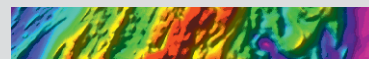


WESTERN AREAS NL



ABN 68 091 049 357

# THINK NICKEL WESTERN AREAS



2 0 1 2      A N N U A L      R E P O R T

# CORPORATE DIRECTORY

## **Directors**

Terry Streeter (Chairman)  
Robin Dunbar  
Julian Hanna  
Dan Lougher  
David Southam  
Rick Yeates  
Ian Macliver

## **Company Secretary**

Joseph Belladonna

## **Auditors**

Crowe Horwath  
256 St Georges Terrace  
Perth WA 6000

## **Bankers**

ANZ Banking Group Limited  
77 St Georges Terrace  
Perth WA 6000

## **Share Registry**

### **Australia**

Computershare Investor Services Pty Ltd  
Level 2, 45 St Georges Terrace  
Perth WA 6000

### **Canada**

Computershare Investor Services INC  
100 University Ave, Suite 800  
Toronto Ontario M5J 2Y1

## **Stock Exchange**

Australian Securities Exchange Limited &  
Toronto Stock Exchange Group  
Code: WSA

## **Solicitors**

Allion Legal  
Level 2, 50 Kings Park Road  
West Perth WA 6005

## **Registered Office**

Level 2  
2 Kings Park Road  
West Perth WA 6005  
Phone (08) 9334 7777  
Fax (08) 9486 7866

## **Branch Office**

65 Queen Street West  
Suite 530  
Toronto Ontario M5H 2M5

## **Treasury Advisers**

Oakvale Capital Ltd  
Level 3, 50 Colin Street  
West Perth WA 6005

## **Competent Person Statement:**

"The information within this report as it relates to mineral resources and mine development activities is based on information compiled by Mr Dan Lougher of Western Areas NL. Mr Lougher is a member of AusIMM and is a full time employee of the Company. Mr Lougher has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr Lougher consents to the inclusion in the report of the matters based on the information in the form and context in which it appears."

## **Forward Looking Statements:**

This release contains certain forward-looking statements. Forward-looking statements are subject to a variety of risks and uncertainties beyond the Company's ability to control or predict which could cause actual events or results to differ materially from those anticipated in such forward-looking statements.

This announcement does not include reference to all available information on the Company or the Forrestania Nickel Project and should not be used in isolation as a basis to invest in Western Areas. Any potential investors should refer to Western Area's other public releases and statutory reports and consult their professional advisers before considering investing in the Company.

For Purposes of Clause 3.4 (e) in Canadian instrument 43-101, the Company warrants that Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability.

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# CHAIRMAN'S LETTER



“Western Areas is what it is today because of the hard work and commitments of all our staff and contractors.”

Terry Streeter - Chairman

## Dear fellow shareholders,

I am delighted to present to you Western Areas' Annual Report for the year ending 30<sup>th</sup> June 2012. Over the past 12 months we have seen changes in senior management, retirement of the Outokumpu royalty and the closing out of our 2012 convertible note. In addition we purchased Kagara Nickel Pty Ltd (including the high grade Lounge Lizard deposit) and had exploration success in the discovery of the Sunrise deposit.

In January this year, Julian Hanna stepped down as Managing Director after 12 solid years building Western Areas from a small exploration company to one of the most successful high grade nickel producing companies in Australia. It has been a pleasure working with Julian over that time. Although he is taking life a little easier, Julian remains a Non-Executive Director of Western Areas.

Our new Managing Director, Dan Lougher has settled in well since his appointment on the 1<sup>st</sup> February. Dan is an experienced senior mining executive and has been with the company for six years as Operations Manager and Operations Director. With strong support from the Board and our experienced staff we are looking forward to Dan taking the company to the next level.

In March 2012, we acquired the Lounge Lizard nickel deposit adjacent to the T5 deposit in the Flying Fox mine, adding over 41,000 tonnes of nickel into the high grade indicated resource. Exploration is ongoing at Flying Fox (including Lounge Lizard) and along strike to build our nickel reserves at this mine.

Six kilometres to the south is the Spotted Quoll mine. The original open pit (Tim King) was completed in February and was a great success. Underground ore mining commenced ahead of schedule in November and is now ramping up to 10,000 tonnes nickel per annum ahead of time and on budget.

We were able to report that more than 31,000 tonnes of nickel was mined in ore and in excess of 26,000 tonnes of nickel sold in concentrate. The excellent operational results were achieved with another strong year in safety with our lost time injury frequency rate (LTIFR) sitting at 1.5.

Exploration has been ongoing throughout the year at Forresteria with a new discovery at Sunrise, located mid way between Flying Fox and Spotted Quoll and 300m south east of the New Morning deposit. The ongoing success at Forresteria, Finland and Canada gives us the opportunity to discover and develop many new projects from the pipeline of opportunities created.

All that being said, the past year has not been without its challenges. Like many producers and explorers in the mining sector we have been impacted by a downturn in the Australian share market driven by unfavourable economic conditions in Europe and a perceived weakness in Chinese GDP growth. However, we do see some encouraging indicators, such as the Indonesian nickel laterite export ban, on the nickel price going forward and consensus market view is that the nickel price has hit the bottom of the cycle.

Western Areas is what it is today because of the hard work and commitments of all our staff and contractors. I would like to thank the Executive team and my fellow Directors for their support throughout the year.

In closing, I would like to take this opportunity to thank our shareholders for their continuing support and welcome new shareholders who have invested in the company during the year. I look forward to the new financial year with new confidence in the market, a more stable global environment and successful growth and development of your company.

Best wishes to you all,

**Terry Streeter**  
Chairman

# MANAGING DIRECTOR'S REPORT

I am pleased to advise shareholders that Western Areas had another successful year in light of significant volatility in world markets, metal prices and the strong Australian dollar. The 100% owned Forrester Operations delivered on every metric including safety, mine production, processing and concentrate sales to deliver a net profit after tax (NPAT) of \$40.2m for the year. The reduction in profit from the previous year was primarily due to the downward movement in metal price and the strength of the Australian dollar. It was however the company's second highest profit delivered in its 12 year history.

Due to these strong results, the Board of Western Areas announced a partially franked final dividend for the year of 6 cents per share, in addition to the interim dividend of 5 cents paid for the first six months to 31 December 2011. The total dividend for the year is 11 cents which represents a yield of over 2.7%, based on the 30 June 2012 share price, and 49% of net profit after tax. The Board remains committed to providing sustainable returns to shareholders which match our profitability whilst retaining sufficient cash to invest in the future growth of the Company. The strong cashflow generated resulted in the ability to retire the A\$105.5m convertible bond on 2 July 2012 and provided the funding for the significant exploration activity that occurred during FY12.

|                                                | 2011/12         | 2010/11          |
|------------------------------------------------|-----------------|------------------|
| <b>Lost Time Injury Frequency Rate (LTIFR)</b> | 1.5             | 4.2              |
| <b>Total Ore Mined</b>                         | 634,122 tns     | 594,274 tns      |
| <b>Average Mined Grade</b>                     | 4.9% Ni         | 5.4% Ni          |
| <b>Contained Nickel Mined</b>                  | 31,102 tns      | 32,222 tns       |
| <b>Ore Processed</b>                           | 547,668 tns     | 519,465 tns      |
| <b>Average Nickel Recovery</b>                 | 92%             | 91%              |
| <b>Nickel Sold</b>                             | 26,637 tns      | 27,498 tns       |
| <b>Average Nickel Price received</b>           | US\$17,791 / tn | US\$25,089 / tn  |
| <b>Cash Cost before smelting/refining</b>      | US\$2.43/lb Ni* | US\$2.11/lb Ni** |

\*Average FX US\$1.03:A\$1.00 \*\*Average FX US\$0.99:A\$1.00

Through hard work and determination, the Operation and Exploration groups have added mine life to the Forrester project through the addition of significant nickel tonnes to the resource base at Flying Fox and Spotted Quoll. In addition, a new discovery at Sunrise clearly demonstrates the exceptional prospectivity of the Forrester belt.

Importantly, the Company is maintaining an excellent safety record (LTIFR 1.5) in all our operations and this is constantly reviewed for improvement. We maintain a high level of safety training for staff and contractors with a focus on occupational health for site based employees. Western Areas also maintains the highest possible environmental standards in all its operations from exploration and mining to exporting nickel concentrate to China.

In March 2012, Western Areas purchased Kagara Nickel Pty Ltd for \$68m which included the high grade Lounge Lizard deposit and 300sq kilometres of exploration tenements around the Forrester area. This strategic purchase was the Company's first major acquisition and added significant nickel tonnes into the Flying Fox inventory resulting in increased mine life.

The Spotted Quoll (Tim King) open pit came to an end in February 2012 after two strong years of production at low cash costs. Underground mining is ahead of schedule and is now ramping up at Spotted Quoll underground and should reach 10,000 tonnes of nickel per annum during FY13. A significant increase in resource to 179,000 tonnes of nickel was announced in January 2012 followed by an upgrade of 94% in reserve to 131,000 tonnes of nickel in June. Spotted Quoll now has a mine life greater than 10 years, that's open at depth and is clearly a world class deposit.



Photo of Daniel Lougher taken by WA Business News

Daniel Lougher - Managing Director

In April 2012, a new offtake contract commenced with Jinchuan for 15,000 tonnes of nickel in concentrate and this should be completed by March 2013. Also in April 2012, the offtake contract with BHP Nickel West increased to 12,000 tonnes of nickel in concentrate per annum to include the nickel production from the Lounge Lizard deposit. During the December 2012 quarter, a tender process will commence for the next offtake contract post Jinchuan's forecasted completion in March 2013. This will provide Western Areas an opportunity to potentially negotiate better offtake terms. This strategy has proven to be very successful for the Company in past years as there is growing consensus the world's nickel smelters will be short of high quality nickel concentrates in future years.

The exploration group has now established a strong portfolio of projects in Western Australia, Finland and Canada. The WA projects cover an area of 500km from Lake King in the south up to Sandstone in the north including the 120km long Forrestania belt. Forrestania still remains the Company's core project and will be its primary focus in pursuing future growth plans. Ongoing exploration drilling in the Forrestania belt has resulted in a significant increase of near mine resources and a new discovery at Sunrise.

Looking overseas, Western Areas has increased its activities in Canada (19.9% interest in Mustang Minerals) and Finland (81% interest in FinnAust Mining PLC) during the past year. The Board considers these two stable countries, with long mining histories, provide the best opportunities for discovering and developing major new nickel, base metal and platinum group metals mining camps outside of Australia.

A review of all exploration projects will be conducted during the second half of 2012 to ensure that exploration funding is channelled to the projects with the best potential of delivering a new mine.

The impact on Western Areas of new taxes being introduced into Australia is expected to be minimal, but is still a withdrawal of funds that would have otherwise been directed into shareholder dividends or exploration. The Minerals Resource Rental Tax applies to Iron Ore and Coal miners and as a relatively low carbon emitting Company the proposed Carbon Tax is estimated to cost less than A\$2 million.

The market consensus opinion is that the nickel price has reached the bottom of the price cycle and is currently trading around the marginal cost of production. Furthermore, additional pressure on Chinese Nickel Pig Iron (NPI) production costs, via Indonesian bans on Laterite ore, could positively impact the nickel price. We understand that there are significant stockpiles currently on hand at the major Chinese ports which may last to the end of the calendar year. With the exhaustion of these stockpiles, and the fact that a large number of nickel producers are unprofitable, logic would clearly point to a price recovery some time soon.

The Company spends a significant amount of time on cost and production control. To this end, all employees contribute to ways in which the company can continue to drive efficiency improvements. It's with this dedication to details and critical analysis, that we have been able to maintain our position as the lowest cost nickel producer in Australia with strong operational margins.

To conclude, I would personally like to thank Julian Hanna for his tireless efforts in making Western Areas what it is today. I would also like to thank all of our staff, contractors and support companies for their dedication and commitment in making Western Areas a strong company with outstanding assets.

I look forward to another successful year during FY13.

Thank you for your support.

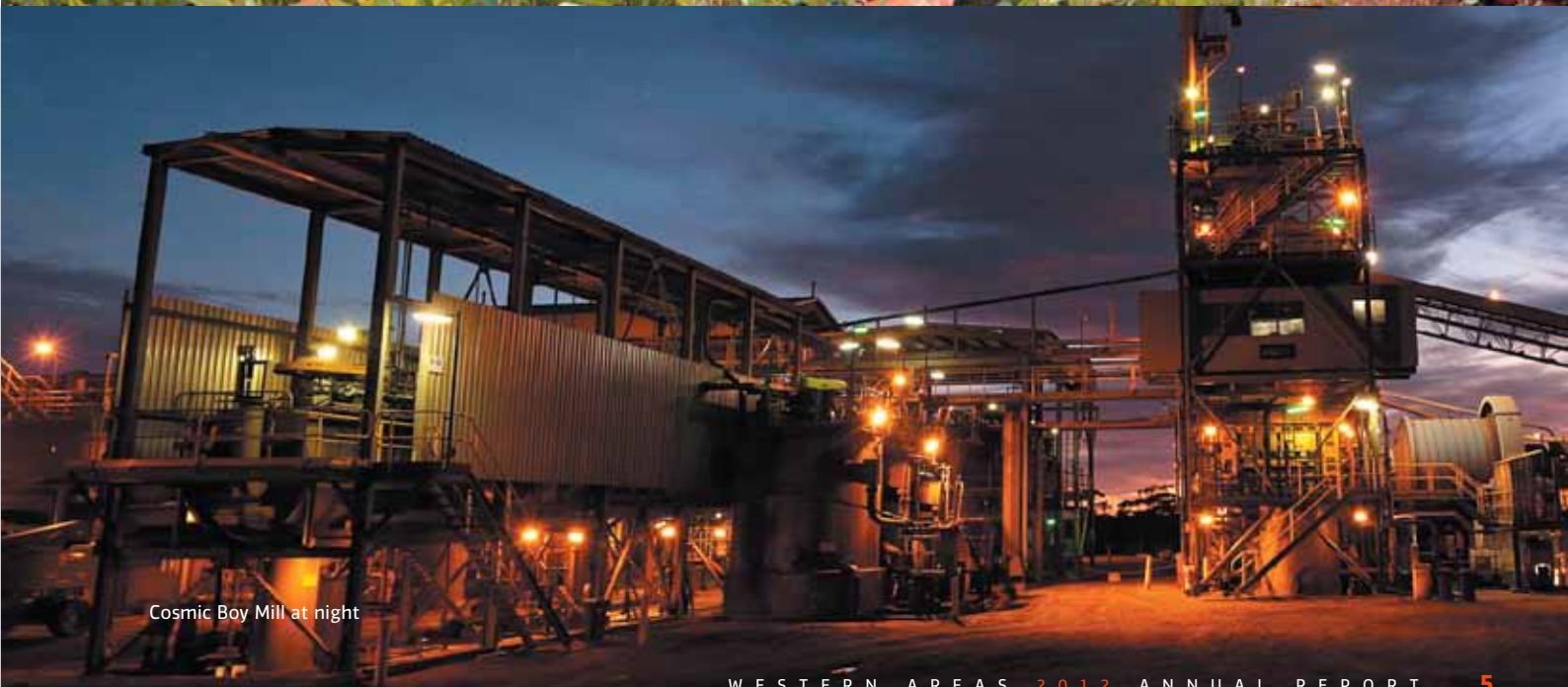
**Daniel Lougher**  
Managing Director



Caine Russell underground at Flying Fox



Ashleigh Harris Environmental Advisor



Cosmic Boy Mill at night

# OPERATIONS REVIEW

## GROUP OVERVIEW

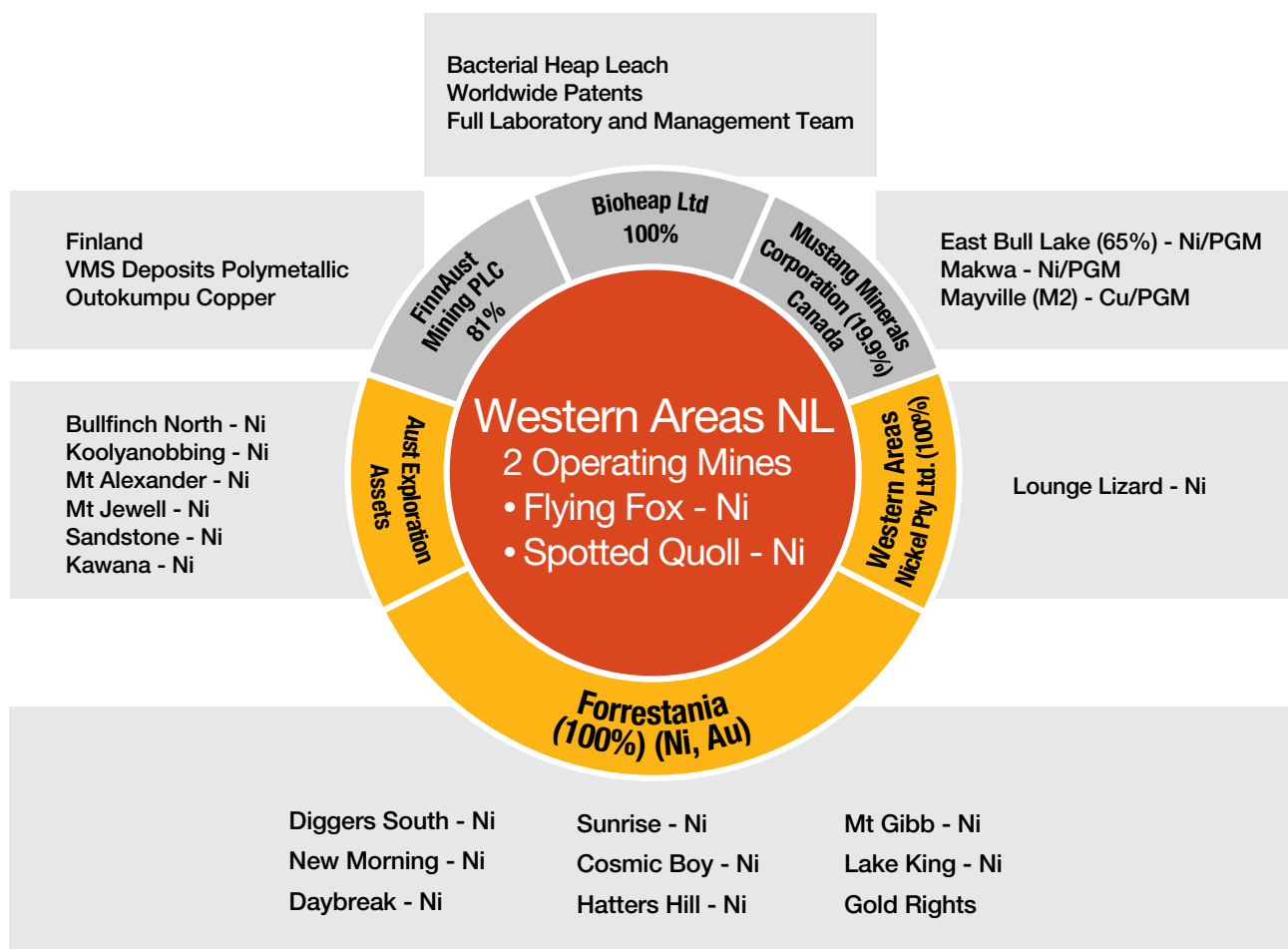
Western Areas is an Australian based nickel miner listed on the ASX. The main asset is the 100% owned Forrestania Nickel Project, 400km south east of Perth. Western Areas is currently targeting total annual production from the Flying Fox and Spotted Quoll mines of 26,000t nickel in ore for FY13. Western Areas is an active nickel explorer in Western Australia, Canada and Finland.

The two Forrestania underground nickel mines are the 100% Western Areas owned Flying Fox and Spotted Quoll operations. Flying Fox is one of the highest grade nickel mines in Australia and has been in production since 2006. The Company's second mine, Spotted Quoll, commenced underground high grade nickel ore production in November 2011 whilst the Tim King open pit was mined out in February 2012.

