or loss as reported in the income statement because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and is accounted for using the balance sheet liabilities method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

### E. Share Based Payments

The Company has applied the requirements of IFRS 2 "Share-Based Payments". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 June 2006.

For equity-settled share based payment transactions (i.e. the granting of share options and share warrants), the Company measures the services and the corresponding increase in equity at fair value at the measurement date (which is the grant date) using a recognised valuation methodology for the pricing of financial instruments (Binomial Lattice Model). Given that the share options, and warrants granted do not vest until the completion of a specified period of service the fair value is determined on the basis that the services to be rendered by employees as consideration for the granting of share options and warrants will be received over the vesting period, which is assessed as the grant date.

The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the company's estimate of equity instruments that will eventually vest.

### F. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

### G. Trade and other receivables and payables

Trade and other receivables and payables are measured at initial recognition at fair value, and subsequently measured at amortised cost.

### H. Cash and cash equivalents

Cash and cash equivalents consist of cash at bank held by the company and short term bank deposits with a maturity of three months or less. Cash and cash equivalents are held for the purpose of meeting short term cash commitments.

### I. Pension costs

The company provides for certain employees through defined contribution pension schemes. The amounts charged to the income statement and statement of financial position is the contribution payable in that year. Any difference between amounts charged and contributions paid to the pension scheme is included in receivables or payables in the statement of financial position.

# Notes to the Financial Statements continued

## 1. ACCOUNTING POLICIES *continued*

### J. Foreign Currencies

Transactions denominated in foreign currencies relating to revenues, costs and non-monetary assets are translated into Euro at the rates of exchange ruling on the dates on which the transactions occurred.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the rate of exchange ruling at the statement of financial position date. The resulting profits or losses are dealt with in the income statement.

### K. Shareholder Loan

The shareholder loan is initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount of initial recognition.

### L. Critical accounting judgments and key sources of estimation uncertainty

#### Critical judgments in applying the Company's accounting policies

In the process of applying the Company's accounting policies above, management has identified the judgmental areas that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below):

#### Exploration and evaluation

The assessment of whether general administration costs and salary costs are capitalised or expensed involves judgment. Management consider the nature of each cost incurred and whether it is deemed appropriate to capitalise it within exploration and evaluation assets. Given that the activity of management and the resultant operating costs are primarily focused on the company's gold prospects, the directors consider it appropriate to capitalise a portion of such costs.

#### Impairment of intangible assets

As outlined in the Intangible Assets accounting policy, the exploration and evaluation assets need to be allocated into Cash Generating Units. The determination of what constitutes a cash generating unit requires judgment. Once this is decided, the carrying value of each cash generating unit is compared to its recoverable amount. The recoverable amount of the CGU is assessed as the higher of its fair value less costs to sell and its value in use. The determination of value in use requires the following judgments:

- Estimation of future cash flows expected to be derived from the asset.
- Expectation about possible variations in the amount or timing of the future cash flows.
- The determination of an appropriate discount rate.

#### Going concern

The preparation of financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern assumption is dependent on the successful further development and ultimate production of the mineral reserves and the availability of sufficient finance to bring the reserves to economic maturity and profitability. The realisation of intangible assets depends on the successful discovery and development of economic reserves. The directors have reviewed the proposed programme for exploration and evaluation assets and on the basis of the cash balance on hand, the very encouraging results from the exploration programme and the prospects of raising additional funds as required consider it appropriate to prepare the financial statements on the going concern basis. Should the going concern basis not be appropriate, adjustments would have to be made to reduce the value of the company's assets, in particular the intangible assets, to their realisable values.

## 1. ACCOUNTING POLICIES *continued*

### Key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Share-based payments**

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the Company is the Binomial Lattice Model. In addition, the directors consider that 80% of their activity is primarily focused on the company's gold prospects and therefore, the directors consider it appropriate to capitalise 80% of such costs to exploration and evaluation assets.