The Company completed the purchase of Kagara Limited's nickel assets for A\$68m which includes the high grade Lounge Lizard operation and nearly 300 sq kilometres of exploration tenements in March 2012. This acquisition provides important longevity to the Flying Fox mine, with mine life now approaching eight years.

## STRUCTURE

Western Areas NL is a Company limited by shares that is incorporated and domiciled in Australia. Western Areas NL has prepared a consolidated financial report incorporating the material entities that it controlled during the financial year, which are shown below along with the principal assets of each:





Fire safety training at Forrestania



Charlie the Chuditch at Perth Zoo



Native seedlings ready for rehabilitation planting.

## FORRESTANIA SAFETY

Forrestania Nickel Operations maintained a high safety standard for the financial year, with two Lost Time Injuries (LTI) recorded. The Western Areas Loss Time Injury frequency rate (LTIFR) decreased to 1.5, from 4.2 at the end of 2011 which is the lowest rate since 2009. By comparison the Nickel Industry LTIFR is 3.9 (2009-2010 published figures).

At the end of the financial year, the Flying Fox mine was 623 days LTI free and the Spotted Quoll mine had not recorded any LTI's to date. The Cosmic Boy Concentrator has been LTI free for 411 days.

Greater emphasis has been placed on the development and use of Job Safety Analysis in the workplace as a means of recognising and managing hazards. The Western Areas management, safety teams and site contractors have worked closely and collaboratively to investigate incidents and close out corrective actions as soon as possible.

Safety training has focused on the needs of the various work areas and the special skills required by the Emergency Response Team. Training has included Senior First Aid, BG4 regenerative breathing apparatus, safe chain saw operations, vehicle rescue and fire fighting. A series of interactive on-line training modules have been developed to include company policy awareness and other OH&S subjects.

An extension to the existing Cosmic Boy Village medical centre was completed and an additional ambulance added to the site's emergency response capability. Automatic External Defibrillators (AED) were placed in prominent places around site and in mine refuge chambers, plus one AED has been placed in the Western Areas Perth office.

## COMMUNITY SUPPORT

Western Areas takes its social responsibilities seriously and to this end supports a number of community initiatives in Perth and close to our operations at Forrestania. Examples include:

- Donations to the Hyden Respite Centre and support of the eradication of feral animals which prey on the local Fauna.
- Principal sponsor of the Western Quoll exhibit at the Perth Zoo. Part of this sponsorship results in admission passes to the zoo which the company donates to The Starlight Children's Foundation.

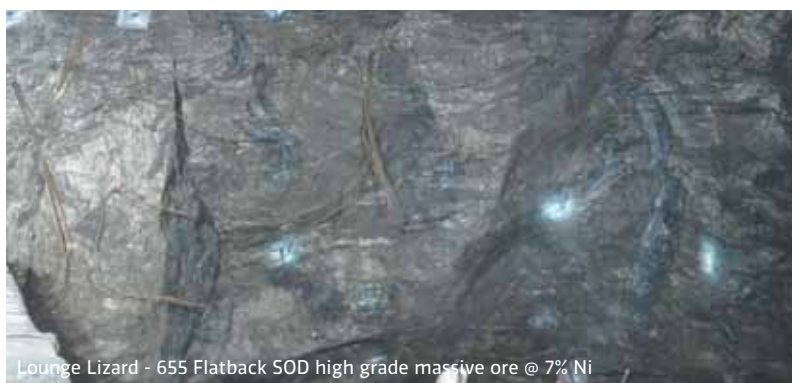
## FORRESTANIA ENVIRONMENTAL ACTIVITIES

A high standard of environmental management has been maintained for the financial year with all activities compliant with statutory regulations and licence conditions. Some of the notable environmental undertakings onsite for the year include the following:

- Continued support of biodiversity conservation initiatives within the Forrestania area and regional Western Australia. These commitments include; funding of a research program over a five year period studying the Carnaby's Black Cockatoo within the south eastern wheatbelt area; sponsorship of the Perth Zoo's Western Quoll exhibit; and a continuation of our sponsorship of the Eastern Wheatbelt Declared Species Group (EWD SG) wild dog control program. In addition the Department of Environment and Conservation's (DEC) Western Shield program which aims to eliminate cats and foxes in target areas of the state to reduce predation of native species.
- Voluntary reporting of greenhouse gas emissions and assessment of climate change risks and opportunities has been undertaken through the international Carbon Disclosure Project (CDP). Participation in the CDP provides a valuable tool for analysis of climate change related risks and opportunities affecting our environmental performance. Benchmarking of our greenhouse gas emissions through the voluntary CDP has seen an improvement in the efficiency of our operations demonstrated by a 44% reduction in the volume of CO<sub>2</sub>e per tonne of nickel processed during the last CDP reporting period.
- Consolidation of environmental operating licences is ongoing, enabling more efficient management of our environmental commitments and reporting obligations.
- Progressive rehabilitation continues throughout the Forrestania operations in line with our commitment to return the areas disturbed by mining to a stable, self sustaining vegetation complex similar to the surrounding landforms. A total of 30,000 native seedlings have been planted and 60kg of provenance seed has been sown to date.



Catherine Harris and Sally Montefiore at Forresteria



Lounge Lizard - 655 Flatback SOD high grade massive ore @ 7% Ni

## FLYING FOX MINE

The Streeter Decline has now advanced to a depth of 1,133m below surface, with total decline development now at 7.8km. To date approximately 21.6km of capital mine development has been completed, within approximately 34.4km of total development. Decline capital development was not a priority throughout the year as current mining levels already provide full access to all T5 ore reserves above the 335 level. The Streeter Decline was advanced approximately 300m laterally during the year to access ore below the 335 horizon (see Figure 1).

Capital development of both the T4 and T5 ore bodies is effectively complete with only minimal small profile development undertaken on the southern fringes of the orebody. Intensive narrow vein development is being conducted on several T4 levels, whilst bulk Avoca longhole mining methods are undertaken in the T5 areas. During the year the last remaining T1/T2 ore reserves were mined and infrastructure decommissioned.

The mine has successfully transitioned from a predominately development orientated operation to a stoping production operation. This has resulted in demobilisation of some jumbo drilling rigs and associated contract personnel whilst at the same time refocussing the operation to stoping activities. Geotechnical conditions at 1,100m continue to be relatively benign and ground conditions in the production stopes are as expected.

The increased use of handheld air-leg miners on the narrower fringes of both the T4 and T5 ore zones has increased the mine flexibility and ability to effectively extract these narrower sections of the orebody without excessive waste rock dilution.

Total production hoist for the coming financial year will see an ongoing effort on stoping both the T4 and T5 areas.

During the year the 640m long intake vent shaft was completed and commissioned which improves the air quality significantly at the bottom of the mine. This shaft has also been designed to be equipped as a hoist shaft if required for deeper mining at Flying Fox.

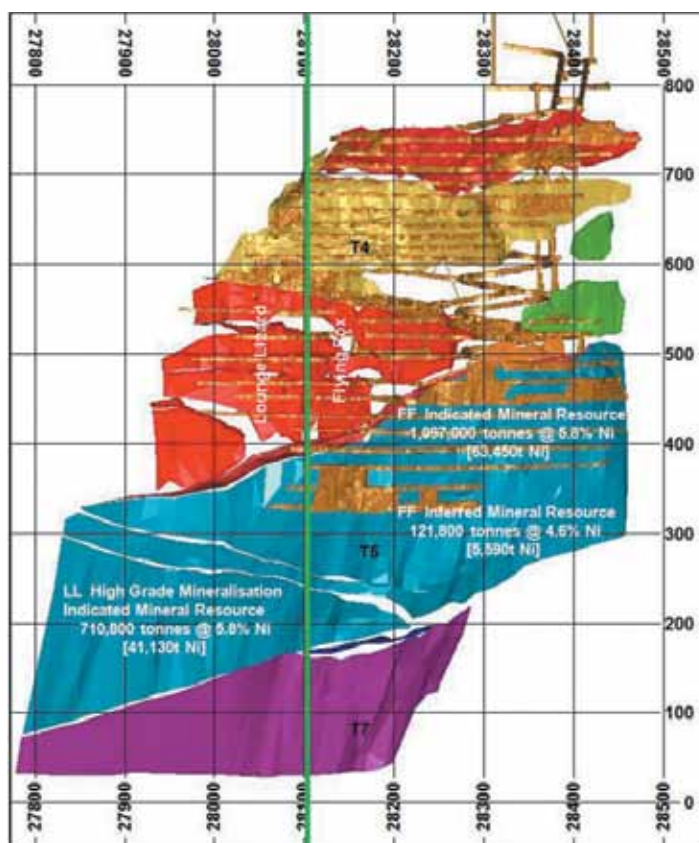


Figure 1: Flying Fox Interpreted Long Section.

## PURCHASE OF KAGARA'S NICKEL ASSETS

On 14 March 2012 the Company confirmed the purchase of Kagara's nickel assets for A\$68m. This was Western Areas' first material acquisition since listing and according to the view of research analysts, the purchase price was below consensus views of valuation.

As per Kagara Limited's mineral resource statement announced on 20 September 2011, the Lounge Lizard deposit contains a high grade Indicated Mineral Resource of 710,800 tonnes of ore at an average grade of 5.8% nickel for a total of 41,130 tonnes of contained nickel. Importantly, the acquisition of Lounge Lizard provides important mine life extensions to the Flying Fox operation.

For reporting purposes, Lounge Lizard production was combined with the Flying Fox production statistics from 1 March 2012 onwards.



Completed Spotted Quoll - Tim King open pit



Paste Plant construction site at Spotted Quoll mine

## SPOTTED QUOLL PROJECT

### Tim King Open Pit Mine

The Tim King open pit was mined out in mid February 2012, almost six weeks ahead of schedule. The open pit operations have proven to be very successful and provided consistent ore production up to its closure. The total open pit ore production, including the oxidised and transitional ore processed by Minara Resources Ltd, was 487,742 tonnes at an average grade of 5.8% for 28,502 tonnes of contained nickel.

### Spotted Quoll Underground Mine

First ore mining commenced in November 2011 on the 1230 level. Production has continued to ramp up achieving a peak of over 25,000 tonnes ore during June 2012. Development of the mine is ahead of schedule with a total of 3,775 lateral metres mined which advanced the Hanna decline to the 1125 level (275m below the surface). This allows key electrical, ventilation and pumping infrastructure to be established (see Figure 2).

The first stope (1230 P1) was successfully mined at the end of the financial year. Construction of the paste fill plant (for stope filling) has progressed well during the year and the mine is planning the first paste pour in October 2012. This filling technique will further improve the productivity of the stopes and provide geotechnical benefits with a 'top down' stoping sequence aiming for 100% extraction of the high grade orebody.

Pleasingly, the Company has delivered a new underground mining project, inclusive of all infrastructures, ahead of time and below budget.

Mine production ramp up is planned over three years from approximately 9,500 nickel tonnes in ore for FY13, followed 11,400 tonnes in FY14 to a steady state production of 15,000 nickel tonnes in ore per year in FY15.

Mine surface infrastructure is now materially complete, with the paste fill plant dry commissioning commenced in August 2012.

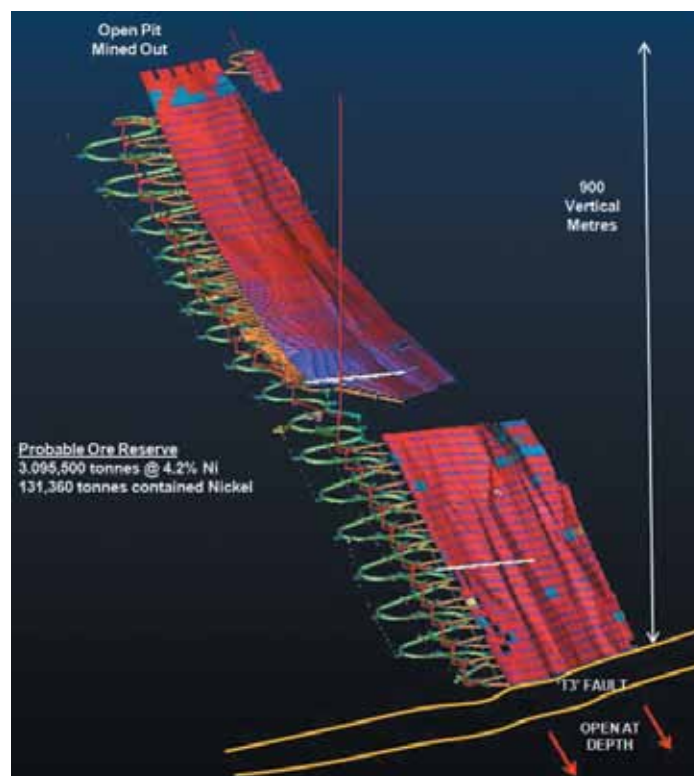


Figure 2: Spotted Quoll Long Section.



Cosmic Boy Concentrator



Shipment of Nickel departing Esperance Port

## MINE ORE PRODUCTION

| Mine Production Statistics          |             | 2011/2012      |                |                |                | FYTD           |
|-------------------------------------|-------------|----------------|----------------|----------------|----------------|----------------|
| Tonnes Mined                        |             | Sep Qtr        | Dec Qtr        | Mar Qtr        | Jun Qtr        | Total          |
| <b>Flying Fox</b>                   |             |                |                |                |                |                |
| Ore Tonnes Mined                    | Tn's        | 95,647         | 100,647        | 81,143         | 96,289         | 373,726        |
| Grade                               | Ni%         | 4.5%           | 4.9%           | 5.3%           | 5.3%           | 5.0%           |
| Ni Tonnes Mined                     | Tn's        | 4,258          | 4,920          | 4,278          | 5,097          | 18,553         |
| <b>Spotted Quoll - Tim King Pit</b> |             |                |                |                |                |                |
| Ore Tonnes Mined                    | Tn's        | 59,955         | 71,406         | 57,204         | -              | 188,565        |
| Grade                               | Ni%         | 5.7%           | 4.8%           | 4.0%           | 0.0%           | 4.8%           |
| Ni Tonnes Mined                     | Tn's        | 3,400          | 3,455          | 2,280          | -              | 9,135          |
| <b>Spotted Quoll - Underground</b>  |             |                |                |                |                |                |
| Ore Tonnes Mined                    | Tn's        | -              | 5,996          | 23,261         | 42,574         | 71,831         |
| Grade                               | Ni%         | 0.0%           | 3.3%           | 4.5%           | 5.1%           | 4.8%           |
| Ni Tonnes Mined                     | Tn's        | -              | 197            | 1,044          | 2,173          | 3,414          |
| <b>Total - Ore Tonnes Mined</b>     | <b>Tn's</b> | <b>155,602</b> | <b>178,049</b> | <b>161,608</b> | <b>138,863</b> | <b>634,122</b> |
| <b>Grade</b>                        | <b>Ni%</b>  | <b>4.9%</b>    | <b>4.8%</b>    | <b>4.7%</b>    | <b>5.2%</b>    | <b>4.9%</b>    |
| <b>Total Ni Tonnes Mined</b>        | <b>Tn's</b> | <b>7,658</b>   | <b>8,572</b>   | <b>7,602</b>   | <b>7,270</b>   | <b>31,102</b>  |

### Flying Fox Production

During the year Western Areas mined a total of 373,726 ore tonnes at an average grade of 5.0% nickel for 18,553 contained nickel tonnes. In addition to this the Company mined 31,299 ore tonnes @ 3.8% for 1,192 nickel tonnes from the Lounge Lizard orebody under the previous Kagara agreement before Western Areas purchased Lounge Lizard in March 2012.

### Spotted Quoll Production

By closure during February 2012, the open pit had mined a total of 188,565 ore tonnes @ 4.8% nickel for 9,135 nickel tonnes. The Spotted Quoll underground mine commenced ore development in November 2011 and by year end had mined a total of 71,831 ore tonnes @ 4.8% for 3,414 nickel tonnes.

### Cosmic Boy Mill Production

| Mill Production Statistics      |            | 2011/2012    |              |              |              | FYTD          |
|---------------------------------|------------|--------------|--------------|--------------|--------------|---------------|
| Tonnes Milled and Sold          |            | Sep Qtr      | Dec Qtr      | Mar Qtr      | Jun Qtr      | Total         |
| Ore Processed                   | Tns        | 134,412      | 138,360      | 131,748      | 143,148      | 547,668       |
| Grade                           | %          | 5.1%         | 5.2%         | 5.1%         | 4.9%         | 5.1%          |
| Ave. Recovery                   | %          | 93%          | 92%          | 93%          | 90%          | 92%           |
| <b>Ni Tonnes in Concentrate</b> | <b>Tns</b> | <b>6,413</b> | <b>6,632</b> | <b>6,276</b> | <b>6,320</b> | <b>25,641</b> |
| Ni Tonnes in Concentrate Sold   | Tns        | 4,751        | 6,487        | 8,154        | 6,888        | 26,280        |
| Ni Tonnes in Ore Sold           | Tns        | 357          | -            | -            | -            | 357           |
| <b>Total Nickel Sold</b>        | <b>Tns</b> | <b>5,108</b> | <b>6,487</b> | <b>8,154</b> | <b>6,888</b> | <b>26,637</b> |

For FY 12, the Cosmic Boy concentrator treated 547,668 tonnes of ore at a grade of 5.1% nickel. In addition 42,738t of Lounge Lizard ore was treated under the Agreement. A total of 25,641 tonnes of nickel in concentrate was produced with a nickel recovery of 92%.

A study has been completed looking at the next high grade expansion of the concentrator. The results of this study will be used in conjunction with the life of mine development plans to ascertain the timing of the next upgrade.

## Nickel Sales

A total of 183,829 tonnes of concentrate was delivered into the offtake contracts during FY12. This concentrate contained a total of 26,280 tonnes of nickel (exclusive of Lounge Lizard concentrate up to 28 February 2012). The Lounge Lizard concentrate contributed another 8,668t of concentrate containing 1,271t of nickel.

During February 2012 the first offtake contract to Jinchuan was completed three months ahead of schedule. A second offtake agreement with Jinchuan was executed in November 2011. Sales into this agreement commenced in March 2012 and are expected to be completed in March 2013.

The 30 June concentrate stockpile at Cosmic Boy stands at 7,243 tonnes at a grade of 14.3% nickel containing 1,028 tonnes of nickel metal. The reduction in the concentrate stockpile over the year, reflected significant logistical improvements with container turnaround times from Asia.

| 2011/2012                         |            |              |              |              |              |
|-----------------------------------|------------|--------------|--------------|--------------|--------------|
| Stockpiles                        |            | Sep Qtr      | Dec Qtr      | Mar Qtr      | Jun Qtr      |
| Ore                               | Tns        | 109,969      | 146,109      | 175,971      | 171,682      |
| Grade                             | %          | 4.8%         | 4.5%         | 4.2%         | 4.4%         |
| Concentrate                       | Tns        | 19,903       | 19,375       | 11,346       | 7,243        |
| Grade                             | %          | 14.3%        | 14.1%        | 14.3%        | 14.3%        |
| <b>Contained Ni in Stockpiles</b> | <b>Tns</b> | <b>8,132</b> | <b>9,300</b> | <b>9,013</b> | <b>8,586</b> |

## Cost of Production

The annual cash cost of nickel in concentrate was A\$2.43/lb which puts Western Areas as the lowest cost nickel miner in Australia.

| 2011/2012                           |                    |             |             |             |             | FYTD          |
|-------------------------------------|--------------------|-------------|-------------|-------------|-------------|---------------|
| Financial Statistics                |                    | Sep Q       | Dec Q       | Mar Q       | Jun Q       | Total         |
| <b>Group Production Cost/lb</b>     |                    |             |             |             |             |               |
| Mining Cost (*)                     | A\$/lb             | 1.60        | 1.54        | 1.86        | 2.25        | <b>1.81</b>   |
| Haulage                             | A\$/lb             | 0.09        | 0.09        | 0.09        | 0.09        | <b>0.09</b>   |
| Milling                             | A\$/lb             | 0.35        | 0.35        | 0.37        | 0.41        | <b>0.37</b>   |
| Admin                               | A\$/lb             | 0.18        | 0.19        | 0.19        | 0.16        | <b>0.18</b>   |
| By Product Credits                  | A\$/lb             | (0.02)      | (0.02)      | (0.03)      | (0.02)      | <b>(0.02)</b> |
| <b>Cash Cost Ni in Con (***)</b>    | <b>A\$/lb</b>      | <b>2.20</b> | <b>2.15</b> | <b>2.48</b> | <b>2.90</b> | <b>2.43</b>   |
| <b>Cash Cost Ni in Con/lb (***)</b> | <b>US\$/lb(**)</b> | <b>2.29</b> | <b>2.18</b> | <b>2.62</b> | <b>2.93</b> | <b>2.50</b>   |
| <b>Exchange Rate US\$ / A\$</b>     |                    | <b>1.05</b> | <b>1.01</b> | <b>1.06</b> | <b>1.01</b> | <b>1.03</b>   |

(\*) Mining Costs are net of deferred waste costs and inventory stockpile movements  
 (\*\*) US\$ FX for Relevant Quarter is RBA ave daily rate (Jun Qtr = A\$1:US\$1.01)  
 (\*\*\*) Payable terms are not disclosed due to confidentiality conditions of the offtake agreements. Cash costs exclude royalties.

With the completion of the low cost Tim King Pit at Spotted Quoll, the company's cash costs moved towards the guided level of below A\$3.00/lb during the June quarter. The company has targeted to maintain cash costs of production below A\$3.00/lb during FY13 reflecting that there are now two operating underground mines.

## Flying Fox Ore Reserves / Mineral Resources

During the past 12 months underground drilling at Flying Fox has continued the infilling of the extension of the T5 deposit, enabling a re-interpretation of the previous T6 zone and resultant extension of the previous limits of the T5 zone. In addition, with the acquisition of the Lounge Lizard tenement, drilling commenced on resource definition and extension programmes.

Drilling for grade control purposes continued utilising a jumbo-mounted diamond drill rig, which is a key step in accurate delineation of the high value production stopes.

An updated Mineral Resource Estimate was calculated for the T4, T5, and T7 Deposits in February 2012. The updated resource models were used as the basis for updating of the Life of Mine design and schedule for the combined Flying Fox / Lounge Lizard mine. At 30 June 2012, the reported figure for the Lounge Lizard deposit is that published by Kagara at the time of purchase, net of mining depletion. WSA is targeting an updated resource/ reserve being released during the first half of FY13.

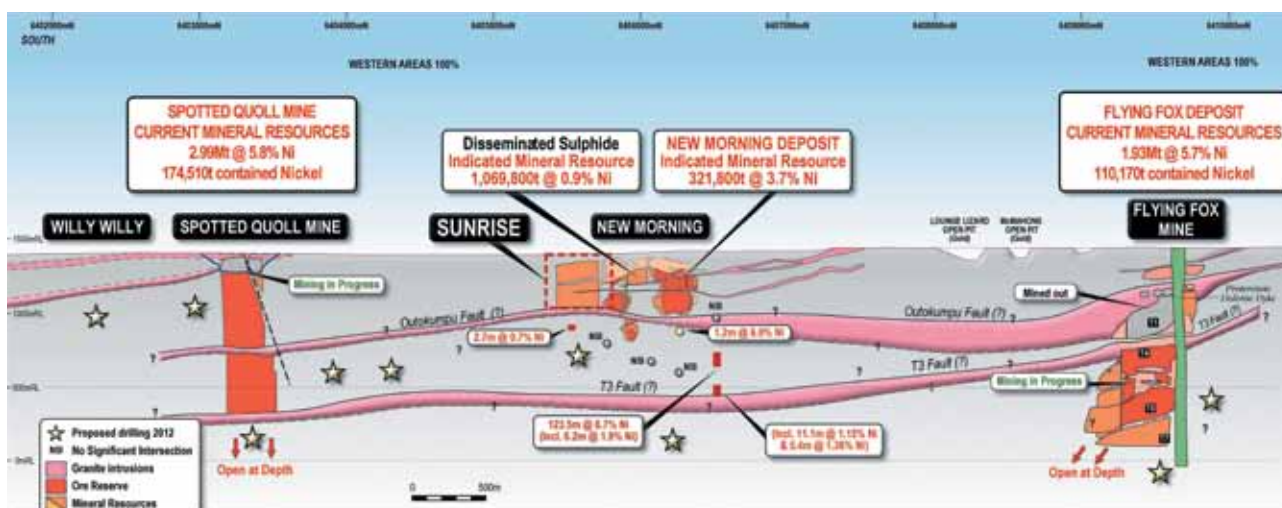
The updated Mineral Resource Estimates for Flying Fox, depleted for mining as at 30 June 2012 are tabulated below:

|                          | Tonnes<br>(t)    | Grade<br>(% Ni) | Ni Metal<br>(t) |                            |
|--------------------------|------------------|-----------------|-----------------|----------------------------|
| T1 South                 | 65,600           | 3.9%            | 2,580           | Indicated Mineral Resource |
|                          | 35,200           | 4.9%            | 1,720           | Inferred Mineral Resource  |
| T1 North                 | 45,400           | 4.2%            | 1,900           | Indicated Mineral Resource |
|                          | 12,700           | 4.8%            | 610             | Inferred Mineral Resource  |
| T4                       | 180,500          | 5.1%            | 9,190           | Indicated Mineral Resource |
|                          | 15,700           | 4.0%            | 630             | Inferred Mineral Resource  |
| T5                       | 696,700          | 6.4%            | 44,660          | Indicated Mineral Resource |
|                          | 16,000           | 4.4%            | 710             | Inferred Mineral Resource  |
| Lounge Lizard (T5/T4)    | 710,800          | 5.8%            | 41,130          | Indicated Mineral Resource |
| T7                       | 108,800          | 4.7%            | 5,120           | Indicated Mineral Resource |
|                          | 42,200           | 4.5%            | 1,920           | Inferred Mineral Resource  |
| Total Indicated Resource | 1,807,800        | 5.8%            | 104,580         |                            |
| Total Inferred Resource  | 121,800          | 4.6%            | 5,590           |                            |
| <b>Total Flying Fox</b>  | <b>1,929,600</b> | <b>5.7%</b>     | <b>110,170</b>  |                            |

The updated Ore Reserve Estimates for Flying Fox, depleted for mining as at 30 June 2012 are tabulated below:

|                         | Tonnes<br>(t)    | Grade<br>(% Ni) | Ni Metal<br>(t) |                      |
|-------------------------|------------------|-----------------|-----------------|----------------------|
| <b>Total Flying Fox</b> | <b>1,067,700</b> | <b>4.5%</b>     | <b>48,300</b>   | Probable Ore Reserve |

An Ore Reserve estimate has not yet been calculated for Lounge Lizard, but this will occur after the release of the WSA Mineral Resource model in FY13.



Interpreted Long Projection of the Western Belt footwall contact extending 6km from Spotted Quoll to Flying Fox.

## Spotted Quoll Ore Reserves / Mineral Resources

Mining in the open pit was completed in February 2012, with commencement of underground production also taking place during the year.

The Spotted Quoll open pit delivered a total of 487,742 tonnes @ 5.8% nickel for a total of 28,502 tonnes of contained nickel during its mine life. This was well in excess of the reserve of 386,500 tonnes @ 5.1% nickel for a total of 19,950 tonnes of contained nickel. The majority of the additional ore material outside of the ore reserve was mined from the North Lode where mineralisation was more extensive along fault structures and thicker zones were more pervasive than initially modelled from the resource drilling information.

Surface diamond drilling completed in the December quarter 2011 increased the Spotted Quoll Mineral Resource to 3.055Mt ore @ 5.9% nickel for 179,000 contained nickel tonnes which represented a 78% increase in nickel tonnes on the previous resource. This was followed in June 2012 by an increase in the Spotted Quoll Ore Reserve to 3.095Mt ore @ 4.2% nickel for 131,630 tonnes contained nickel. This represented a 94% increase in nickel metal.

The updated Mineral Resource estimates for Spotted Quoll, depleted for mining as at 30 June 2012 are tabulated below:

|                            | Tonnes           | Grade       | Ni Metal       |                            |
|----------------------------|------------------|-------------|----------------|----------------------------|
|                            | (t)              | (% Ni)      | (t)            |                            |
|                            | 2,452,000        | 6.0%        | 147,000        | Indicated Mineral Resource |
|                            | 539,700          | 5.1%        | 27,510         | Inferred Mineral Resource  |
| <b>Total Spotted Quoll</b> | <b>2,991,700</b> | <b>5.8%</b> | <b>174,510</b> |                            |

The updated Ore Reserve estimates for Spotted Quoll, depleted for mining as at 30 June 2012 are tabulated below:

|                            | Tonnes           | Grade       | Ni Metal       |                      |
|----------------------------|------------------|-------------|----------------|----------------------|
|                            | (t)              | (% Ni)      | (t)            |                      |
| <b>Total Spotted Quoll</b> | <b>3,045,000</b> | <b>4.2%</b> | <b>128,860</b> | Probable Ore Reserve |





Internal Haul Road crew from Hampton's Transport

## BioHeap

During the year, testwork started on a third party ore sample to determine the amenability to bacterial leaching. Proposals were prepared for other companies following presentations on BioHeap's new high pH bacterial culture at the ALTA 2012 Nickel Cobalt Copper, Uranium and Gold conference in Perth. This presentation and a provisional patent application are the results of the research and development project that has been underway at BioHeap's Waterford laboratory since the laboratory opened last year. Further research work is planned for the coming financial year with the aim of strengthening and supporting BioHeap's current intellectual property portfolio and expanding the application of the technology.

The BioHeap team is excited about this significant advance in the BioHeap™ technology, whereby the specially adapted bacteria have been shown to effectively leach base metals at pH's above 3.5, in low levels of soluble iron. There is potential to reduce acid consumption rates in the BioHeap™ leaching system while also significantly reducing the reagent demands on the iron removal systems of the process using this new bacterial culture. Work is continuing both in quantifying the benefits of this advancement, while expanding the application range for these classes of cultures into areas of need in the mining industry.

Procedural, technological and equipment enhancements continue to be made at BioHeap's laboratory to further improve efficiency and reliability of research and testwork programs with the aim of reducing the administrative load on BioHeap's key scientists and researchers, allowing them to focus on innovating and improving the technology.

A marketing campaign is planned for the coming year to promote the BioHeap™ technology to the industry and to invite company's considering processing options for sulphide ores to consider the use of the BioHeap™ technology. Alliances and working relationships with research institutes, engineering firms and testwork facilities continue to be formed and strengthened.

The Company has noted a growing trend towards leaching technology for base metals as ore grades decline worldwide. We noted as an example that Vale, one of the world's largest miners, has launched a study into leaching of substantial low grade copper ores. With this trend, we believe there is an exciting future for bacterial leaching technology and with our global patents, places the company in a sound strategic position for the medium to longer term.

## INFRASTRUCTURE

### FNP Internal Haul Road

The 15.7km internal haul road project to enable haulage of run of mine ore from the Spotted Quoll and Flying Fox surface ore pads to the Cosmic Boy concentrator was approved late in the financial year.

Hamptons Transport was awarded the road construction contract with Barminco awarded the associated surface crushing and screening contract.

The project will remove 12km from the existing gazetted haulage route and will allow the use of larger, more efficient trucks. The project saves on average 30% off the existing haulage cost per tonne (or \$15M over the next nine years) with payback by end of 2013.

The private road is being built largely on existing exploration tracks which are formed to design then covered with crushed underground waste rock and top dressed with local gravel to provide an all weather surface.

The private road is expected to be operational in October.

### Mossco Farm Evaporation Ponds

The dewatering pumping system to Mossco Farm was commissioned during the December quarter at its maximum flow rate of 155 l/s from the Cosmic Boy pumping station. The system is working well within design specifications with the current flow rate of 55 l/s delivered on average from the Forresteria mines dewatering network.



Stephen Black and Robert Bennett tagging on at Forrestania



Ken McKenzie at the Tim King Open Pit

## EXPLORATION

### Forrestania Exploration

Western Areas continues to actively explore at Forrestania with two main aims:

- Define significant high grade extensions to Flying Fox and Spotted Quoll deposits
- Discover another Flying Fox or Spotted Quoll type deposit

Exploration drilling included evaluating potential extensions to the existing Flying Fox and Spotted Quoll deposits, as well as testing for extensions to the mineralisation at New Morning.

Outside of the areas of existing resources the Western Areas and Joint Venture tenement package comprises some 900 km<sup>2</sup> over a 125km strike length, (see Figure 3). Other prospects where exploration was undertaken to locate new nickel sulphide deposits in the Forrestania Project region included Diggers South (8km south of Cosmic Boy), the area between New Morning and Spotted Quoll, EJ Moore (12km north of Cosmic Boy), the South Ironcap area (12km south of Cosmic Boy), Cross Roads (5km south east of Flying Fox), Hatters Hill (34km south of Cosmic Boy), and Mt Gibb (30km south of Diggers South).

Following the acquisition of the Kagara Nickel tenement package a prospectivity review and target generation phase has commenced. Priority areas where exploration activities have either commenced or are planned to commence include the Lounge Lizard (South of the Flying Fox Mine), T15 (12km south of Spotted Quoll) and Northern Estates areas (43km north of Flying Fox).

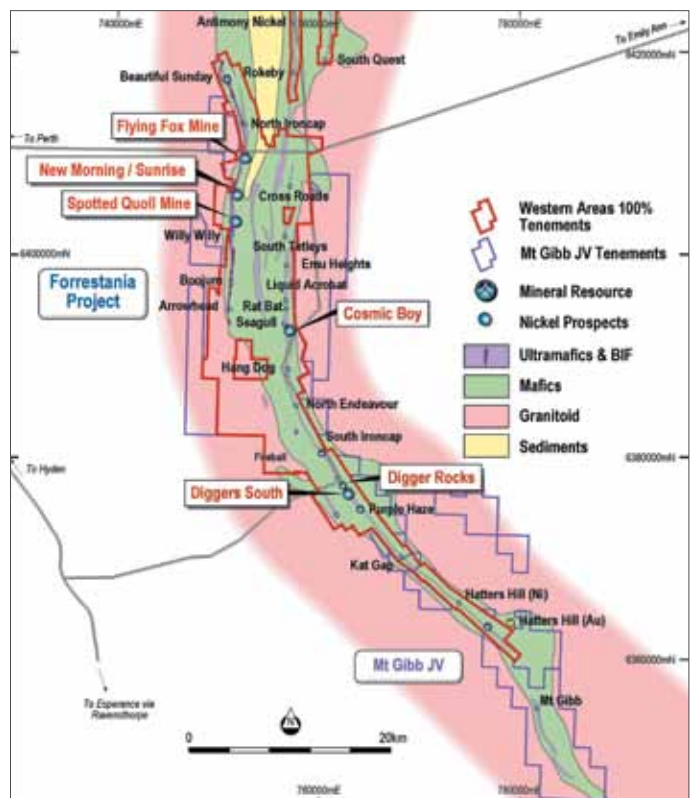


Figure 3: Plan showing Forrestania tenements; mines and key prospects.



Ron Stewart drilling at Sunrise; the latest nickel sulphide discovery at Forrestania

## Sunrise

Drilling testing the 3km long section between Spotted Quoll and New Morning discovered nickel sulphide mineralisation in the northern most hole NMD140 (Figure 4). As reported in the March quarterly report, the mineralisation occurs some 300m south east of the high grade New Morning deposit, with a number of intervals returned from two zones of mineralisation. As announced on 19 July 2012, there were further significant intersections of nickel sulphides at Sunrise

Major highlights are:

- Eleven of the fifteen diamond core holes drilled at Sunrise to date have intersected nickel sulphides (see Figure 4);
- Mineralisation extends for 400m north-south and to a depth of at least 400m below surface and is open to the north and at depth;
- Best intersections; - NMD 140 - 2.6m at 3.5% nickel and; NMD 149 - 4.6m at 3.7% nickel;
- Sunrise deposit is located 300m south-east of the New Morning deposit within the highly prospective Western Belt, which hosts the high grade Spotted Quoll and Flying Fox mines.

The Sunrise mineralisation is interpreted to be contained within ultramafic rocks that lie approximately 200m above the basal contact. All holes intersecting nickel sulphides do so at approximately the same stratigraphic level, confirming the continuity of mineralisation. The mineralised horizon is steeply dipping and generally comprised of two zones, which are between 1m and 4m wide, separated by about 10m to 20m.

Drilling is currently testing deeper extensions of the mineralisation (NMD 154) below the granite / Outokumpu Fault, which is interpreted to have been offset 150m to the east. This hole will also test the zone, below the lower ultramafic basal contact, equivalent to the Spotted Quoll stratigraphic position, which returned 2.7m @ 0.7% Ni from 595.1m in NMD140 (see Figure 4).

Downhole EM (DHEM) has been undertaken on all completed holes and the data is being used to determine the most prospective portions of the mineralisation. Drilling is continuing to further test the character and continuity of the mineralisation.

The proximity of the Sunrise and New Morning deposits to the operating Spotted Quoll underground mine presents strong synergies in terms of underground access and installed infrastructure (water, power, roads) which exist in the area.

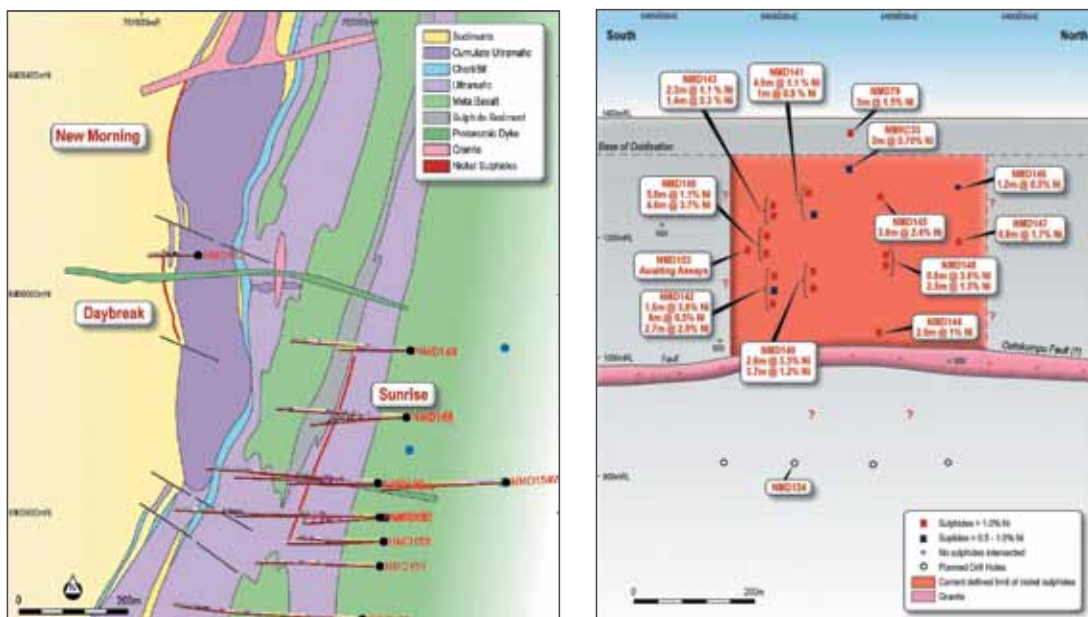


Figure 4: Interpreted Long Section of Sunrise mineralisation showing recent intercepts.



Jaise Jose underground at Flying Fox

### Forrestania Project Exploration

Three drill holes and three wedges off existing holes were completed targeting extensions of the Diggers South mineralisation. The majority of Diggers South mineralisation dips to the west. The latest drilling confirmed the change to an easterly dip of the mineralisation as a result of faulting in the southern portion of the deposit. Down Hole Electromagnetics (DHEM) was completed on the drill holes. This data together with the geological interpretation was collated to assist in the generation of further targets within the down plunge prospective stratigraphy which hosts the existing resource (3Mt @ 1.5% Ni).