**Deferred tax**

No deferred tax asset has been recognised in respect of tax losses as it cannot be considered probable that future taxable profit will be available against which the related temporary differences can be utilised.

## 2. GOING CONCERN

Exploration and evaluation costs capitalised as intangible assets amounted to €13,603,186 (2011: €11,759,028) (Note 7) at the balance sheet date.

The directors recognise that the future realisation of intangible assets is dependent on the successful further development and ultimate production of the mineral reserves and the availability of sufficient finance to bring the reserves to economic maturity and profitability.

The company made a loss of €533,262 (2011: €427,970) for the year ended 31 May 2012 and had net current liabilities of €270,110 (2011: net current asset of €511,611) at that date. The directors have confirmed that they will not seek repayment of amounts owed to them by the company of €269,431 within 12 months of the date of approval of the financial statements, unless the company has sufficient funds to repay such amounts.

The directors have reviewed the proposed work programme for exploration and evaluation assets and on the basis of the cash balances on hand, the very encouraging results obtained from the exploration programme and the prospects of raising additional funds as required consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments to the carrying amount, or classification of assets and liabilities, if the company was unable to continue as a going concern in the future.

# Notes to the Financial Statements continued

## 3. OPERATING EXPENSES

### (a) Analysis of operating expenses

| | 2012 € | 2011 € |
|---|---|---|
| Operating expenses | **1,231,807** | 1,134,869 |
| Transfer to intangible assets (Note 7) | **(706,919)** | (715,011) |
| | **524,888** | 419,858 |

| Operating expenses is analysed as follows: | 2012 € | 2011 € |
|---|---|---|
| Wages and salaries | **534,082** | 588,838 |
| Share based payments | **149,026** | 149,026 |
| Depreciation | **14,099** | 14,729 |
| Auditor remuneration | **15,000** | 12,500 |
| Other operating expenses | **519,600** | 369,776 |
| | **1,231,807** | 1,134,869 |

Of the above costs a total of €706,919 (2011: €715,011) is capitalised to intangible assets based on a review of the nature and quantum of the underlying cost and the exercise of appropriate measurement across each cost category.

### (b) Segmental reporting

Operating segments have been identified on the basis of internal reports about components of the company that are regularly reviewed by the Chief Operating Decision Maker, being the Board of Directors, in order to allocate resources to segments and to assess their performance. The company has one class of business, gold exploration and operates in two geographical markets, Ireland and Finland. Costs that are directly attributable to Ireland and Finland have been capitalised to exploration and evaluation assets (Note 7). All remaining operating expenses have been expensed through the Income Statement.

### (c) Wages and salaries cost as disclosed above is analysed as follows:

| | 2012 € | 2011 € |
|---|---|---|
| Wages and salaries | **483,946** | 529,595 |
| Social welfare costs | **15,136** | 23,793 |
| Pension costs | **35,000** | 35,000 |
| | **534,082** | 588,388 |

The company had twelve employees during the year (2011: thirteen).

## 3. OPERATING EXPENSES *continued*

An analysis of remuneration for each director of the company in the current financial year (prior to amounts transferred to intangible assets) is as follows:

| | Fees € | Salary € | Share based payment € | Pension contributions € | Total € |
|---|---|---|---|---|---|
| Professor R.T.W.L. Conroy | 22,220 | 176,698 | 63,594 | – | 262,512 |
| M.T.A. Jones | 9,523 | 112,824 | 41,893 | 22,000 | 186,240 |
| J.P. Jones | 9,523 | 64,485 | 24,919 | 13,000 | 111,927 |
| H.H. Rennison | 9,523 | – | 4,079 | – | 13,602 |
| L.J. Maguire | 9,523 | – | 4,079 | – | 13,602 |
| S.P. FitzPatrick | 9,523 | – | 661 | – | 10,184 |
| M.E. Power | 9,523 | – | 2,313 | – | 11,836 |
| C.D. Wathen | 9,523 | – | 933 | – | 10,456 |
| Dr S.C. Conroy | 9,523 | – | – | – | 9,523 |
| | 98,404 | 354,007 | 142,471 | 35,000 | 629,882 |