At South Ironcap eight holes were drilled testing the northern extent of the known disseminated mineralisation for higher grade contact style mineralisation. Hole SID 27 intersected a small amount of nickel bearing sulphides close to the contact, 2.6m at 0.8% Ni from 268.5m (including 0.8m at 1.55% Ni from 270.3m) and 1.8m at 0.47% Ni from 273.9m. No other significant mineralisation was intersected however half the holes adjacent to the mineralised holes were ineffective tests of the contact due to the presence of a granite intrusion. The data from DHEM completed on the holes is being assessed to overcome this factor and provide a vector towards further mineralisation.

Drilling was also undertaken at a number of prospects in the northern part of the Forrestania area, including at Cross Roads (5km south east of Flying Fox), and EJ Moore (12km north of Cosmic Boy), as well as Hatters Hill to the south (34km south of Cosmic Boy).

Ground based electromagnetic (EM) surveys were completed over the T15, EJ Moore and Hatters Hill prospects. Conductors were identified at all prospects and these are scheduled to be drill tested. In addition drilling has also been proposed to continue at New Morning and Sunrise, T15, North Ironcap, Boojum, and Mt Gibb.

### Mt Gibb (WSA 70% interest)

The Mt Gibb Project comprises a Joint Venture with Great Western Exploration Limited (GTE) over a 303km<sup>2</sup> tenement area in the Forrestania region. The bulk of the project area lies along the south-eastern margin of Western Areas Forrestania tenements.

A significant programme of diamond drilling (14 holes for 3506.3m) was completed testing a series of anomalies generated previously by surface EM surveys completed by GTE in the southern portion of the project area.

Whilst most of the anomalous geophysical responses related to barren sulphides, encouragingly, two of the drill holes intersected narrow massive nickeliferous sulphide veins. MGD002 intersected 1.1m at 2.6% Ni from 133.9m depth with the nickel mineralisation remobilised into a sheared footwall basalt host. HCD001 intersected 0.3m at 0.9% Ni from 249.8m and 0.2m at 1.8% Ni from 250.9m depth with nickel mineralisation associated with a contact position but hosted within banded iron formation. However, subsequent drill holes beneath these intersections failed to intersect significant nickel sulphides. DHEM surveys on the drill holes failed to identify conductors associated with the nickeliferous intercepts.

The stratigraphic sequence tested above continues to the south east and remains essentially unexplored. Further exploration activities are planned by Western Areas including further testing of the southern portion of the project area with EM geophysics and subsequent drill testing of any anomalies generated.



Recent RC drilling at the Sandstone Project

## REGIONAL EXPLORATION

Western Areas has consolidated substantial nickel interests in the 'Central Yilgarn Nickel Province' which extends approximately 500km from Sandstone to Ravensthorpe. Western Areas holds interests in seven nickel projects (excluding Forrestania) which are all considered to have excellent potential for new nickel discoveries (see Figure 5).

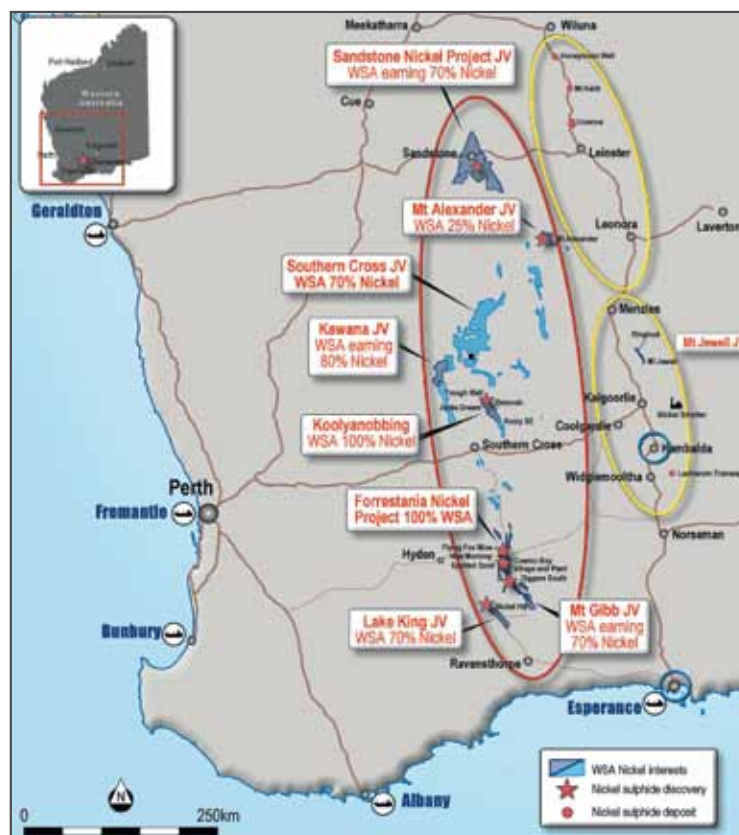


Figure 5: Regional geology showing WSA interests.

### Sandstone Joint Venture (WSA earning 70% interest in nickel rights)

The Sandstone JV Project with Troy Resources NL covers a large area of prospective ultramafic sequence (approximately 25km by 15km) and is located 400km north of Western Areas' 100% owned Forrestania Nickel Project.

Exploration activities included the completion of the surface induced polarisation (IP) and EM surveys, four diamond drill holes (1,705m) and four RC holes (1,077m) testing the geophysical targets. The geophysical surveys identified IP anomalies in the Albatross and Comet areas, and a number of EM anomalies in the Rapide and Cirrus areas, proximal to known nickel sulphide mineralisation. All the diamond holes intersected non-nickeliferous sulphides and although prospective ultramafics were encountered in all the RC drill holes, interpretations from the DHEM indicate that the anomalies are represented by sulphidic sediments (BIF) and shear zones.

The stratigraphic diamond hole (drilled with government co-funded assistance) was completed at 1,171m. The hole was designed to test whether the prospective stratigraphic contact for nickel may be located at depth, below the central zone of the Sandstone Belt. No cumulate ultramafics were intersected, with the lithology being dominated by a consistent sequence of mafic volcanics, komatiitic basalts and less prospective ultramafics with generally shallow lithological contacts, downgrading the potential for nickel sulphide mineralisation in this area.

Results of the recent activities are currently being compiled to determine future programmes.

## SXG Nickel JV (WSA 70% interest)

WSA has acquired 70% of Southern Cross Goldfields Limited (SXG) nickel rights across much of its 3,300km<sup>2</sup> tenement portfolios in the Marda and Southern Cross regions of Western Australia. The SXG tenement package covers the northwestern portion of the Southern Cross-Bullfinch Greenstone Belt within the 'Central Yilgarn Nickel Province'.

Initial work commenced within the Bullfinch North region, at the Trough Well area, where previous drilling had intersected several zones of nickel sulphides over a strike length of 800m within a classic Kambalda-style setting. Work comprised Moving Loop Electromagnetic (MLEM) surveys, diamond drilling and the completion of a belt scale Airborne Magnetic Survey (AMAG). A number of anomalies were identified in the MLEM, some associated with known nickel sulphide mineralisation.

Diamond drilling at Trough Well totalled nine holes for 3,145m, and included five holes testing the known mineralisation at depth, and four historical holes extended to intersect the interpreted contact. Only one of the holes (TWD024) intersected the prospective horizon at depth, with the other holes either intersecting granite (TWD025, TWD028) or a faulted contact (TWD029). A single hole (TWD027) targeting the known mineralisation at the southern end intersected two discreet mineralised zones with approximately 30cm of disseminated to matrix nickel sulphides (values up to 3% nickel from NITON portable XRF). DHEM was completed on all current and a number of historic holes at Trough Well. While no new anomalies were detected, the geophysics did confirm the localised and discontinuous nature of the historic conductors (and higher grade mineralisation) and validated the geological model.

Target generation activities over other areas within the tenure have commenced. Of particular interest is the Marda area, which is interpreted to be a tectonic intersection of the known mineralised stratigraphy at Koolyanobbing (nickel), Trough Well (nickel) and Copper Bore (base metals prospect). Regional field activities are planned to commence during the subsequent quarters to assess this and other areas.

## Lake King JV (WSA 70% interest)

The Lake King JV tenements cover a 40km long nickel prospective belt located approximately 70km south of Forrestania.

Work on the project area included a number of MLEM surveys, belt scale AMAG survey and commencement of diamond drill testing of the priority targets.

Based on the interpretations of the recently completed AMAG survey (see Figure 6), six priority geophysical targets in the northern portion of the tenement were screened with MLEM/FLEM. The resultant three anomalies, coincident with interpreted ultramafic rocks, were drill tested with three drill holes (for 1094.4m). All holes successfully tested the geophysical targets, which were found to be either sedimentary volcanic (VMS) or shear related.

Interpretation of the airborne magnetic survey data has been successful in generating a number of stratigraphic targets in the interpreted prospective ultramafic stratigraphy within the southern portion of the tenure. Air-core drilling in the September quarter will test these targets and the extent and volume of the interpreted ultramafic rocks.

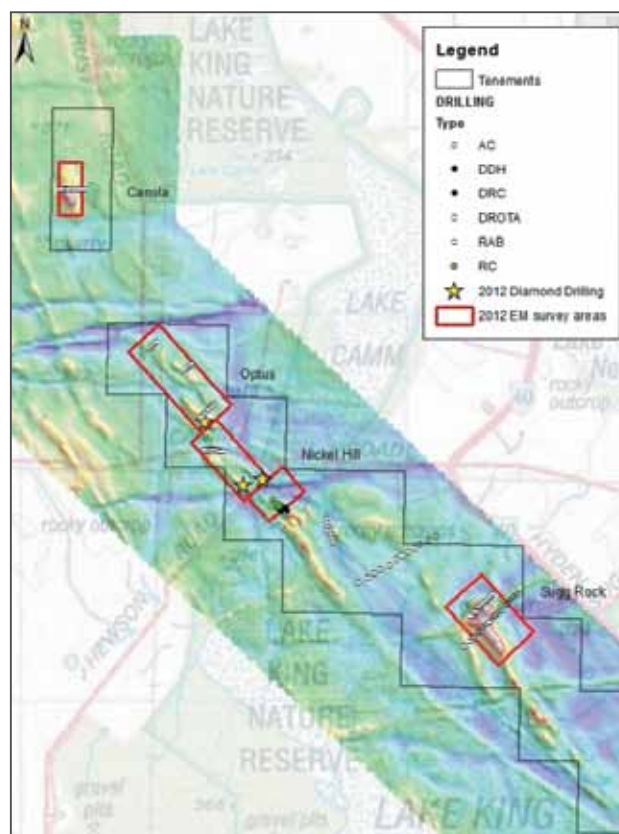


Figure 6: Exploration activities on the Lake King Nickel JV overlaying high resolution AMAG image.

**Kawana JV (WSA earning 80% interest)**

Western Areas entered into an agreement to explore the Kawana Project which totals approximately 270km<sup>2</sup> in area. The Kawana tenements are located approximately 250km north west of Western Areas Forrestania operations and about 60km north-northwest of the township of Bullfinch. The Project covers the far north of the Southern Cross-Bullfinch Greenstone Belt. The Southern Cross Greenstone Belt extends discontinuously from Kawana in the north through Forrestania to Ravensthorpe in the south.

Exploration activities have recently been focused on determining the extent, nature and prospectivity of the ultramafic stratigraphy within the project area. Two phases of auger soil sampling (907 holes) and a number of MLEM surveys were completed to locate nickel sulphide mineralisation along the Quartz Ridge trend in the northern part of the project area. A number of interesting nickel and base metal anomalies were identified, but no bedrock conductors were identified warranting follow-up drilling.

The next phase of exploration will be planned once the significance of the latest results are assessed.

**Koolyanobbing JV (WSA 100% of nickel rights)**

The Koolyanobbing project is located 50km north-east of Southern Cross and covers portions of the northern area of the Southern Cross Greenstone Belt. Previous diamond drilling within the central part of the project has intersected several narrow zones of high grade stringer nickel sulphides, including 0.5m @ 2.0% Ni from 259.1m and 0.2m @ 4.3% Ni from 263.3m at the Jocks Dream prospect. These intersections occur within a 500m long nickel sulphide zone discovered in the 1970s and extended by Western Areas.

Work comprised an extensive MLEM survey of the northern ultramafic stratigraphy, down-hole EM of historic holes and follow-up target drilling (eleven RC holes for 2,963m). The holes tested the extents of the prospective ultramafic horizon that hosts the known (and largely open) mineralisation around the nickel mineralisation at Jock's Dream, as well as targeting a series of MLEM conductors coincident with nickel soil anomalies.

KDRC023 drilled some 200m to the south east of the Jocks Dream prospect and returned 1m @ 1.42% Ni, 700ppm Cu from 296m. The intersection consists of matrix / stringer mineralisation at the base of a cumulate ultramafic unit and potentially confirms continuity of Jocks Dream mineralisation. Results of the DHEM from the hole are awaited.

All the other drill holes successfully tested the targets, which have been shown to represent sulphidic chert / BIF in the ultramafic hanging wall.

The results of the recent work will be compiled and together with the DHEM from the holes, will be used to define further drill targets.

## FINNAUST MINING PLC

Western Areas currently owns 81.9% of FinnAust Mining Plc (FinnAust) with the other 19.1% owned by a Finland based exploration Company, Magnus Minerals, and related Finnish shareholders. FinnAust is exploring a number of base metal exploration projects in southeastern Finland, (see Figure 7). FinnAust considers that this region may represent a major metal province based on favourable geology, widespread past mining activity and the existence of numerous base metal occurrences.

The current FinnAust drilling program is focused on a range of targets for Outokumpu (copper) Type (four priority targets in the region of the historic, high grade Outokumpu copper mine), Gabbro (nickel / copper / PGM) mineralization (gabbro hosted nickel/copper sulphide occurrence discovered at Tormala), as well as drilling potential extensions below the Hammaslahti copper/zinc mine.

FinnAust acquired 100% interest in the Hammaslahti mine deposit and a significant land package covering strike extensions of the prospective volcanic stratigraphy. Outokumpu Oy mined a total of 7 Mt of ore at 1.16% Cu, 1.55% Zn, 0.52% Cu, 0.59 ppm Au, 5.2 ppm Ag between 1973 and 1986. Three distinct, mineable Cu ( $\pm$ Zn) lodes and one Zn lode were mined. Production ceased in 1986 and the area has received very little exploration attention since.

Compilation of the historic data has commenced. Drilling of targets identified from this work including the testing of the interpreted down plunge extensions to a previously mined copper ore shoot is in progress. Initial diamond drilling is being completed on two traverses (Three holes and two wedges drilled to date) and visible chalcopyrite mineralisation has been intersected within what is interpreted to be a strongly chlorite altered felsic/mafic sequence. Assays have been received for the first two drill holes with significant copper intersections including 1.8m@1.27% Cu from 625.6m in DDH R303 and 1.5m@1.29% Cu from 599.5 in DDH R304.

These early results are considered to be very encouraging. Drilling is planned to continue with the objective of identifying high grade massive to semi massive sulphide mineralisation adjacent to the wider zone of stringer and disseminated copper mineralisation.

Historic drilling at Tormala (~100km west of Outokumpu) intersected significant nickel mineralisation associated with a shallow gabbro intrusion (17.5m at 0.65% Ni, reported previously). Geological mapping of the Myhinkangas area at Tormala by FinnAust resulted in the discovery of surface nickel and copper sulphide mineralisation. Drilling has commenced to test the extent and grade of the mineralisation at Myhinkangas.

An extensive airborne geophysical survey (ZTEM) was completed over nine FinnAust project areas, most including known base metals occurrences. ZTEM is a relatively new geophysical technique which has the capacity to map large scale geological structures and detect conductive surfaces up to a depth of 1km. Drill targets will be identified once the interpretations of the ZTEM data are received.

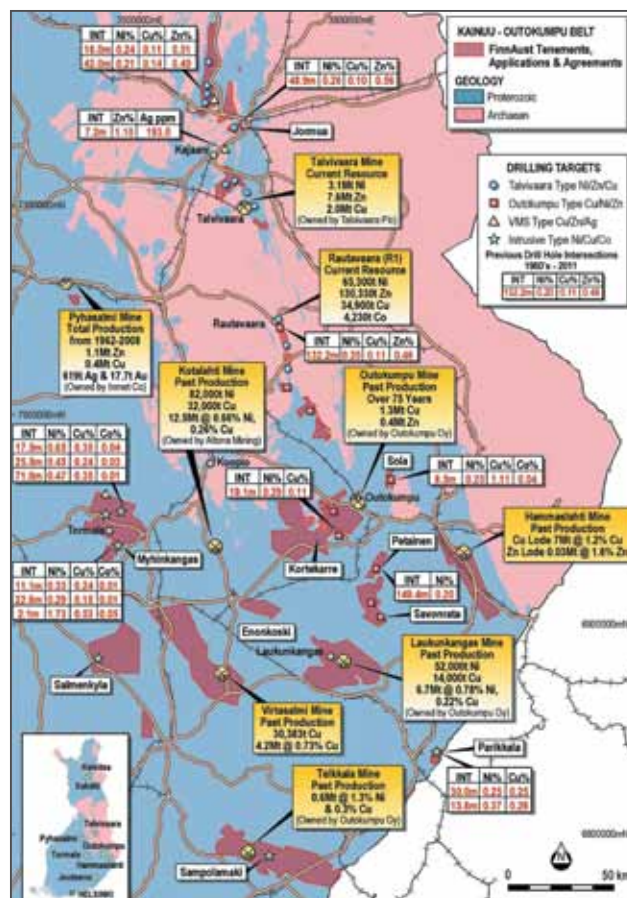


Figure 7: Plan showing FinnAust Mining holdings in Finland and location of Outokumpu and Hammaslahti mines.

## CANADIAN EXPLORATION

### East Bull Lake Project - Ontario (WSA earning 65%)

Western Areas has a joint venture with Mustang Minerals (TSX:MUM) to explore the East Bull Lake Project. East Bull Lake is a 20km long mafic intrusive complex which consists of two separate zoned intrusions (see Figure 8). The project is considered to have excellent potential to host significant nickel/copper/PGM deposits within a world class metal province.

Activities were dominated by the testing of geophysical responses (eight diamond drilling holes for 3172m) from the previous geophysical surveys (ZTEM (z-axis tipper electromagnetic) heliborne and VTEM), some of which are coincident with base metal and PGM mineralisation around the margins of the interpreted intrusive complex identified in outcrop and shallow drilling. The work also included further geophysical surveys (Fixed Loop Electromagnetic - FLEM) over five areas, included Parisien Lake, Bullfrog, Lodge North, Sables West and Savage grids.

Three holes each were completed and surveyed by DHEM at Parisien Lake (705m) and at Bullfrog (538m). Drilling targeted several weak EM responses in areas of known mineralisation. Several holes intersected narrow widths of mineralisation. This included EB12-03 which intersected 2.7m @ 0.41% Cu (including 0.3m @ 15.8% Cu) at 135.5m, the interpreted to be the down dip extension of the targeted lens in hole EB08-02 at 88.4m (1.1m @ 9.3% Cu

and 12.5ppm PGE), drilled previously. At Bullfrog hole ME00-21EXT (extended from 161m to 260m) intersected two narrow mineralised intervals of 1.7m @ 0.25% Cu and 0.6ppm PGE at 197.1m and 2.7m @ 0.14% Cu and 1.02ppm PGE at 250.3m. The DHEM survey showed a weakly anomalous response at about 180m.

The results of the DHEM are being evaluated to determine if the mineralised intervals are part of a larger mineralised system. No appreciable sulphides were intersected in the other holes to explain the conductive response from the ground geophysical surveys.

Two deep holes EBL12-05 and EBL12-06 (totalling 1928m) were completed to test two separate areas with coincidental ZTEM and Titan 24 MT (magnetotelluric) responses. No appreciable sulphides or other mineralised source to explain the MT responses were intersected in both holes. DHEM data for EBL12-06 indicates there is an off-end anomaly which requires resurveying with a larger survey tool to give a direction to the source. As numerous mafic dykes were intersected in the holes the geological data, together with the geophysical data, are currently being reviewed to assess the effectiveness of the holes and the prospectivity of the DHEM response.

In addition to the drilling further ground geophysical surveys (TDEM) were conducted at two areas, known as the Sables West and Savage grids, to refine anomalies identified from airborne geophysical surveys. No significant anomalies were returned from the surveys.

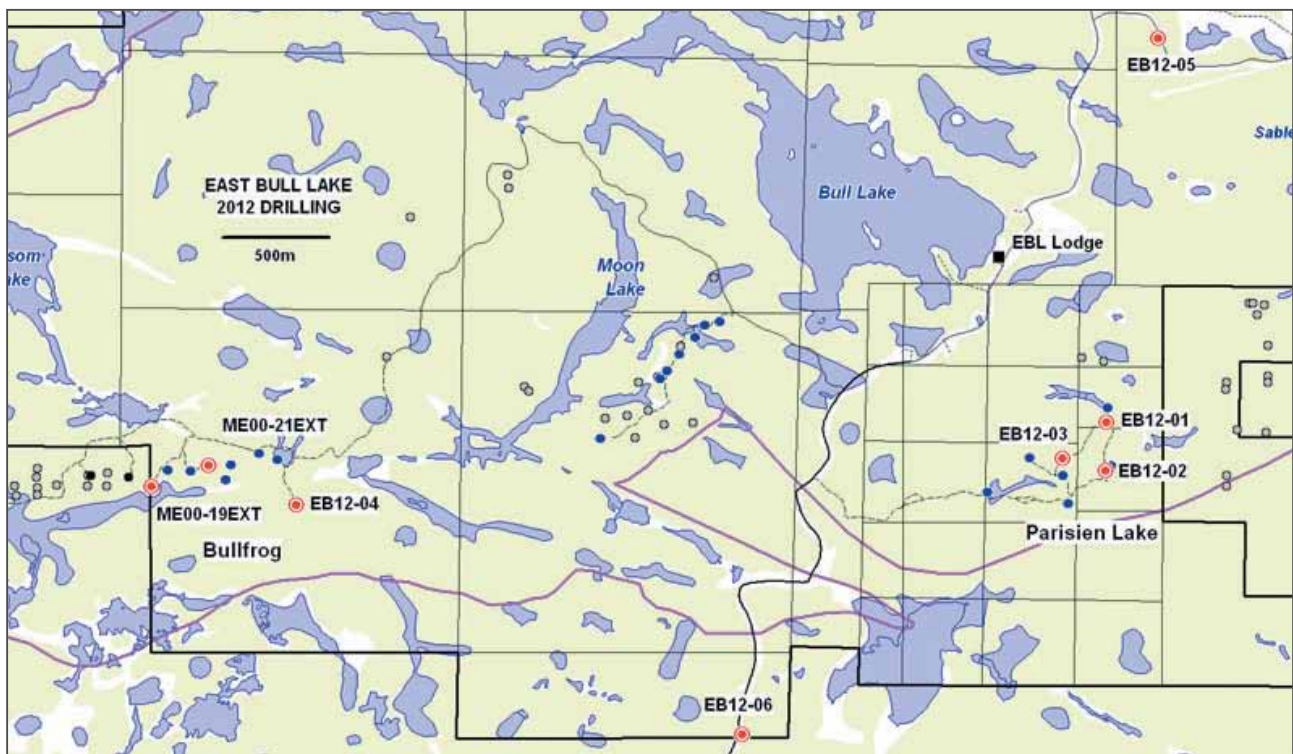


Figure 8: Plan showing 2012 drilling at the Parisien Lake and Bullfrog areas as well as ZTEM targets -1 (EB12-05) and -2 (EB12-06).

## WESTERN AREAS NL ORE RESERVE / MINERAL RESOURCE TABLE - 30 JUNE 2012

| Deposit                                 | Tonnes            | Grade Ni%  | Ni Tns         | JORC Classification        |
|-----------------------------------------|-------------------|------------|----------------|----------------------------|
| <b>Ore Reserves</b>                     |                   |            |                |                            |
| <b>1. Flying Fox Area</b>               | 1,067,700         | <b>4.5</b> | 48,300         | Probable Ore Reserve       |
| <b>2. Spotted Quoll</b>                 | 3,045,000         | <b>4.2</b> | 128,860        | Probable Ore Reserve       |
| <b>3. Diggers Area</b>                  |                   |            |                |                            |
| Digger South                            | 2,016,000         | <b>1.4</b> | 28,950         | Probable Ore Reserve       |
| Digger Rocks                            | 93,000            | <b>2.0</b> | 1,850          | Probable Ore Reserve       |
| <b>TOTAL WESTERN AREAS ORE RESERVES</b> | <b>6,221,700</b>  | <b>3.3</b> | <b>207,960</b> | Probable Ore Reserve       |
| <b>Mineral Resources</b>                |                   |            |                |                            |
| <b>1. Flying Fox Area</b>               |                   |            |                |                            |
| T1 South                                | 65,600            | <b>3.9</b> | 2,580          | Indicated Mineral Resource |
|                                         | 35,200            | <b>4.9</b> | 1,720          | Inferred Mineral Resource  |
| T1 North                                | 45,400            | <b>4.2</b> | 1,900          | Indicated Mineral Resource |
|                                         | 12,700            | <b>4.8</b> | 610            | Inferred Mineral Resource  |
| T4 FF                                   | 180,500           | <b>5.1</b> | 9,190          | Indicated Mineral Resource |
|                                         | 15,700            | <b>4.0</b> | 630            | Inferred Mineral Resource  |
| T5 FF Massive Zone                      | 696,700           | <b>6.4</b> | 44,660         | Indicated Mineral Resource |
|                                         | 16,000            | <b>4.4</b> | 710            | Inferred Mineral Resource  |
| LL Massive Zone                         | 710,800           | <b>5.8</b> | 41,130         | Indicated Mineral Resource |
|                                         | -                 | <b>0.0</b> | -              | Inferred Mineral Resource  |
| T6                                      | -                 | <b>0.0</b> | -              | Inferred Mineral Resource  |
| T7 FF                                   | 108,800           | <b>4.7</b> | 5,120          | Indicated Mineral Resource |
|                                         | 42,200            | <b>4.5</b> | 1,920          | Inferred Mineral Resource  |
| <b>Total High Grade FF- LL</b>          | <b>1,929,600</b>  | <b>5.7</b> | <b>110,170</b> |                            |
|                                         |                   |            |                |                            |
| T5 FF Disseminated Zone                 | 197,200           | <b>0.9</b> | 1,590          | Indicated Mineral Resource |
|                                         | 357,800           | <b>1.0</b> | 3,460          | Inferred Mineral Resource  |
| T5 LL Disseminated Zone                 | 4,428,000         | <b>0.8</b> | 36,000         | Indicated Mineral Resource |
| <b>Total Disseminated FF - LL</b>       | <b>4,983,000</b>  | <b>0.8</b> | <b>41,050</b>  |                            |
| <b>Total Flying Fox - Lounge Lizard</b> | <b>6,912,600</b>  | <b>2.2</b> | <b>151,220</b> |                            |
| <b>New Morning / Daybreak</b>           |                   |            |                |                            |
| Massive Zone                            | 321,800           | <b>3.7</b> | 12,010         | Indicated Mineral Resource |
|                                         | 93,100            | <b>3.5</b> | 3,260          | Inferred Mineral Resource  |
| Disseminated Zone                       | 1,069,800         | <b>0.9</b> | 9,650          | Indicated Mineral Resource |
|                                         | 659,200           | <b>0.9</b> | 5,780          | Inferred Mineral Resource  |
| <b>Total New Morning / Daybreak</b>     | <b>2,143,900</b>  | <b>1.4</b> | <b>30,700</b>  |                            |
| <b>Spotted Quoll</b>                    |                   |            |                |                            |
|                                         | 2,452,000         | <b>6.0</b> | 147,000        | Indicated Mineral Resource |
|                                         | 539,700           | <b>5.1</b> | 27,510         | Inferred Mineral Resource  |
| <b>Total Spotted Quoll</b>              | <b>2,991,700</b>  | <b>5.8</b> | <b>174,510</b> |                            |
| <b>Beautiful Sunday</b>                 |                   |            |                |                            |
|                                         | 480,000           | <b>1.4</b> | 6,720          | Indicated Mineral Resource |
| <b>TOTAL WESTERN BELT</b>               | <b>12,528,200</b> | <b>2.9</b> | <b>363,150</b> |                            |
| <b>2. Cosmic Boy Area</b>               |                   |            |                |                            |
| Cosmic Boy                              | 180,900           | <b>2.8</b> | 5,050          | Indicated Mineral Resource |
| Seagull                                 | 195,000           | <b>2.0</b> | 3,900          | Indicated Mineral Resource |
| <b>TOTAL COSMIC BOY AREA</b>            | <b>375,900</b>    | <b>2.4</b> | <b>8,950</b>   |                            |
| <b>3. Diggers Area</b>                  |                   |            |                |                            |
| Diggers South - Core                    | 3,000,000         | <b>1.5</b> | 44,700         | Indicated Mineral Resource |
| Diggers South - Halo                    | 4,800,000         | <b>0.7</b> | 35,600         | Indicated Mineral Resource |
|                                         |                   |            |                |                            |
| Digger Rocks - Core                     | 54,900            | <b>3.7</b> | 2,030          | Indicated Mineral Resource |
| Digger Rocks - Core                     | 172,300           | <b>1.1</b> | 1,850          | Inferred Mineral Resource  |
| Digger Rocks - Halo                     | 1,441,000         | <b>0.7</b> | 10,350         | Inferred Mineral Resource  |
|                                         |                   |            |                |                            |
| Purple Haze                             | 560,000           | <b>0.9</b> | 5,040          | Indicated Mineral Resource |
| <b>TOTAL DIGGERS AREA</b>               | <b>10,028,200</b> | <b>1.0</b> | <b>99,570</b>  |                            |
| <b>TOTAL WESTERN AREAS RESOURCES</b>    | <b>22,932,300</b> | <b>2.1</b> | <b>471,670</b> |                            |

# DIRECTORS' REPORT

For the Year Ended 30 June 2012

The Directors of Western Areas NL submit herewith the financial report of the company for the financial year ended 30 June 2012. Unless noted, all amounts in this report refer to Australian dollars. In order to comply with the provisions of the Corporations Act 2001, the directors' report follows:

## INFORMATION ABOUT THE DIRECTORS

### Directors



#### Terry Streeter

**Chairman.** Mr Streeter is a Perth based businessman with extensive experience in exploration and mining companies and has held various interests in the nickel sulphide industry for over 30 years. Mr Streeter is a member of the Remuneration, Nomination and Treasury Committees.



#### Dan Lougher

**Managing Director.** Mr Lougher is a qualified Mining Engineer with over 30 years experience in all facets of resource and mining, project exploration, feasibility, development and operational activities in Australia and overseas. Mr Lougher is a member of the Australasian Institute of Mining & Metallurgy. Mr Lougher serves on the Nomination Committee.



#### David Southam

**Finance Director.** Mr Southam is a Certified Practicing Accountant with more than 20 years experience in accounting, banking and finance across the resources and industrial sectors. Mr Southam was responsible for completing one of Australia's largest project financing transactions for 2010 and in securing life of mine offtake contracts with consortiums out of China.



#### Julian Hanna

**Non-Executive Director.** Mr Hanna is a geologist with over 30 years experience in gold and base metal exploration and mine development. He has a BSc in geology, is a member of AusIMM and has been involved in the discovery and development of several gold and base metal deposits.



#### Ian Macliver

**Non-Executive Director.** Mr Macliver is Managing Director of Grange Consulting Group Pty Limited which provides specialist corporate advisory services to both listed and unlisted companies. He has many years experience as a senior executive and Director of both resource and industrial companies, with particular responsibility for capital raising and other corporate initiatives. Mr Macliver chairs the Treasury and Audit & Risk Management Committees and is a member of the Remuneration and Nomination Committee.



#### Robin Dunbar

**Non-Executive Director.** Mr Dunbar is based in Toronto, Canada and has held a number of senior positions in both commercial and corporate banking sectors and is currently the President of Mustang Minerals Corp. Mr Dunbar is a member of the Audit & Risk, Nomination, Treasury and Remuneration Committees.



#### Rick Yeates

**Non-Executive Director.** Mr Yeates is a Geologist with more than 30 years mining industry experience in various roles and has significant experience across a wide range of resource projects around the world. He is familiar with the ASX regulatory environments and has had exposure to international resource funds and financial institutions. Mr Yeates chairs the Remuneration and Nomination Committee and is a member of the Treasury and Audit & Risk Management Committees.

The above mentioned directors held office during the whole financial year and since the end of the financial year except for Mr Macliver who was appointed on 1 October 2011.

Mr David Cooper was a director at the start of the financial year and retired from office on 30 September 2011. Western Areas is grateful for the many years of valuable service provided by Mr Cooper.



### COMPANY SECRETARY

**Mr J Belladonna** is a Certified Practicing Accountant and has been employed at Western Areas NL since 2005, originally as Financial Controller and then as Company Secretary and Chief Financial Officer. In his time at the Company he has been intimately involved in the accounting, capital raising and financial initiatives at the company. Mr Belladonna has over 10 years experience in the resources industry including listed gold and base metal companies in a range of management positions.

# DIRECTORS' REPORT CONTINUED

## DIRECTORSHIPS OF OTHER LISTED COMPANIES

| Name       | Company                      | Period of Directorship         |
|------------|------------------------------|--------------------------------|
| T Streeter | Midas Resources Limited      | Since February 2003            |
|            | Fox Resources Limited        | Since June 2005                |
|            | Waratah Resources Ltd        | Since January 2012             |
|            | Minera IRL                   | April 2007 - July 2009         |
| J Hanna    | Mustang Minerals Corp        | Since December 2006            |
| D Lougher  | Mustang Minerals Corp        | Since January 2011             |
| R Dunbar   | Mustang Minerals Corp        | Since November 1997            |
|            | Lexam VG Gold Inc.           | Since September 2005           |
|            | Aquila Resources Inc.        | Since May 2006                 |
|            | Padbury Mining Ltd           | September 2011 - December 2011 |
| R Yeates   | Middle Island Resources Ltd  | Since March 2010               |
| I Macliver | Stratatel Ltd                | Since July 2000                |
|            | Select Exploration Ltd       | Since September 2010           |
|            | Otto Energy Ltd              | Since January 2004             |
|            | Mt Gibson Iron Ltd           | February 2001 - November 2011  |
|            | Port Bouvard Ltd             | December 1994 - April 2011     |
|            | Car Parking Technologies Ltd | May 2006 - February 2011       |

## INTERESTS IN SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interest of the Directors or associates of the Directors in the shares and options of the Company are:

| Name       | Ordinary Shares | Performance Rights | \$7.50 Options |
|------------|-----------------|--------------------|----------------|
| T Streeter | 25,889,410      | -                  | -              |
| D Lougher  | 64,884          | 113,981            | 200,000        |
| J Hanna    | 1,134,666       | -                  | 200,000        |
| D Southam  | -               | 107,354            | -              |
| R Dunbar   | 102,500         | -                  | -              |
| R Yeates   | 10,000          | -                  | -              |
| I Macliver | 20,000          | -                  | -              |

All equity transactions with specified Directors and specified Executives, other than those arising from the exercise of options, have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report on page 28.

## PERFORMANCE RIGHTS GRANTED TO DIRECTORS AND SENIOR MANAGEMENT

Performance Rights granted to directors and senior management during the financial year ended 30 June 2012 is set out in the remuneration report of this directors' report on page 28.

## PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year consisted of mining, processing and sale of nickel sulphide concentrate, the continued feasibility and development of the high grade nickel mines and the exploration for nickel sulphides, and platinum group metals.

## OPERATING AND FINANCIAL REVIEW

### Income Statement

Consolidated revenue for the year decreased by 29.4% to \$330.7 million, while gross profit decreased by \$148.8 million to \$96.2 million.

Consolidated net profit after tax (NPAT) for the group amounted to \$40.2 million, a decrease of 70.2% from the results reported for the year ended 30 June 2011. The primary driver impacting the change in earnings was a reduction in the average realised nickel price from US\$11.38/lb in the prior financial year to US\$8.06/lb for the year ended 30 June 2012. The expensing of the acquisition costs relating to the purchase of Kagara Nickel Pty Ltd, reduced the profit before income tax by \$3.6 million.

Impacting NPAT of \$40.2 million for the year were the following non-cash items:

- Depreciation charges of \$15.3 million
- Amortisation charges of \$76.4 million
- Convertible bond accretion expense of \$9.1 million

These non-cash items amounted to \$100.8 million.

### Statement of Financial Position

Total assets at reporting date were \$775.0 million, representing an increase of \$82.6 million from 2011. Mine development increased by \$86.2 million, primarily driven by the purchase of Kagara Nickel Pty Ltd for a total consideration of \$68.0 million, the purchase of the Outokumpu royalty and the ramping up of development at Spotted Quoll Underground. Exploration and evaluation expenditure increased by \$41.4 million. Stockpiles increased by \$11.2 million in line with increased mine and mill production.

Total liabilities at reporting date were \$485.1 million, an increase of \$81.2 million from 2011. The increase is mainly attributable to a draw down of \$45.0 million on the corporate facility as part of the financing of the 100% purchase of Kagara Nickel Pty Ltd, an increase in the current and deferred tax liability (\$15.8 million) and trade and other payables (\$10.8 million), both associated with increased mine activity. On 2 July 2012, the Consolidated Entity repaid \$105.5M convertible bond issued in June 2007 from cash reserves.

Total equity attributable to shareholders has increased by \$1.4 million to \$289.9 million. This includes dividend payments to shareholders totalling \$35.9 million.

### Statement of Cash Flows

Cash at bank on 30 June 2012 totalled \$165.5 million. The decrease of \$43.4 million from the corresponding period resulted from a net cash payment of \$23.0 million for the purchase of Kagara Nickel, \$14.9 million for the purchase of the Outokumpu royalty and a lower average nickel price. The average monthly nickel price weakened from US\$11.38 in the prior financial year to US\$8.06 for the year ended 30 June 2012, while the Australian Dollar traded at an average of \$1.03 to the US\$ during the financial year. Continued capital development at Forrestania and other regional and international projects has seen an increase of \$19.7 million invested into new mines, processing capacity and exploration.

Consolidated cashflow from operations was \$159.3 million, representing a decrease of \$117.0 million from the prior year. This decrease was mainly driven by weaker average realised nickel price against increase nickel concentrate sales for the current financial year.

Net cash used in investing activities increased from the corresponding period by \$104.8 million to \$210.9 million as a result of the purchase of Kagara Nickel Pty Ltd for \$71.1 million (including stockpiles) and the Outokumpu royalty purchase of \$14.9 million. Mine development and asset purchases decreased by \$2.9 million to \$81.1 million for the year. A further \$42.7 million, representing an increase of \$22.6 million from the prior year, was invested in exploration and evaluation activities. Exploration and evaluation includes the company's investment into FinnAust which amounted to \$7.4 million for the current financial year.

Net cash from financing activities increased by \$34.7 million, due primarily on drawing down \$45.0 million on the corporate loan facility to fund the Kagara Nickel Pty Ltd purchase. Two dividend payments totalling \$35.9 million were paid during the financial year.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the consolidated group's state of affairs occurred during the financial year.

## SUBSEQUENT EVENTS

The Board of Directors on 20 August 2012, declared a final 30% partially franked dividend of 6 cents per share to the holders of fully paid ordinary shares.

On 2 July 2012, the Consolidated Entity repaid a \$105.5 million convertible bond, issued in June 2007, from cash reserves.

Other than matters detailed above, there have been no subsequent events after 30 June 2012 which have a material effect on the financial statements for the year ended 30 June 2012.

## FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity has conducted exploration and development activities on mineral tenements. The right to conduct these activities is granted subject to State and Federal environmental legislation and regulations, tenement conditions and Mining Proposal commitments. The Consolidated Entity aims to ensure a high standard of environmental management is achieved and, as a minimum, to comply with all relevant legislation and regulations, tenement conditions and Mining Proposal commitments. Western Areas has achieved a high level of compliance with all environmental conditions set for its projects and actively strives for continual improvement.