An analysis of remuneration for each director of the company in the prior financial year (prior to amounts transferred to intangible assets) is as follows:

| | Fees € | Salary € | Share based payment € | Pension contributions € | Total € |
|---|---|---|---|---|---|
| Professor R.T.W.L. Conroy | 22,220 | 176,698 | 63,594 | – | 262,512 |
| M.T.A. Jones | 9,523 | 112,824 | 41,893 | 22,000 | 186,240 |
| J.P. Jones | 9,523 | 64,485 | 24,919 | 13,000 | 111,927 |
| H.H. Rennison | 9,523 | – | 4,079 | – | 13,602 |
| L.J. Maguire | 9,523 | – | 4,079 | – | 13,602 |
| S.P. FitzPatrick | 9,523 | – | 661 | – | 10,184 |
| M.E. Power | 9,523 | – | 2,313 | – | 11,836 |
| C.D. Wathen | 9,523 | – | 933 | – | 10,456 |
| Dr S.C. Conroy | 9,523 | – | – | – | 9,523 |
| | 98,404 | 354,007 | 142,471 | 35,000 | 629,882 |

# Notes to the Financial Statements *continued*

## 3. OPERATING EXPENSES *continued*

The total share based payment charge of €149,026 (2011: €149,026) is accounted for as shown below:

| | 2012<br>€ | 2011<br>€ |
|---|---|---|
| Share based payment charge expensed to income statement | **28,494** | 28,494 |
| Share based payment charge transferred to intangible assets | **120,532** | 120,532 |
| | **149,026** | 149,026 |

In the opinion of the directors, eighty per cent of the share based payment charge is directly related to exploration and evaluation activities, and has been capitalised within intangible assets.

## 4. LOSS BEFORE TAXATION

The loss before taxation and arrived at after charging the following items, which are stated at amounts prior to the transfer to intangible assets:

| | 2012<br>€ | 2011<br>€ |
|---|---|---|
| Directors' remuneration | | |
| – Fees for services as directors | **98,404** | 98,404 |
| – Remuneration for management services | **389,007** | 389,007 |
| – Share based payments | **142,471** | 142,471 |
| Depreciation | **14,099** | 14,729 |
| Auditor's remuneration | | |
| – Audit of individual accounts | **15,000** | 15,000 |
| – Other assurance services | **–** | – |
| – Tax advisory services | **–** | – |
| – Other non-audit services | **–** | – |

## 5. TAXATION

No taxation charge arises in the current or prior financial year due to losses incurred.

### Factors affecting the tax charge for the year:

The total tax charge for the year is different to the standard rate of Irish corporation tax. This is due to the following:

| | 2012 € | 2011 € |
|---|---|---|
| Loss on ordinary activities before tax | **(533,262)** | (427,970) |
| Loss on ordinary activities multiplied by the standard rate of Irish corporation tax of 12.5% (2011: 12.5%) | **(66,658)** | (53,496) |
| **Effects of:** | | |
| Losses carried forward for future utilisation | **66,658** | 53,496 |
| Tax charge for the year | **–** | – |

No deferred tax asset has been recognised on accumulated tax losses as it cannot be considered probable that future taxable profit will be available against which the deferred tax asset can be utilised. The deferred tax asset not recognised amounts to €367,683 (2011: €301,025).

## 6. LOSS PER SHARE

The calculation of the basic and diluted loss per share of €0.0022 (2011: €0.0020) is based on the loss for the financial year of €533,262 (2011: €427,970) and the weighted average number of ordinary shares in issue during the year of 245,158,371 (2011: 213,797,820).

The effect of share options and warrants is anti-dilutive.

## 7. INTANGIBLE ASSETS

| Exploration and evaluation assets | 2012 € | 2011 € |
|---|---|---|
| **Cost** | | |
| At 1 June | **11,759,028** | 9,802,468 |
| Expenditure during the year | | |
| – licence and appraisal costs | **1,100,626** | 1,186,047 |
| – other operating expenses (Note 3) | **586,387** | 594,479 |
| – equity settled share based payments (Note 3) | **120,532** | 120,532 |
| – loan interest (Note 12) | **36,613** | 55,502 |
| At 31 May | **13,603,186** | 11,759,028 |

Exploration and evaluation assets relate to expenditure incurred in the development of mineral exploration opportunities.

# Notes to the Financial Statements *continued*

## 7. INTANGIBLE ASSETS *continued*

The directors have considered the proposed work programmes for the underlying mineral reserves. They are satisfied that there are no indications of impairment, but nonetheless recognise that the realisation of the intangible assets, is dependent on further successful exploration and appraisal activities, the subsequent economic production of the mineral reserves and the availability of sufficient finance to bring the resources to economic maturity and profitability.

Mineral interests are categorised as follows:

| Ireland | 2012 € | 2011 € |
|---|---|---|
| **Cost** | | |
| At 1 June | **10,259,974** | 8,446,449 |
| Expenditure during the year | | |
| – licence and appraisal costs | **1,073,496** | 1,158,589 |
| – other operating expenses | **498,429** | 505,307 |
| – equity settled share based payments | **108,479** | 102,452 |
| – loan interest | **31,121** | 47,177 |
| At 31 May | **11,971,499** | 10,259,974 |

| Finland | 2012 € | 2011 € |
|---|---|---|
| **Cost** | | |
| At 1 June | **1,499,054** | 1,356,019 |
| Expenditure during the year | | |
| – licence and appraisal costs | **27,130** | 27,458 |
| – other operating expenses | **87,958** | 89,172 |
| – equity settled share based payments | **12,053** | 18,080 |
| – loan interest | **5,492** | 8,325 |
| At 31 May | **1,631,687** | 1,499,054 |

## 8. INVESTMENT IN SUBSIDIARY

| | % Owned | 2012 € | 2011 € |
|---|---|---|---|
| **Shares in subsidiary company (Unlisted shares) at cost:** | | | |
| Trans International Mineral Exploration Limited | 100% | **2** | 2 |

The registered office of the above non-trading subsidiary is 10 Upper Pembroke Street, Dublin 2.

The above subsidiary has not been consolidated on the basis that it is not trading, and the assets of the entity are €2.

## 9. PROPERTY, PLANT AND EQUIPMENT

| | Motor Vehicles € | Plant & Office Equipment € | Total € |
|---|---|---|---|
| **Cost** | | | |
| At 1 June 2011 | 17,754 | 112,129 | 129,883 |
| Additions | – | 938 | 938 |
| **At 31 May 2012** | **17,754** | **113,067** | **130,821** |
| **Accumulated Depreciation** | | | |
| At 1 June 2011 | 3,516 | 102,518 | 106,034 |
| Charge for the year | 3,550 | 10,549 | 14,099 |
| **At 31 May 2012** | **7,066** | **113,067** | **120,133** |
| **At 31 May 2012** | **10,688** | **–** | **10,688** |

| | Motor Vehicles € | Plant & Office Equipment € | Total € |
|---|---|---|---|
| **Cost** | | | |
| At 1 June 2010 | 12,804 | 105,725 | 118,529 |
| Additions | 17,754 | 6,404 | 24,158 |
| Disposals | (12,804) | – | (12,804) |
| **At 31 May 2011** | **17,754** | **112,129** | **129,883** |
| **Accumulated Depreciation** | | | |
| At 1 June 2010 | 12,804 | 91,301 | 104,105 |
| Disposals | (12,804) | – | (12,804) |
| Charge for the year | 3,516 | 11,217 | 14,733 |
| **At 31 May 2011** | **3,516** | **102,518** | **106,034** |
| **At 31 May 2011** | **14,238** | **9,611** | **23,849** |