## DIVIDENDS PAID OR RECOMMENDED

In respect of the financial year ended 30 June 2011, a final unfranked dividend of 15 cents per share was declared to the holders of fully paid ordinary shares, and subsequently paid on 1 October 2011.

In respect of the half year ended 31 December 2011, an interim unfranked dividend of 5 cents per share was declared and subsequently paid to the holders of fully paid ordinary shares on 4 April 2012.

In respect of the financial year ended 30 June 2012, the directors declared the payment of a final, 30% partially franked dividend of 6 cents per share to the holders of fully paid ordinary shares to be paid on 12 October 2012.

## SHARE OPTIONS

Details of unissued shares or interests under option as at the date of this report are:

| Grant Date  | Date of Expiry | Exercise Price | Number under option |
|-------------|----------------|----------------|---------------------|
| 30 Sep 2009 | 30 Sep 2012    | \$7.25         | 1,300,000           |
| 13 Nov 2009 | 30 Sep 2012    | \$7.50         | 600,000             |
|             |                |                | 1,900,000           |

## INDEMNIFICATION OF OFFICERS AND DIRECTORS

During the financial year, the parent entity paid a premium under a contract insuring all Directors and Officers of the Western Areas NL against liability incurred in that capacity. Disclosure of the nature of liabilities insured and the premium is subject to a confidentiality clause under the contract of insurance.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company against a liability incurred as such an officer or auditor.

# DIRECTORS' REPORT CONTINUED

## DIRECTORS' MEETINGS

The following table sets out the number of meetings of the parent entity's Directors and meetings of the sub-committees of the Board held during the year ended 30 June 2012 and the number of meetings attended by each Director.

|                                      | Meetings of Committees |                         |              |            |          |
|--------------------------------------|------------------------|-------------------------|--------------|------------|----------|
|                                      | Directors Meetings     | Audit & Risk Management | Remuneration | Nomination | Treasury |
| <b>Number of Meetings held :</b>     | 14                     | 3                       | 4            | 4          | 1        |
| <b>Number of Meetings attended :</b> |                        |                         |              |            |          |
| T Streeter (*)                       | 13                     | 1                       | 4            | 4          | 1        |
| D Lougher                            | 14                     | -                       | -            | -          | -        |
| D Southam                            | 14                     | -                       | -            | -          | -        |
| J Hanna                              | 14                     | -                       | -            | 1          | -        |
| R Dunbar                             | 12                     | 3                       | 2            | 1          | 1        |
| R Yeates                             | 13                     | 3                       | 4            | 4          | 1        |
| D Cooper (**)                        | 2                      | 1                       | 1            | 1          | -        |
| I Macliver (***)                     | 11                     | 2                       | 3            | 3          | 1        |

(\*) Mr Streeter resigned from the Audit and Risk Committee during FY12, but attended all meetings while he remained a member.

(\*\*) Mr Cooper retired as at 30 September 2011.

(\*\*\*) Mr Macliver attended all meetings called since his appointment on 1 October 2011.

## DIRECTORS' BENEFITS

No Directors of the Consolidated Entity have, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by Directors shown on page 36 of the Directors Report) by reason of a contract made by the parent entity or a related body corporate with the director or with any entity in which the director has a substantial financial interest, with the exception of benefits that may be deemed to have arisen in relation to the transactions entered into in the ordinary course of business as disclosed in Note 30 to the accounts.

## PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

## AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration to the Directors of Western Areas NL on page 43 forms part of the Director's Report for the year ended 30 June 2012.

## NON – AUDIT SERVICES

The entity's auditor, Crowe Horwath, did not provide non-audit services during the reporting period. The Board has the following procedures in place before any non-audit services are obtained from the auditors:

- all non audit services are reviewed and approved by the Board and the Audit & Risk Management Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

### REMUNERATION SUMMARY

#### CHANGE OF MANAGING DIRECTOR

During FY12, Mr Julian Hanna stepped down as Managing Director ('MD') after 12 years in this key role, and agreed to remain on the Board as a Non-Executive Director ('NED') and consultant to assist with identifying and developing new growth opportunities for the Company with a specific focus on Finland. Given Mr Hanna's successful track record and significant experience (particularly in exploration), the Board felt there was a great advantage to shareholders in keeping Mr Hanna involved in the Company as a NED. His termination payment consisted of:

- 12 months termination payment in lieu of notice, which is aligned to current market practices and was disclosed in the FY11 Financial Report; and
- Payments relating to statutory long service leave entitlements accrued over a decade and statutory annual leave accruals.

Mr Hanna's short term incentive ('STI') targets that were triggered during the time he served as MD during FY12 were paid in accordance with the STI terms and conditions. In accordance with the long term incentive ('LTI') Plan approved at last year's AGM, Mr Hanna was not granted a LTI award and has been removed from the program. From 1<sup>st</sup> February 2012, Mr Hanna will receive fees for his role as a NED of the Board, and is being paid arms-length consulting fees for services performed over and above his duties as a NED.

On 3 January 2012, the Company announced that Mr Dan Lougher had been appointed as the new MD, effective 1 February 2012. Mr Lougher was previously the Company's Operations Director and was appointed from a group of applicants following an extensive and competitive process involving a large number of external candidates.

Since joining Western Areas in May 2006, Mr Lougher has been an integral part of the team that delivered first nickel production from Flying Fox, successfully commissioned the Cosmic Boy concentrator and delivered the Spotted Quoll project from discovery to production in less than two years. Mr Lougher was also active in corporate activities, along with company marketing within the investment community.

Mr Lougher's remuneration package as MD is aligned with the recent reform of the executive remuneration framework, and his remuneration as MD matches that of Mr Hanna's (in the MD role). Furthermore, Mr Lougher volunteered to hold his STI and LTI entitlements at the level of his Operations Director role until the new financial year commenced on 1<sup>st</sup> July 2012. Post this date, Mr Lougher's STI and LTI entitlements transitioned to the MD level.

#### LONG-TERM INCENTIVES

A key initiative from the comprehensive review undertaken by the Company in FY11 was the design and implementation of a new equity based LTI plan. The new LTI plan, which was overwhelmingly approved by shareholders at the 2011 AGM, is to be transitioned over a 3 year period. The terms of the FY12 grant represented Phase 1 of the transitional plan. The following two phases completing the transitional plan are outlined below.

For the FY 2013 grant the LTI performance will be structured as follows:

Performance Rights will vest subject to the meeting of service and performance conditions as defined below:

- Two-thirds of the rights will be performance tested against the relative TSR measure for the period 1 July 2012 to 30 June 2014.
- One-third of the rights will be performance tested against the relative TSR measure for the period 1 July 2012 to 30 June 2015.

All of the grant will be subject to a service based vesting condition which will provide that notwithstanding the passing of the performance test, no rights will vest and become exercisable into shares unless the participant remains employed as at 30 June 2015.

# DIRECTORS' REPORT CONTINUED

## REMUNERATION REPORT CONTINUED

The Company's TSR will be measured against a customised peer group comprising the following 23 companies:

|                           |                       |                         |
|---------------------------|-----------------------|-------------------------|
| Aditya Birla Minerals Ltd | Gindalbie Metals Ltd  | PanAust Ltd             |
| Alumina Ltd               | Independence Group NL | Paladin Energy Ltd      |
| Acquarius Platinum Ltd    | Medusa Mining Ltd     | Panoramic Resources Ltd |
| Atlas Iron Ltd            | Mincor Resources NL   | Perilya Ltd             |
| Beadell Resources Ltd     | Mirabela Nickel Ltd   | Rex Minerals Ltd        |
| Bougainville Copper Ltd   | Mt Gibson Iron        | Sandfire Resources Ltd  |
| Cudoco Ltd                | OM Holdings Ltd       | Zimplats Holdings Ltd   |
| Discovery Metals Ltd      | Oz Minerals Ltd       |                         |

For the FY 2014 grant onwards the LTI performance will be structured so that all Performance Rights will vest subject to the meeting of the service and performance conditions over a three year performance period. The FY2014 rights will be performance tested against the relative TSR measure for a three year period 1 July 2013 to 30 June 2016.

### SHORT-TERM INCENTIVES

The Company does not propose any material change to the STI program for FY13.

### REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors and Executives of Western Areas NL.

The report is comprised of the following key sections:

- Section A: Who this report covers
- Section B: Remuneration governance and philosophy
- Section C: Executive remuneration framework
- Section D: Use of remuneration consultants
- Section E: Link between performance and remuneration outcomes
- Section F: Non-executive director remuneration
- Section G: Details of remuneration

### SECTION A: WHO THIS REPORT COVERS

The following persons acted as directors of the company during the financial year:

Mr T Streeter (Non-Executive Chairman)

Mr D Lougher (Managing Director, effective 1 February 2012) \*

Mr J Hanna (Non-Executive Director, effective 1 February 2012) \*\*

Mr R Dunbar (Independent, Non-Executive Director)

Mr R Yeates (Independent, Non-Executive Director)

Mr I MacIver (Independent, Non-Executive Director, effective 1 October 2011)

Mr D Cooper (Independent, Non-Executive Director, resigned 30 September 2011)

Mr D Southam (Finance Director)

\* Mr Lougher formerly held the position of Director of Operations and was appointed to the position of Managing Director, effective 1 February 2012.

\*\* Mr Hanna stepped down from the position of Managing Director and Chief Executive Officer effective 31 January 2012 and remains on the Board as a Non-Executive director.

Other Key Management Personnel ('KMP') of the company during the financial year were:

Mr J Belladonna (Chief Financial Officer / Company Secretary)

Mr C Wilkinson (General Manager Exploration)

Mr G Marshall (General Manager Commercial)

Mr K McKenzie (General Manager Forresteria Operations)

Changes since the end of the reporting period:

On 1 August 2012, Mr Wyn Jones was appointed as the General Manager of Operations for Western Areas. Mr Jones graduated as a Mining Engineer from the Western Australian School of Mines, holds an MBA from Lancaster University and is an AusIMM member. In the 8 years he has been with the Company, he has been instrumental in the establishment of the Forresteria Nickel Project, serving as the Registered Manager for 4 years, and managed the Company's mining, feasibility and project developments.

### SECTION B: REMUNERATION GOVERNANCE AND PHILOSOPHY

#### Remuneration Committee

The Remuneration Committee of the Board of Directors of Western Areas is responsible for determining compensation arrangements for the Directors and the senior management team.

Remuneration levels and other terms of employment for the Directors and the senior management team are reviewed at least annually by the Committee, having regard to qualifications and experience, relevant market conditions, and performance against goals set each year.

The committee assesses the appropriateness of the remuneration levels to ensure the Company is able to attract and retain high quality Executives. The Remuneration Committee utilises independent salary reports to assist in this regard.

#### Remuneration Philosophy

The Company recognises that Western Areas operates in a global environment and to prosper in such an environment, it must attract, motivate and retain personnel of the highest calibre.

The principles supporting the Company's remuneration policy are that:

- Reward reflects the competitive global market in which we operate;
- Individual reward is based on performance across a range of disciplines that apply to delivering results for the Company;
- Executive remuneration is linked to the creation of shareholder value; and
- Remuneration arrangements are equitable and fair and facilitate the deployment of senior management across the Company.

### SECTION C: EXECUTIVE REMUNERATION FRAMEWORK

*"The key principle of our remuneration strategy is to pay for performance"*

The Company aims to reward Executives with a level and mix of remuneration commensurate with their position, experience and responsibilities within the Company. The objective is to:

- Reward Executives for their individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of Executives with those of the shareholders; and
- Ensure that total remuneration is competitive by market standards.

The Company's Executive reward structure provides a combination of fixed and variable pay, and is comprised of:

- Fixed remuneration, inclusive of base pay, superannuation, allowances, and salary-sacrifice components;
- Short term incentives; and
- Long term incentives.

#### Remuneration mixes

In accordance with the Company's objective to ensure that executive remuneration is aligned to company performance, a significant portion of executives' remuneration is placed "at risk". The relative proportion of target FY12 total remuneration packages split between fixed and variable remuneration is shown below:

|                            | Fixed Remuneration | Target STI | Target LTI |
|----------------------------|--------------------|------------|------------|
| <b>Executive Directors</b> |                    |            |            |
| Mr J Hanna <sup>1</sup>    | 39%                | 23%        | 38%        |
| Mr D Lougher               | 42%                | 26%        | 32%        |
| Mr D Southam               | 43%                | 25%        | 32%        |
| <b>Executives</b>          |                    |            |            |
| Mr J Belladonna            | 46%                | 20%        | 34%        |
| Mr C Wilkinson             | 51%                | 23%        | 26%        |
| Mr G Marshall              | 51%                | 23%        | 26%        |
| Mr K McKenzie              | 51%                | 23%        | 26%        |

<sup>1</sup> Mr J Hanna stepped down from the role of MD on 31 January 2012. This remuneration mix reflects his target remuneration package from 1 July 2011 to 31 January 2012.

# DIRECTORS' REPORT CONTINUED

## REMUNERATION REPORT CONTINUED

### Fixed remuneration

*"Fixed remuneration is positioned around the median of the external market for comparable roles"*

Fixed remuneration consists of cash (or base salary), superannuation, allowances, and any salary sacrifice components. The fixed remuneration component is reviewed annually by the Remuneration Committee. The Committee has access to external independent salary reports to ensure that the remuneration levels set meet the objectives of the Company.

There are no guaranteed base pay increases included in any executives' contracts.

### Short term incentive ('STI')

*"The STI plan is designed to motivate and reward executives for the achievement of short-term business goals"*

The objective of STI's is to link the achievement of key Company operational targets with the remuneration received by those Executives charged with meeting those targets. The STI Plan involves linking key performance indicators ('KPIs') with the opportunity to earn a cash bonus. The target value of the STI award for Executives ranges from between 45% to 60% of their base salary and is only rewarded to high performing employees for outperformance. STI payments are capped at target STI levels. Target STI for each KMP is outlined below:

| Name                       | Base salary<br>FY2012 (\$) | Target STI quantum<br>(% of base salary) | Target STI<br>quantum (\$) |
|----------------------------|----------------------------|------------------------------------------|----------------------------|
| <b>Executive Directors</b> |                            |                                          |                            |
| Mr J Hanna <sup>1</sup>    | 630,612                    | 60%                                      | 380,000                    |
| Mr D Lougher               | 515,597                    | 60%                                      | 310,000                    |
| Mr D Southam               | 486,000                    | 60%                                      | 290,000                    |
| <b>Executives</b>          |                            |                                          |                            |
| Mr J Belladonna            | 291,600                    | 45%                                      | 130,000                    |
| Mr C Wilkinson             | 315,087                    | 45%                                      | 140,000                    |
| Mr G Marshall              | 286,443                    | 45%                                      | 130,000                    |
| Mr K McKenzie              | 368,280                    | 45%                                      | 163,000                    |

<sup>1</sup> Mr J Hanna stepped down from the role of MD on 31 January 2012. These figures represent the STI arrangements in place for his role as MD at the start of the financial year. Once Mr Hanna stepped down he no longer participated in the STI program.

The KPIs used and the respective weightings of the KPIs will vary by role and are designed to align to those measures relevant to the responsibilities of each role. The overall STI program comprised of 44% financial and 56% non-financial KPIs, and are targeted at the areas of the business in which employee's operate to ensure the employee's efforts are focused on key areas of the business.

Due to the commercially sensitive nature of the KPIs, the precise metrics being used have not been disclosed. However, for FY12 the KPI's which could be selected as part of an Executive's balanced scorecard had to be sourced from the below KPI list.

| KPIs for Operations Group Executives    | Overview KPI                                                                                                                                    |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Forrestania safety performance          | Based on Lost Time Injury performance in each quarter.                                                                                          |
| Forrestania cash cost                   | Focused on average cash costs for Flying Fox (FF) and Spotted Quoll (SQ) mines per pound of nickel produced. Above budget performance required. |
| Forrestania Ni in ore production        | Need to exceed set budget nickel metal in ore from combined production of FF and SQ mines.                                                      |
| Forrestania CB plant recoveries         | Achieve a set threshold recovery above budget levels for the combined ore feed from FF and SQ mines.                                            |
| Forrestania nickel in concentrate sales | Sale of nickel metal in concentrate to exceed a set tonnes per quarter target (above budget).                                                   |
| Project development                     | Based on first ore production to the mine ore pad from the Spotted Quoll underground mine.                                                      |
| Forrestania Environmental accidents     | Based on reportable environmental incidents per quarter.                                                                                        |
| KPIs for Corporate Executives           | Overview KPI                                                                                                                                    |
| Earnings                                | Achieve EBIT target above budget.                                                                                                               |
| Cashflow                                | Achieve pre-funding cashflow target above budget.                                                                                               |
| Diggers South partner                   | Secure a joint venture partner to contribute towards the development of the Diggers South project.                                              |
| M&A activity                            | Successful completion of a merger or acquisition that adds value to the Company.                                                                |
| Fund raising                            | Achieve a target investment threshold for a greenfields project from an external party.                                                         |

# DIRECTORS' REPORT CONTINUED

## REMUNERATION REPORT CONTINUED

| KPIs for Exploration Executives | Overview KPI                                                                            |
|---------------------------------|-----------------------------------------------------------------------------------------|
| New Nickel resources            | Establishing new published nickel resources exceeding a targeted nickel tonnage levels. |
| New Nickel Discovery            | Discovery of a new Nickel deposit.                                                      |

### Long Term Incentive ('LTI')

*"The objective of the LTI plan is to reward senior management in a manner that aligns this element of remuneration with the creation of shareholder wealth"*

### Vehicle

In the past the company had made use of a standard employee share option plan, however, grants under this plan were more typically made on an ad-hoc basis and over the last two years no new grants have been made under this plan.

It was recognised that the options plan was no longer fit for purpose and was not providing an effective tool to reward, retain and motivate senior executives.

A number of different equity incentive vehicles were explored with the Board deciding that the most appropriate LTI plan going forward should be a Performance Rights Plan. Under a Performance Rights Plan executives will be granted a right to be issued a share in the future subject to the performance based vesting conditions being met.

The new Performance Rights Plan ('LTI plan') was approved by shareholders at the 2011 annual general meeting and was rolled out during FY12.

### Grant frequency and quantum

Under the new remuneration structure, Executives will receive a new grant of Performance Rights each year, such that the LTI now forms a key component of Executives' Total Annual Remuneration.

The LTI dollar value that Executives will be entitled to receive is set at a fixed percentage of their base salary, ranging from 50% to 100% of base salary, depending on the participant's position within the Company. This level of LTI is in line with current market practice.

The number of Performance Rights to be granted is determined by dividing the LTI dollar value of the award by the fair value of a Performance Right.

The quantum of grants made during FY12 is as follows:

| Name                       | Base salary (\$) | LTI quantum (% of base salary) | LTI quantum (\$) | Number of Performance Rights issued | Fair value per Performance Right at grant date | Vest date    | Expiry date  |
|----------------------------|------------------|--------------------------------|------------------|-------------------------------------|------------------------------------------------|--------------|--------------|
| <b>Executive Directors</b> |                  |                                |                  |                                     |                                                |              |              |
| Mr D Lougher               | 515,597          | 75%                            | 386,698          | 113,891                             | \$3.75                                         | 30 June 2014 | 30 June 2014 |
| Mr D Southam               | 486,000          | 75%                            | 364,500          | 107,354                             | \$3.75                                         | 30 June 2014 | 30 June 2014 |
| <b>Executives</b>          |                  |                                |                  |                                     |                                                |              |              |
| Mr J Belladonna            | 291,600          | 75%                            | 218,700          | 64,411                              | \$3.75                                         | 30 June 2014 | 30 June 2014 |
| Mr C Wilkinson             | 315,087          | 50%                            | 157,544          | 46,399                              | \$3.75                                         | 30 June 2014 | 30 June 2014 |
| Mr G Marshall              | 286,443          | 50%                            | 143,221          | 42,182                              | \$3.75                                         | 30 June 2014 | 30 June 2014 |
| Mr K McKenzie              | 368,280          | 50%                            | 184,140          | 54,234                              | \$3.75                                         | 30 June 2014 | 30 June 2014 |

### Performance conditions

Careful consideration was given to selecting a performance condition that would only reward executives for creating shareholder value, as determined via the change in the Company's share price.