## 10. TRADE AND OTHER RECEIVABLES

| | 2012 € | 2011 € |
|---|---|---|
| VAT receivable | **28,195** | 60,705 |
| Other debtors | **45,745** | 20,618 |
| | **73,940** | 81,323 |

# Notes to the Financial Statements continued

## 11. TRADE AND OTHER PAYABLES

| Amounts falling due within one year | 2012 € | 2011 € |
|---|---|---|
| Accrued directors' remuneration | | |
| – fees and other emoluments | **252,246** | – |
| – pension contributions | **17,185** | 17,500 |
| Other accruals | **313,266** | 301,671 |
| | **582,697** | 319,171 |

It is the company's normal practice to agree terms of transactions, including payment terms, with suppliers and provided suppliers perform in accordance with the agreed terms, it is the company's policy that payment is made according to the agreed terms. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The carrying value of the trade and other payables approximates to their fair value.

The directors have confirmed that they will not seek repayment of amounts owed to them by the company of €269,431 within 12 months of the date of approval of the financial statements, unless the company has sufficient funds to repay such amounts.

## 12. NON CURRENT FINANCIAL LIABILITIES

| | 2012 € | 2011 € |
|---|---|---|
| **Shareholder loan** | | |
| Opening balance | **646,673** | 1,636,661 |
| Conversion to share capital | **–** | (687,540) |
| Loan interest paid | **(27,121)** | (329,402) |
| Loan amount repaid | **–** | (42,424) |
| Interest charge for the year | **45,766** | 69,378 |
| | **665,318** | 646,673 |

The immediate funding requirements of the company have been partly financed by advances from Prof. R.T.W.L. Conroy (executive chairman and major shareholder). Interest at a rate of 8.25% per annum is accrued on the outstanding principal. The accrued interest at 31 May 2012 is €110,706 (2011: €92,061). The company has received confirmation that repayment of the loan will not be demanded for a period of 12 months from the date of approval of the financial statements.

Of the €45,766 interest charge for the year (2011: €69,378), €9,153 (2011: €13,876) has been expensed to the Income Statement, with the remaining charge of €36,613 (2011: €55,502) being transferred to intangible assets (Note 7).

On 28 October 2010, the company issued 10,000,000 shares at £0.06 Sterling per share to Prof R.T.W.L. Conroy in consideration for which the shareholder loan reduced by €687,540.

## 13. CALLED UP SHARE CAPITAL AND SHARE PREMIUM

| | 2012<br>€ | 2011<br>€ |
|---|---|---|
| **Authorised:** | | |
| 750,000,000 ordinary shares of €0.03 each | 22,500,000 | 22,500,000 |

### Issued and Fully Paid – Current Financial Year

| | Number | Share capital<br>€ | Capital conversion reserve fund<br>€ | Share premium<br>€ |
|---|---|---|---|---|
| Start of year | 230,464,487 | 6,913,935 | 30,617 | 7,656,028 |
| Share issues (a) | 39,944,055 | 1,198,322 | – | 265,077 |
| Issue expenses | – | – | – | (48,532) |
| **End of year** | **270,408,542** | **8,112,257** | **30,617** | **7,872,573** |

(a) On 27 September 2011, 20,689,655 shares were issued at 3.625p sterling realising €0.0416858 per share resulting in a premium of €0.016858 per share, together with 20,689,655 warrants, exercisable at 4.25p sterling during the two years following admission of the share. However if the closing price of the ordinary shares remains at 5.5p sterling or higher for five or more consecutive business days exercise of the warrants becomes mandatory. All of the 20,689,655 warrants were outstanding at 31 May 2012.

(b) On 25 May 2012, 19,254,400 shares were issued at 2.5p sterling realising €0.031253 per share resulting in a premium of €0.001253 per share

(c) At 31 May 2012 and 31 May 2011 warrants over 49,064,188 shares exercisable at €0.037 per share at any time up to 15 November 2015 were outstanding.

(d) At 31 May 2012 and 31 May 2011 options had been issued over 4,130,000 shares. These options are exercisable at prices ranging from €0.048 to €0.10 and expire between 14 March 2013 and 14 January 2018.

(e) At 31 May 2012 and 31 May 2011 warrants over 29,805,123 shares exercisable at €0.0433 per share at any time up to 16 November 2017 were outstanding.

(f) The share price at 31 May 2012 was 2.84p sterling. During the year the price ranged from 4.875p to 2.5p sterling.

### Issued and Fully Paid – Prior Financial Year

| | Number | Share capital<br>€ | Capital conversion reserve fund<br>€ | Share premium<br>€ |
|---|---|---|---|---|
| Start of year | 190,464,487 | 5,713,935 | 30,617 | 6,273,383 |
| Share issues (a) | 40,000,000 | 1,200,000 | – | 1,550,160 |
| Issue expenses | – | – | – | (167,515) |
| **End of Year** | **230,464,487** | **6,913,935** | **30,617** | **7,656,028** |

# Notes to the Financial Statements *continued*

## 13. CALLED UP SHARE CAPITAL AND SHARE PREMIUM *continued*

(a) On 27 October 2010, 40,000,000 shares were issued at 6p sterling realising €0.068754 per share resulting in a premium of €0.038754 per share.

(b) At 31 May 2011 and 31 May 2010 warrants over 49,064,188 shares exercisable at €0.037 per share at any time up to 15 November 2015 were outstanding.

(c) At 31 May 2011 and 31 May 2010 options had been issued over 4,130,000 shares. These options are exercisable at prices ranging from €0.048 to €0.10 and expire between 14 March 2013 and 14 January 2018.

(d) At 31 May 2011 and 31 May 2010 warrants over 29,805,123 shares exercisable at €0.0433 per share at any time up to 16 November 2017 were outstanding.

(e) The share price at 31 May 2011 was 4.875p sterling. During the year the price ranged from 3.95p to 11.0p sterling.

## 14. NOTES TO THE CASH FLOW STATEMENT

### Reconciliation of Operating Loss to Net Cash used in Operations:

| | 2012<br>€ | 2011<br>€ |
|---|---|---|
| Operating (loss) | **(524,888)** | (419,858) |
| Depreciation | **14,099** | 14,733 |
| Expense recognised in income statement in respect of equity settled share based payments | **28,494** | 28,494 |
| Increase/(decrease) in creditors | **263,526** | (221,487) |
| Decrease/(increase) in debtors | **7,383** | (24,942) |
| Cash used in operations | **(211,386)** | (623,060) |

## 15. COMMITMENTS AND CONTINGENCIES

### Obligations under Mineral Interests

The Company has received prospecting licences under the Republic of Ireland Mineral Development Acts 1940 to 1995 for areas in Monaghan and Cavan. It has also received licences in Northern Ireland for areas in Armagh and Down in accordance with the Mineral Development Act (Northern Ireland) 1969.

The Company has certain obligations in respect of these licences at year end which comprise total expenditure commitments as follows:

| | 2012<br>€ | 2011<br>€ |
|---|---|---|
| Commitments for expenditure: | | |
| – due within one year | **150,000** | 150,000 |
| – due between two and five years | **500,000** | 500,000 |
| | **650,000** | 650,000 |

## 16. RELATED PARTY TRANSACTIONS

a) Details as to shareholder loans and share capital transactions with Prof. R.T.W.L. Conroy are outlined in Notes 12 and 13 to the financial statements.

b) For the year ended 31 May 2012, Conroy Gold and Natural Resources plc incurred costs totalling €104,103 (2011: €106,139) on behalf of Karelian Diamond Resources Plc which has certain common shareholders and directors. These costs were charged to Karelian Diamond Resources Plc.