Reflecting on market practice, the Board has decided that the most appropriate performance measure to track share price performance is via a relative total shareholder return ('TSR') measure.

# DIRECTORS' REPORT CONTINUED

## REMUNERATION REPORT CONTINUED

The Company's TSR will be measured against a customised peer group comprising the following 23 companies:

|                           |                       |                         |
|---------------------------|-----------------------|-------------------------|
| Aditya Birla Minerals Ltd | Gindalbie Metals Ltd  | PanAust Ltd             |
| Alumina Ltd               | Independence Group NL | Paladin Energy Ltd      |
| Acquarius Platinum Ltd    | Medusa Mining Ltd     | Panoramic Resources Ltd |
| Atlas Iron Ltd            | Mincor Resources NL   | Perilya Ltd             |
| Beadell Resources Ltd     | Mirabela Nickel Ltd   | Rex Minerals Ltd        |
| Bougainville Copper Ltd   | Mt Gibson Iron        | Sandfire Resources Ltd  |
| Cudoco Ltd                | OM Holdings Ltd       | Zimplats Holdings Ltd   |
| Discovery Metals Ltd      | Oz Minerals Ltd       |                         |

Two companies have been removed from the peer group. Kagara Ltd due to voluntary administration and Minara Ltd due to delisting.

No Performance Rights will vest unless the percentile ranking of the Company's TSR for the relevant performance year, as compared to the TSR's for the peer group companies, is at or above the 50th percentile.

The following table sets out the vesting outcome based on the Company's relative TSR performance:

| Relative TSR performance                                 | Performance Vesting Outcomes                   |
|----------------------------------------------------------|------------------------------------------------|
| Less than 50 <sup>th</sup> percentile                    | 0% vesting                                     |
| At the 50 <sup>th</sup> percentile                       | 50% vesting                                    |
| Between 50 <sup>th</sup> and 75 <sup>th</sup> percentile | Pro-rata / progressive vesting from 50% - 100% |
| At or above 75 <sup>th</sup> percentile                  | 100% vesting                                   |

### Performance period and vesting

As no LTI awards were made to executives for a number of years prior to 1 July 2011, and with significant shareholder value being realised in the preceding time, it was felt that the initial grants under the LTI plan needed to serve a number of different purposes:

- focus on future shareholder value generation;
- act as a key retention tool; and
- recognise the period of two years where no LTI awards were made.

Therefore, the focus on the initial awards made under the LTI plan was to provide a transitional award which would meet the key needs noted above, while providing a step towards a structure that in the future would be solely focused on long term sustainable shareholder value generation.

For grants made under the LTI plan during FY12, vesting will occur subject to the meeting of service and performance conditions as follows:

- One-third of the rights will be performance tested against the relative TSR measure for the period 1 July 2011 to 30 June 2012.
- One-third of the rights will be performance tested against the relative TSR measure for the period 1 July 2012 to 30 June 2013.
- One-third of the rights will be performance tested against the relative TSR measure for the period 1 July 2013 to 30 June 2014.

All of the grant will be subject to a service based vesting condition which will provide that, notwithstanding the passing of the performance test, no Performance Rights will vest and become exercisable into shares unless the participant remains employed as at 30 June 2014.

# DIRECTORS' REPORT CONTINUED

## REMUNERATION REPORT CONTINUED

### Service contracts

A summary of the key contractual provisions for each of the current executives is set out below:

| Name & job title                                            | Base salary \$ | Contract duration | Notice period employee | Termination provision                                        |
|-------------------------------------------------------------|----------------|-------------------|------------------------|--------------------------------------------------------------|
| D.Lougher, Managing Director *                              | 680,000        | No fixed term     | 3 months               | 12 months termination payment and accrued leave entitlements |
| D.Southam, Finance Director *                               | 510,106        | No fixed term     | 3 months               | 12 months termination payment and accrued leave entitlements |
| J. Belladonna, Chief Financial Officer/ Company Secretary * | 320,000        | No fixed term     | 3 months               | 6 months termination payment and accrued leave entitlements  |
| C Wilkinson, General Manager Exploration                    | 327,690        | No fixed term     | 1 month                | 6 months termination payment and accrued leave entitlements  |
| G Marshall, General Manager Commercial                      | 297,900        | No fixed term     | 1 month                | 2 months termination payment and accrued leave entitlements  |
| Mr K McKenzie, General Manager Forrestania Operations       | 383,011        | No fixed term     | 1 month                | 1 month termination payment and accrued leave entitlements   |

\* In the event that there is a takeover of, or merger with, the Company, the Company must pay the Executive a bonus within 10 days of that takeover or merger occurring.

(a) The amount of the takeover bonus will be calculated as follows:

The positive difference (expressed as a percentage of the 20 day VWAP) between the bid price for the Company's shares as a result of a takeover or merger bid, and the volume weighted share price of the Company's share price for the 20 days immediately preceding the takeover or merger bid; and

(b) Multiplied by 3, as a percentage of the Executive's base annual salary at the time that such a bid is completed.

All other senior management contracts are as per the group's standards terms and conditions and there are no contracted entitlements to cash bonuses, options or performance rights.

### SECTION D: USE OF REMUNERATION CONSULTANTS

Western Areas did not engage any remuneration consultants, as defined in the Corporation Act 2001, during the 2012 financial year.

The Company did however engage PwC to provide services related to the preparation and compliance review of the remuneration report, excluding the remuneration tables, and used the McDonald Report as a tool to assist in the assessment and benchmarking of salaries and conditions.

### SECTION E: LINK BETWEEN PERFORMANCE AND REMUNERATION OUTCOMES

The remuneration framework detailed above has been tailored with the objective of attracting and retaining the highest calibre staff who contribute to the success of the Company, while maintaining alignment between Company performance and individual rewards. The remuneration policies seek a balance between the interests of stakeholders and competitive market remuneration levels.

### Company Performance

| Year Ended 30 June             | 2012             | 2011             | 2010             | 2009             | 2008             |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
| Net Profit / (Loss) after Tax  | 40,181           | 134,973          | 14,212           | (35,172)         | (54,907)         |
| EPS                            | 22.4             | 75.1             | 8.0              | (20.9)           | (31.7)           |
| Dividends                      | 0.11             | 0.25             | 0.06             | -                | -                |
| Market capitalisation          | 730M             | 1,060M           | 679M             | 1,054M           | 1,727M           |
| Closing share price            | 4.06             | 5.90             | 3.78             | 5.90             | 10.30            |
| TSR – 1 year (Ranking)         | 80 <sup>th</sup> | 67 <sup>th</sup> | 2 <sup>nd</sup>  | 75 <sup>th</sup> | 83 <sup>rd</sup> |
| TSR – 3 year rolling (Ranking) | 39 <sup>th</sup> | 41 <sup>st</sup> | 57 <sup>th</sup> | 80 <sup>th</sup> | 83 <sup>rd</sup> |

# DIRECTORS' REPORT CONTINUED

## REMUNERATION REPORT CONTINUED

The percentage of the maximum STI payment that was paid and forfeited during FY12 is outlined in the table below:

| Name                       | Percentage of max STI awarded | Percentage of max STI forfeited |
|----------------------------|-------------------------------|---------------------------------|
| <b>Executive Directors</b> |                               |                                 |
| Mr J Hanna <sup>1</sup>    | 25%                           | 75%                             |
| Mr D Lougher               | 94%                           | 6%                              |
| Mr D Southam               | 93%                           | 7%                              |
| <b>Executives</b>          |                               |                                 |
| Mr J Belladonna            | 100%                          | 0%                              |
| Mr C Wilkinson             | 57%                           | 43%                             |
| Mr G Marshall              | 50%                           | 50%                             |
| Mr K McKenzie              | 100%                          | 0%                              |

<sup>1</sup> Mr J Hanna stepped down from the role of MD on 31 January 2012. Mr Hanna's STI that were triggered during the time he served as MD during FY12 have been paid in accordance with the STI terms and targets.

The table below represents the Executives' actual remuneration mix of fixed remuneration, short-term incentives and long-term incentives based upon remuneration paid or expensed during FY12. It is the Company's policy to ensure that a suitable portion of executive remuneration is placed 'at-risk' and subject to performance against appropriately set targets.

| Name                       | Fixed Remuneration | STI | LTI <sup>1</sup> |
|----------------------------|--------------------|-----|------------------|
| <b>Executive Directors</b> |                    |     |                  |
| Mr J Hanna <sup>2</sup>    | 92%                | 6%  | 2%               |
| Mr D Lougher               | 58%                | 26% | 16%              |
| Mr D Southam               | 59%                | 27% | 14%              |
| <b>Executives</b>          |                    |     |                  |
| Mr J Belladonna            | 62%                | 22% | 16%              |
| Mr C Wilkinson             | 72%                | 15% | 13%              |
| Mr G Marshall              | 75%                | 13% | 12%              |
| Mr K McKenzie              | 63%                | 25% | 12%              |

<sup>1</sup> LTI refers to the value of the Options and Performance Rights that were expensed during the 2011/12 financial year. No Options have been granted over the last two financial years.

<sup>2</sup> Mr J Hanna stepped down from the role of MD on 31 January 2012. This remuneration mix reflects his actual remuneration package, including termination payments from 1 July 2011 to 31 January 2012.

## SECTION F: NON-EXECUTIVE DIRECTOR REMUNERATION

### Non-Executive Directors remuneration policy and structure

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre whilst incurring a cost which is acceptable to shareholders.

The aggregate remuneration of Non-Executive Directors ('NEDs') is determined from time to time by shareholders in a General Meeting. An amount not exceeding the approved amount is then divided between the Directors as determined by the Remuneration Committee.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board and the Remuneration Committee considers independent salary reports as well as the fees paid to NEDs of comparable companies when undertaking this annual review.

It is an objective of the Company to encourage Directors to own shares in Western Areas. However share based payments in the form of options or equity in the Company are not offered to NEDs as encouraged by Corporate Governance guidelines.

There is no scheme to provide retirement benefits to NEDs, other than statutory superannuation.

# DIRECTORS' REPORT CONTINUED

## REMUNERATION REPORT CONTINUED

### Non-Executive Directors fees limits

NED fees are determined within an aggregated fee limit of \$1,000,000, which was approved by shareholders at the 2011 AGM. The following fees (including statutory superannuation) were applicable for the year:

|      | Board Chair | Board Member |
|------|-------------|--------------|
| Fees | \$187,238   | \$162,237    |

The Remuneration Committee resolved to freeze the NED remuneration level for the FY13 year at the FY12 level.

### Non-Executive Directors fee structure

NED remuneration consists of a base Directors fee for their role as Board members, and is inclusive of compensation for any role on nominated Board sub-committees. That is, no separate committee fees are payable.

## SECTION G: DETAILS OF REMUNERATION

|                                | Short Term Employee Benefits |                                |                            |              | LTI (i)              | Post Employment |                  |
|--------------------------------|------------------------------|--------------------------------|----------------------------|--------------|----------------------|-----------------|------------------|
| 2012                           | Base Salary                  | STI Payments/<br>Bonuses (iii) | Allowances/<br>Termination | Non Monetary | Share Based Payments | Superannuation  | TOTAL            |
| <b>Non-executive Directors</b> |                              |                                |                            |              |                      |                 |                  |
| T Streeter                     | 168,683                      | -                              | -                          | 35,893       | -                    | 18,555          | <b>223,131</b>   |
| J Hanna (ii)                   | 60,913                       | -                              | -                          | -            | -                    | 6,700           | <b>67,613</b>    |
| D Cooper (v)                   | 36,548                       | -                              | -                          | -            | -                    | 4,020           | <b>40,568</b>    |
| R Dunbar                       | 162,273                      | -                              | -                          | -            | -                    | -               | <b>162,273</b>   |
| R Yeates                       | 146,192                      | -                              | -                          | -            | -                    | 16,081          | <b>162,273</b>   |
| I Macliver (v)                 | 109,644                      | -                              | -                          | -            | -                    | 12,061          | <b>121,705</b>   |
| <b>Executive Directors</b>     |                              |                                |                            |              |                      |                 |                  |
| J Hanna (ii)                   | 367,857                      | 95,000                         | 1,091,873                  | 19,657       | 32,848               | 40,465          | <b>1,647,700</b> |
| D Lougher                      | 579,390                      | 290,000                        | -                          | 30,633       | 175,324              | 45,836          | <b>1,121,183</b> |
| D Southam                      | 514,460                      | 270,000                        | -                          | 41,602       | 134,192              | 24,997          | <b>985,251</b>   |
| <b>Executive Officers</b>      |                              |                                |                            |              |                      |                 |                  |
| J Belladonna                   | 302,759                      | 130,000                        | -                          | 31,541       | 93,220               | 22,914          | <b>580,434</b>   |
| C Wilkinson                    | 307,087                      | 80,000                         | -                          | 29,187       | 70,705               | 42,660          | <b>529,639</b>   |
| G Marshall                     | 286,443                      | 65,000                         | -                          | 29,627       | 59,080               | 48,883          | <b>489,033</b>   |
| K McKenzie                     | 368,280                      | 163,000                        | -                          | -            | 80,498               | 40,511          | <b>652,289</b>   |
|                                |                              |                                |                            |              |                      |                 | <b>6,783,092</b> |

# DIRECTORS' REPORT CONTINUED

## REMUNERATION REPORT CONTINUED

| Short Term Employee Benefits |             |                               |            |              | LTI (i)             | Post Employment |           |
|------------------------------|-------------|-------------------------------|------------|--------------|---------------------|-----------------|-----------|
| 2011                         | Base Salary | STI Payments/<br>Bonuses (iv) | Allowances | Non Monetary | Share Based Options | Superannuation  | TOTAL     |
| Non-executive Directors      |             |                               |            |              |                     |                 |           |
| T Streeter                   | 159,135     | -                             | 17,314     | 8,758        | -                   | 15,914          | 201,121   |
| D Cooper                     | 137,917     | -                             | -          | -            | -                   | 13,792          | 151,709   |
| R Dunbar                     | 151,709     | -                             | -          | -            | -                   | -               | 151,709   |
| R Yeates                     | 137,917     | -                             | -          | -            | -                   | 13,792          | 151,709   |
| Executive Directors          |             |                               |            |              |                     |                 |           |
| J Hanna (ii)                 | 583,495     | 260,000                       | 22,531     | 9,682        | 186,000             | 58,350          | 1,120,058 |
| D Lougher                    | 477,405     | 335,000                       | 23,333     | 10,366       | 186,000             | 47,741          | 1,079,845 |
| D Southam                    | 291,249     | 115,000                       | 20,794     | 4,355        | -                   | 18,123          | 449,521   |
| C Oliver                     | 283,352     | -                             | 15,286     | 913          | 186,000             | 25,000          | 510,551   |
| Executive Officers           |             |                               |            |              |                     |                 |           |
| J Belladonna                 | 270,000     | 122,000                       | 20,899     | 5,463        | 101,000             | 25,333          | 544,695   |
| C Wilkinson (iv)             | 291,748     | 25,000                        | 16,692     | 10,605       | 101,000             | 29,175          | 474,220   |
| G Marshall                   | 265,225     | 70,000                        | 5,694      | 2,116        | 50,500              | 26,523          | 420,058   |
| K McKenzie                   | 341,000     | 153,000                       | -          | -            | 101,000             | 34,100          | 629,100   |
|                              |             |                               |            |              |                     |                 | 5,884,296 |

- (i) LTI refers to the value of Options and Performance Rights that were expensed during the 2012 financial year. No Options were granted during the year.
- (ii) Mr J Hanna stepped down from the role of MD on 31 January 2012 and remains on the Board as a Non-Executive Director. Outlined above is his remuneration as MD from 1 July 2011 to 31 January 2012, and his remuneration as NED from 1 February 2012 to 30 June 2012. Mr Hanna received a termination payment that consisted of a lump sum payment for annual leave and long service leave accrued over 12 years of service to the company (\$508,378) and a termination in payment in lieu of notice of his annual average salary measured over a 3 year period (\$583,495), as per his executive contract. Mr Hanna also receives separate consulting fees for services performed beyond his duties as a NED, the details of which are separately outlined below under "Consulting fees".
- (iii) Includes all paid and accrued bonuses for 2011/12.
- (iv) Bonuses disclosed includes the payment of deferred bonuses from 2010/11.
- (v) Mr Cooper resigned from the board at 30 September 2011, Mr MacIver commenced as a Director at 1 October 2011.

### Consulting fees

After stepping down as MD, Mr Hanna agreed to remain on the Board as a Non-Executive Director ('NED') and as a consultant to assist with identifying and developing new growth opportunities for the Company.

From 1 February 2012 and onwards, in addition to receiving fees for his role as a NED of the Board, Mr Hanna was paid arms-length consulting fees for his services as a consultant since that time valued \$49,250.

### Options held by Key Management Personnel

|              | Balance at 1 July 2011 | Granted as Remuneration | On Exercise of Options | Purchases / (Sales) | Expired / Lapsed | Balance at 30 June 2012 | Options Vested (*) |
|--------------|------------------------|-------------------------|------------------------|---------------------|------------------|-------------------------|--------------------|
| D Lougher    | 200,000                | -                       | -                      | -                   | -                | 200,000                 | 200,000            |
| J Hanna      | 200,000                | -                       | -                      | -                   | -                | 200,000                 | 200,000            |
| C Wilkinson  | 100,000                | -                       | -                      | -                   | -                | 100,000                 | 100,000            |
| G Marshall   | 50,000                 | -                       | -                      | -                   | -                | 50,000                  | 50,000             |
| J Belladonna | 100,000                | -                       | -                      | -                   | -                | 100,000                 | 100,000            |
| K McKenzie   | 100,000                | -                       | -                      | -                   | -                | 100,000                 | 100,000            |
| <b>TOTAL</b> | <b>750,000</b>         | <b>-</b>                | <b>-</b>               | <b>-</b>            | <b>-</b>         | <b>750,000</b>          | <b>750,000</b>     |

(\*) 100% of options that have vested with the Directors and Executives are exercisable at any time up until expiry.

# DIRECTORS' REPORT CONTINUED

## REMUNERATION REPORT CONTINUED

### Performance Rights held by Key Management Personnel

|              | Balance at<br>1 July 2011 | Granted as<br>Remuneration | On Exercise<br>of<br>Performance<br>Rights | Purchases /<br>(Sales) | Expired /<br>Lapsed | Balance<br>at 30 June<br>2012 | Performance<br>Rights<br>Vested |
|--------------|---------------------------|----------------------------|--------------------------------------------|------------------------|---------------------|-------------------------------|---------------------------------|
| D Lougher    | -                         | 113,891                    | -                                          | -                      | -                   | 113,891                       | -                               |
| D Southam    | -                         | 107,354                    | -                                          | -                      | -                   | 107,354                       | -                               |
| C Wilkinson  | -                         | 46,399                     | -                                          | -                      | -                   | 46,399                        | -                               |
| G Marshall   | -                         | 42,182                     | -                                          | -                      | -                   | 42,182                        | -                               |
| J Belladonna | -                         | 64,411                     | -                                          | -                      | -                   | 64,411                        | -                               |
| K McKenzie   | -                         | 54,234                     | -                                          | -                      | -                   | 54,234                        | -                               |
| <b>TOTAL</b> | <b>-</b>                  | <b>428,471</b>             | <b>-</b>                                   | <b>-</b>               | <b>-</b>            | <b>428,471</b>                | <b>-</b>                        |

### Shareholding by Key Management Personnel

|              | Balance at<br>1 July 2011 | Granted as<br>Remuneration | On Exercise of<br>Options | Other Changes<br>During the Year | Balance at<br>30 June 2012 |
|--------------|---------------------------|----------------------------|---------------------------|----------------------------------|----------------------------|
| D Lougher    | 50,884                    | -                          | -                         | 14,000                           | 64,884                     |
| T Streeter   | 25,809,410                | -                          | -                         | 80,000                           | 25,889,410                 |
| J Hanna      | 1,293,987                 | -                          | -                         | (159,321)                        | 1,134,666                  |
| D Cooper **  | 1,000,000                 | -                          | -                         | (1,000,000)                      | -                          |
| R Dunbar     | 102,500                   | -                          | -                         | -                                | 102,500                    |
| R Yeates     | 6,000                     | -                          | -                         | 4,000                            | 10,000                     |
| I MacIver *  | -                         | -                          | -                         | 20,000                           | 20,000                     |
| C Wilkinson  | 7,000                     | -                          | -                         | -                                | 7,000                      |
| J Belladonna | 60,000                    | -                          | -                         | -                                | 60,000                     |
| K McKenzie   | 27,918                    | -                          | -                         | 31,000                           | 58,918                     |
| <b>TOTAL</b> | <b>28,357,699</b>         | <b>-</b>                   | <b>-</b>                  | <b>(1,010,321)</b>               | <b>27,347,378</b>          |

\* Mr MacIver joined the board on 1 October 2011 and held the above shares at that time.