These costs are analysed as follows:

| | 2012<br>€ | 2011<br>€ |
|---|---|---|
| Wages and salaries | **39,767** | 72,652 |
| Rent and rates | **9,525** | 8,910 |
| Travel and subsistence | **10,036** | 21,374 |
| Legal and professional | **26,623** | 19,599 |
| Other operating expenses | **18,152** | 23,608 |
| Exploration costs | **–** | 19,996 |
| | **104,103** | 166,139 |

At 31 May 2012, Conroy Gold and Natural Resources plc was due from €30,108 Karelian Diamond Resources plc (2011: €1,285 due to Karelian). Amounts owed by Karelian Diamond Resources plc is included in "Other debtors" within Trade and other Receivables.

For the year ended 31 May 2012, Conroy Gold and Natural Resources plc incurred costs totalling nil (2011: €5,000) on behalf of Conroy Plc.

| These costs are analysed as follows: | 2012<br>€ | 2011<br>€ |
|---|---|---|
| Legal and professional | **–** | 5,000 |
| | **–** | 5,000 |

At 31 May 2012 Conroy plc owed €5,000 to Conroy Gold and Natural Resources plc. (2011: €5,000). Amounts owed by Conroy plc are included in "Other debtors" within Trade and other Receivables.

c) Details of key management compensation which comprises directors remuneration including short term employee benefits €452,411 (2011: €452,441), post employment benefits €35,000 (2011: €35,000), other long term benefits €Nil (2011: €Nil), share based payment €142,471 (2011: €142,471) and termination benefits €Nil (2011: €Nil) are outlined in Note 3 to the financial statements.

# Notes to the Financial Statements continued

## 17. SHARE BASED PAYMENTS

The company operates a share option scheme for employees who devote a substantial amount of their time to the business of the company.

Options granted generally have a vesting period of ten years. Details of the share options outstanding during the year are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | No. of Share Options | Weighted Average Exercise Price € | No. of Share Options | Weighted Average Exercise Price € |
| At 1 June | **4,130,000** | **0.0782** | 7,195,000 | 0.1254 |
| Granted during year | **–** | **–** | – | – |
| Exercised during year | **–** | **–** | – | – |
| Lapsed during year | **–** | **–** | (3,065,000) | – |
| At 31 May | **4,130,000** | **0.0782** | 4,130,000 | 0.0782 |

Warrants granted generally have a vesting period of ten years. Details of the warrants outstanding during the year are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | No. of Share Warrants | Weighted Average Exercise Price € | No. of Share Warrants | Weighted Average Exercise Price € |
| At 1 June | **78,869,311** | **0.0394** | 78,869,311 | 0.0394 |
| Granted during year | **–** | **–** | – | – |
| Exercised during year | **–** | **–** | – | – |
| Lapsed during year | **–** | **–** | – | – |
| At 31 May | **78,869,311** | **0.0394** | 78,869,311 | 0.0394 |

The company estimated the fair value of employee stock options and warrants awards using the Binomial Lattice Model. The determination of the fair value of share based payment awards on the date of grant using the Binomial Lattice Model is affected by Conroy Gold and Natural Resources plc stock price as well as assumptions regarding a number of subjective variables.

## 17. SHARE BASED PAYMENTS *continued*

These variables include the expected term of the awards, the expected stock price volatility over the term of the awards, the risk free interest rate associated with the expected term of the awards and the expected dividends.

The company's Binomial Lattice model included the following weighted average assumptions for the company's employee stock option and warrants.

| | 2012 Stock Options | 2012 Stock Warrants | 2011 Stock Options | 2011 Stock Warrants |
|---|---|---|---|---|
| Dividend yield | **0%** | **0%** | 0% | 0% |
| Expected volatility | **90%** | **90%** | 90% | 90% |
| Risk free interest rate | **4.0%** | **3.2%** | 4.0% | 3.2% |
| Expected life (in years) | **10** | **10** | 10 | 10 |

This calculation results in a share based payments reserve movement of €149,026 (2011: €149,026).

## 18. SUBSTANTIAL SHAREHOLDINGS

The control of substantial shareholdings in Conroy Gold and Natural Resources plc are held by the following shareholders:

| Name | Number of ordinary shares | % |
|---|---|---|
| Professor Conroy | 65,249,191* | 24.13 |
| SF Web Capital Smaller Companies Gold fund | 21,328,029 | 7.89 |
| Mr. Patrick O'Sullivan | 16,637,931 | 6.15 |
| Mr. Bruce Rowan | 10,450,000 | 3.86 |

* Of the 65,249,191 (2011: 50,377,639) ordinary shares held by Professor Conroy, 19,294,286 (2011: 19,294,286) are held by Conroy Plc, a company in which Professor Conroy has a controlling interest.

## 19. POST BALANCE SHEET EVENTS

The following post balance sheet events have occurred:

- On the 19th of November 2012, the company announced that successful results have come from ground geophysics carried out at its Clay Lake target in Co. Armagh, which is located four and a half miles along trend from the company's Clontibret gold discovery in Co. Monaghan. The results from the ground geophysics support the view that the Clay Lake gold target could host a large gold deposit.
- On the 9th of October 2012, the company announced the discovery of a series of further large gold-in-soil targets within its Slieve Glah licence areas in Co. Cavan, following a detailed gold-in-soil survey. The Directors believe that the discovery of these targets not only add to the prosperity of the very large targets at Slieve Glah, but also to the entire 30 mile gold trend which the company has previously discovered to date, which all lies within the company's licence area.

# Notes to the Financial Statements continued

## 20. FINANCIAL INSTRUMENTS

The company's financial assets and liabilities stated at carrying amount and fair value are as follows at 31 May 2012:

| | Carrying Amount 2012 € | Fair Value 2012 € | Carrying Amount/ Fair Value 2011 € |
|---|---|---|---|
| Trade and other receivables | **73,940** | **73,940** | 81,323 |
| Cash and cash equivalents | **238,647** | **238,647** | 749,459 |
| Trade and other payables and financial liabilities | **1,248,015** | **1,248,015** | 965,844 |

The following sets out the methods and assumptions used in estimating the fair value of financial assets and liabilities.

### Trade and Other Receivables/Payables and Financial Liabilities

As both receivables and payables have a remaining life of less than one year, the carrying value is deemed to reflect fair value. The company has received confirmation that payment of the shareholder loan will not be demanded for a period of 12 months from the date of approval of the financial statements. The directors consider that its carrying value reflects its fair value.

### Cash and Cash Equivalents

As cash and cash equivalents have a remaining maturity of less than three months, the nominal amount is deemed to reflect the fair value.

### Risk Management

The company is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, liquidity risk and market risk (including interest rate risk).

### Credit Risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has a policy of dealing only with credit warranty counterparties. The company's exposure to credit risk relates to the carrying value of cash and cash equivalents and trade and other receivables which at 31 May 2012 amounted to €312,587 (2011: €830,782).

At 31 May 2012 and 31 May 2011 all trade receivables were not past due.

### Liquidity Risk

Liquidity risk is the risk that the company will not be able to meet its obligations as they fall due. The company's policy is to monitor cash flow and consider whether available cash resources are sufficient to meet its ongoing exploration programme.

The nature of the company's activities can result in differences between actual and expected cash flows. This risk was managed by the directors during the year by way of raising sufficient finance so that the company has sufficient resources to carry out its forthcoming work programme.

### Market Risk – Interest Rate Risk

The company's exposure to changes in interest rates relates primarily to the shareholder loan balance. If the interest rate rose by 1%, the company's loss would increase by €5,546. A decrease in the interest rate would result in a corresponding decrease in the same amount.

## 21. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the board on 30 November 2012.