\*\* Mr Cooper resigned from the board at 30 September 2011 and held the above shares at that time.

### Options Granted as part of remuneration for the Year Ended 30 June 2012

No options were granted during the financial year ended 30 June 2012.

### End of remuneration report.

### Rounding of Amounts

The company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

### Corporate Governance

In recognising the need for the highest standards in corporate behaviour and accountability, the Directors of Western Areas NL support and, unless otherwise stated, adhere to the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations".

The Company's corporate governance statement is contained in the following section of this report.

Signed in accordance with a resolution of the Board of Directors.



**Daniel Lougher**

**Managing Director**

Perth, 20 August 2012

# CORPORATE GOVERNANCE STATEMENTS

The Board of Directors of Western Areas NL is responsible for the corporate governance of the Consolidated Entity. The Board guides and monitors the business and affairs of Western Areas on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" (the "Recommendations"), the Corporate Governance Statement must contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed; that fact must be disclosed, together with the reasons for the departure.

During the current financial year the Board of Directors have monitored, developed and implemented changes to ensure that an appropriate level of corporate governance was in place during this year. The Board has taken into consideration the nature of the governance matter, the impact of immediate or accelerated change to comply on the Company and the issues (particularly risks) associated with deferred implementation. Where compliance has not been achieved explanations are provided.

Other than as highlighted in this Statement, Western Areas' corporate governance practices were in place throughout the year and were compliant with the Council's best practice recommendations.

For further information on corporate governance policies adopted by the Company, refer to our website: [www.westernareas.com.au](http://www.westernareas.com.au)

## Board Composition

The skills, experience and expertise relevant to the position held by each Director in office at the date of the annual report is included on page 23. One of the Council's recommendations is that the Board of Directors should comprise a majority of independent Directors. Directors of Western Areas NL are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to influence the direction of the Company.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of Western Areas NL are considered to be independent:

| Name       | Position               |
|------------|------------------------|
| R Dunbar   | Non-Executive Director |
| R Yeates   | Non-Executive Director |
| I Macliver | Non-Executive Director |

At the date of this report and throughout the financial year, Western Areas NL has not complied with the Council's recommendation of having the majority of the Board comprise Independent Directors and that the Chair be an Independent Director. The Company remains committed to the process of bringing new independent Directors onto the Board and is currently searching for addition Independent Non-Executive Directors. To assist in the process the Nomination Committee engaged a specialist director search consultant to assist in sourcing and securing suitable candidates. The Chairman, while not independent, is a non-executive and the Board considers that the Chairman is the most suitable person that exists on the board to hold the office.

The Board has in place a Charter which defines the role and structure of the Board. It also outlines the Board's ability to delegate authority to the Managing Director and Senior Management of the Company and highlights the procedures in place to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

## Ethical Standards

The Board acknowledges the importance of maintaining high levels of ethical conduct. A code of conduct is in place and contained inside the Company's Corporate Governance Statement.

The key provisions of the code of conduct are to:

- Act honestly and with integrity.
- Act in the best interests of the Company and Shareholders.
- Avoid and disclose any conflicts of interest both real and perceived.
- Comply with the law.
- Keep all material information confidential, until released to the wider market.
- Not use their position for personal gain.
- Ensure compliance with the code of conduct.

## Diversity Policy

The Company's policy regarding Diversity is contained in the Western Areas Code of Conduct. Diversity in the context of the policy includes, but is not limited to, gender, age, ethnicity and cultural background. The policy ensures that roles and positions are filled by the best possible candidate available without discrimination.

The Diversity Policy outlines the requirements of the board to develop measurable objectives for achieving diversity, and annually assess both the objectives and the progress in achieving those objectives. Over the next few years the Company aims to increase diversity in senior appointments as positions become available. All appointments will be based on merit and expertise required to discharge the duties of such roles.

|                            | 30 June 2012 | %  | 30 June 2011 | %  |
|----------------------------|--------------|----|--------------|----|
| Women on the Board         | 0            | 0  | 0            | 0  |
| Women in Senior Management | 1            | 5  | 0            | 0  |
| Women employees in total   | 21           | 15 | 19           | 15 |

## Trading Policy

The Company's policy regarding Directors and Employees trading in securities is published in the Western Areas Code of Conduct and is also available on the Company's website. The policy contains provisions on trading in Company securities, including when trading windows are available, restricted periods and prohibited periods. The policy defines Insider Trading and restricts Directors and Employees from acting on material information until it has been released to the market and adequate time has elapsed for this to be reflected in the securities price.

## Nomination Committee

The Board has established a Nomination Committee to assess the necessary and desirable competencies of a Board member and to evaluate the Board's performance. The Nomination Committee shall also review Board succession plans and make recommendations for the appointment and removal of Directors. The Nomination Committee operates under a charter approved by the Board.

For details of the Directors' that are members of the Nomination Committee and their attendance at meetings of the Nomination Committee, refer to page 27 of the Directors' Report.

The Nomination Committee ran the selection process for the Managing Director position, nomination of Ian Macliver to the Board and conducted one Board performance evaluation. The performance assessment involved each member of the Board to rate the Board's performance against specific qualitative and quantitative criteria.

## Audit & Risk Management Committee

The Board has an established Audit & Risk Management Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information, as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Consolidated Entity to the Audit & Risk Management Committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. The Majority of the members of the audit committee are Independent Non-Executive Directors.

Refer to page 27 of the Directors' report for a list of committee members and the number of meetings of the Audit & Risk Management Committee attended throughout the year.

## Risk Management

### Management of material risks

Management of material risks is governed by the Risk Management ("RM") program. The RM program involves the relevant WSA personnel (including all senior management where required) and external experts participating in regular workshop based risk reviews, during which risks and related controls are identified and evaluated.

The RM program contains RM Standards which detail specific management roles, responsibilities and an organisational structure that governs lines of communication, authority and reporting. The Standards provide that nominated risk and control owners have responsibility for implementing required further actions to improve controls over material risks, and this is the subject of management review and audit.

### Reporting on material risks

The Board requires management to report on whether material business risks are being managed effectively. "Effectiveness" is determined during workshop based risk reviews against standard risk and control effectiveness criteria.

As part of the program management reports to the Board on the effectiveness of our controls over material risks following the RM criteria.

Risk and control reporting is undertaken six monthly, comprising a statement of relevant business objectives, a summary of risk and control profiles against those objectives, a commentary on the effectiveness of the risk management system and key activities. Material risks, covering strategic and business risks, include commentary on changes impacting the risk and control profile.

Reporting covers financial, safety, environment, community, reputation, compliance and other material risks impacts identified in WSA's risk criteria.

### Activity

In 2011 WSA enhanced its approach to risk management developing a whole of business approach, recognising the importance of risk management to business success and in meeting Corporate Governance requirements. The integration of our approach to risk management across the business is designed to facilitate the capture all significant risks and to ensure senior management and the Board are made aware of material risks in operations, projects and corporate activities. This occurs by applying a standard approach, including the assessment and communication of risks.

The Company has an ongoing operational risk management program, with a strong emphasis on safety and emergency risk management embedded in our Health and Safety management system.

Within the new program we have, or intend to, focus workshops on risk management in four key areas, Strategy, Business as Usual, Sustainability and Resilience.

The Company engages MYR Consulting Pty Ltd to assist in development of the risk management framework, activities and policies.

# CORPORATE GOVERNANCE STATEMENTS CONTINUED

## Remuneration

The Board has established a Remuneration Committee, which operates under a charter approved by the Board.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and key Executives fairly and appropriately with reference to relevant employment market conditions and the review of independent employment statistics such as the McDonald Remuneration Report. The Remuneration Committee will also engage independent remuneration consultants to provide impartial advice in respect of remuneration trends and executive employment contracts.

To assist in achieving this objective the Remuneration Committee links the nature and amount of Executive Directors' and Officers' emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key Executives;
- Attraction of quality management to the Company; and
- Performance incentives which allow Executives to share the rewards of the success of the Company.

A full discussion of the Company's remuneration philosophy and framework along with details on the amount of remuneration received by Directors and Executives during the year is provided in the Remuneration Report, which is contained within the Directors' Report.

For details on the members, number of meetings held and member attendance of the Remuneration Committee meetings held during the year refer to page 27 of the Directors' Report.

For further details regarding the Board's committees refer to our website [www.westernareas.com.au](http://www.westernareas.com.au)

## Treasury

The board established a Treasury Committee that operates within policies set by the Board.

The aim of the Treasury Committee is to maintain the Treasury Risk Management policy and ensure that the Company only enters hedging contracts as approved by the Board to prudently manage currency and nickel price risk in a balanced and measured way, while still maintaining adequate exposure to the spot nickel price.

For details on the members, number of meetings and meeting attendance of the Treasury Committee held during the year at those meetings, refer to page 27 of the Directors' Report.

## Board and Executive Performance

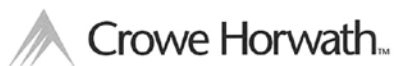
The performance of the Board and key Executives is reviewed against both measurable and qualitative indicators. The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of the Company.

## Shareholder Rights

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of annual and interim financial statements.

Shareholders are strongly encouraged to attend and participate in the Annual General Meeting of Western Areas NL, to lodge questions to be responded to at the meeting, and are able to appoint proxies.

# AUDITOR'S INDEPENDENCE DECLARATION



## AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Western Areas NL for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in cursive script that reads "Crowe Horwath".

CROWE HORWATH PERTH

A handwritten signature in cursive script that reads "Sean McGurk".

SEAN MCGURK  
Partner

Signed at Perth, 20 August 2012

Crowe Horwath Perth is a WHK Group Firm and a member of Crowe Horwath International, a Swiss Verein.  
Each member firm of Crowe Horwath is a separate and independent legal entity

# CONSOLIDATED INCOME STATEMENT

Year Ended 30 June 2012

|                                              | Notes | Consolidated Entity |                |
|----------------------------------------------|-------|---------------------|----------------|
|                                              |       | 2012<br>\$'000      | 2011<br>\$'000 |
| Sales                                        |       | 330,698             | 468,659        |
| Cost of sales                                |       | (234,524)           | (223,729)      |
| <b>Gross profit</b>                          |       | <b>96,174</b>       | <b>244,930</b> |
| Other income                                 | 2     | 8,763               | 6,682          |
| Finance costs                                | 3     | (37,441)            | (36,721)       |
| Employee benefit expense                     |       | (7,664)             | (8,488)        |
| Foreign exchange gain                        |       | 663                 | 1,236          |
| Administration and other expenses            |       | (6,304)             | (3,790)        |
| Business combination acquisition costs       | 35    | (3,618)             | -              |
| Share based payments                         |       | (882)               | (574)          |
| Impairment of non-current assets             | 3     | (79)                | (4,334)        |
| Realised derivative gains/(losses)           | 3     | 9,030               | (1,728)        |
| Changes in fair value of derivatives         | 3     | (1,181)             | (1,943)        |
| <b>Profit before income tax</b>              |       | <b>57,461</b>       | <b>195,270</b> |
| Income tax expense                           | 4     | (17,280)            | (60,297)       |
| <b>Profit for the year</b>                   |       | <b>40,181</b>       | <b>134,973</b> |
| Basic earnings per share (cents per share)   | 19    | 22.4                | 75.1           |
| Diluted earnings per share (cents per share) | 19    | 22.4                | 75.1           |

The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended 30 June 2012

|                                                                    | Notes | Consolidated Entity |                |
|--------------------------------------------------------------------|-------|---------------------|----------------|
|                                                                    |       | 2012<br>\$'000      | 2011<br>\$'000 |
| Profit for the year                                                |       | 40,181              | 134,973        |
| <b>Other comprehensive income/(loss), net of tax</b>               |       |                     |                |
| Changes in fair value of hedging instruments                       |       | 970                 | (12)           |
| Changes in fair value of available for sale financial assets       |       | (4,070)             | 2,610          |
| Convertible note reserve                                           |       | -                   | 1,205          |
| Exchange differences on translation of foreign controlled entities |       | (607)               | 10             |
| <b>Total comprehensive income for the year</b>                     |       | <b>36,474</b>       | <b>138,786</b> |
|                                                                    |       |                     |                |
| <b>Profit attributable to:</b>                                     |       |                     |                |
| Members of the parent entity                                       |       | 40,301              | 135,007        |
| Non controlling interest                                           |       | (120)               | (34)           |
|                                                                    |       | <b>40,181</b>       | <b>134,973</b> |
|                                                                    |       |                     |                |
| <b>Total Comprehensive Income attributable to:</b>                 |       |                     |                |
| Members of the parent entity                                       |       | 36,594              | 138,818        |
| Non controlling interest                                           |       | (120)               | (32)           |
|                                                                    |       | <b>36,474</b>       | <b>138,786</b> |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 30 June 2012

|                                                            | Notes  | Consolidated Entity |                |
|------------------------------------------------------------|--------|---------------------|----------------|
|                                                            |        | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>Current Assets</b>                                      |        |                     |                |
| Cash and cash equivalents                                  | 20 (b) | 165,502             | 208,948        |
| Trade and other receivables                                | 6      | 25,360              | 27,719         |
| Inventories                                                | 7      | 42,121              | 30,942         |
| Financial assets                                           | 8 (b)  | 1,973               | 4,739          |
| <b>Total Current Assets</b>                                |        | 234,956             | 272,348        |
| <b>Non Current Assets</b>                                  |        |                     |                |
| Property, plant and equipment                              | 9      | 107,111             | 111,683        |
| Intangible assets                                          | 10     | 525                 | 521            |
| Exploration & evaluation expenditure                       | 11     | 133,282             | 91,875         |
| Mine development                                           | 12     | 295,634             | 209,454        |
| Financial assets                                           | 8 (a)  | 3,460               | 6,445          |
| <b>Total Non Current Assets</b>                            |        | 540,012             | 419,978        |
| <b>Total Assets</b>                                        |        | 774,968             | 692,326        |
| <b>Current Liabilities</b>                                 |        |                     |                |
| Trade and other payables                                   | 14     | 66,444              | 55,608         |
| Borrowings                                                 | 15     | 150,392             | 61             |
| Provisions                                                 | 16     | 1,374               | 1,344          |
| Current tax liabilities                                    | 13     | 10,606              | -              |
| Financial liabilities                                      | 17     | 284                 | 2,839          |
| <b>Total Current Liabilities</b>                           |        | 229,100             | 59,852         |
| <b>Non Current Liabilities</b>                             |        |                     |                |
| Borrowings                                                 | 15     | 208,688             | 301,825        |
| Provisions                                                 | 16     | 6,096               | 6,122          |
| Deferred tax liabilities                                   | 13 (c) | 41,219              | 36,069         |
| <b>Total Non Current Liabilities</b>                       |        | 256,003             | 344,016        |
| <b>Total Liabilities</b>                                   |        | 485,103             | 403,868        |
| <b>Net Assets</b>                                          |        | <b>289,865</b>      | <b>288,458</b> |
| <b>Equity</b>                                              |        |                     |                |
| Issued capital                                             | 18     | 202,611             | 202,611        |
| Reserves                                                   | 32     | 75,739              | 78,564         |
| Retained earnings                                          |        | 11,289              | 6,937          |
| <b>Equity attributable to members of the parent entity</b> |        | <b>289,639</b>      | <b>288,112</b> |
| Non controlling interest                                   |        | 226                 | 346            |
| <b>Total Equity</b>                                        |        | <b>289,865</b>      | <b>288,458</b> |

The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 30 June 2012

| Consolidated Entity                                                                            | Issued<br>Capital | Prospectus<br>Expenses | Share Based<br>Payment<br>Reserve | Hedge<br>Reserve | Investment<br>Reserve | Convertible<br>Note<br>Reserve | Foreign<br>Exchange<br>Reserve | Retained<br>Earnings | Non-<br>Controlling<br>Interest | Total<br>Equity |
|------------------------------------------------------------------------------------------------|-------------------|------------------------|-----------------------------------|------------------|-----------------------|--------------------------------|--------------------------------|----------------------|---------------------------------|-----------------|
| Note                                                                                           | \$'000            | \$'000                 | \$'000                            | \$'000           | \$'000                | \$'000                         | \$'000                         | \$'000               | \$'000                          | \$'000          |
| <b>Total Equity at<br/>1 July 2010</b>                                                         | <b>212,833</b>    | <b>(10,222)</b>        | <b>15,585</b>                     | <b>12</b>        | <b>(5,305)</b>        | <b>63,885</b>                  | <b>-</b>                       | <b>(104,706)</b>     | <b>-</b>                        | <b>172,082</b>  |
| <b>Comprehensive<br/>income</b>                                                                |                   |                        |                                   |                  |                       |                                |                                |                      |                                 |                 |
| Profit for the year                                                                            |                   |                        |                                   |                  |                       |                                |                                | 135,007              | (34)                            | 134,973         |
| Other<br>comprehensive<br>income for the year                                                  |                   |                        |                                   | (12)             | 2,610                 | 1,205                          | 10                             |                      |                                 | 3,813           |
| <b>Total<br/>comprehensive<br/>income for<br/>the year</b>                                     |                   |                        |                                   | (12)             | 2,610                 | 1,205                          | 10                             | 135,007              | (34)                            | 138,786         |
| <b>Transactions<br/>with owner in<br/>their capacity as<br/>owner, and other<br/>transfers</b> |                   |                        |                                   |                  |                       |                                |                                |                      |                                 |                 |
| Share based<br>payments expense                                                                |                   |                        | 574                               |                  |                       |                                |                                |                      |                                 | 574             |
| Non-controlling<br>shares in<br>FinnAust PLC                                                   |                   |                        |                                   |                  |                       |                                |                                |                      | 380                             | 380             |
| Dividends paid                                                                                 |                   |                        |                                   |                  |                       |                                |                                | (23,364)             |                                 | (23,364)        |
| <b>Total Equity<br/>at 30 June 2011</b>                                                        | <b>212,833</b>    | <b>(10,222)</b>        | <b>16,159</b>                     | <b>-</b>         | <b>(2,695)</b>        | <b>65,090</b>                  | <b>10</b>                      | <b>6,937</b>         | <b>346</b>                      | <b>288,458</b>  |
| <b>Comprehensive<br/>income</b>                                                                |                   |                        |                                   |                  |                       |                                |                                |                      |                                 |                 |
| Profit for the year                                                                            |                   |                        |                                   |                  |                       |                                |                                | 40,301               | (120)                           | 40,181          |
| Other<br>comprehensive<br>income for the year                                                  |                   |                        |                                   | 970              | (4,070)               |                                | (607)                          | -                    | -                               | (3,707)         |
| <b>Total<br/>comprehensive<br/>income for<br/>the year</b>                                     |                   |                        |                                   | 970              | (4,070)               |                                | (607)                          | 40,301               | (120)                           | 36,474          |
| <b>Transactions<br/>with owner in<br/>their capacity as<br/>owner, and other<br/>transfers</b> |                   |                        |                                   |                  |                       |                                |                                |                      |                                 |                 |
| Share based<br>payments expense                                                                |                   |                        | 882                               |                  |                       |                                |                                |                      |                                 | 882             |
| Dividends paid                                                                                 |                   |                        |                                   |                  |                       |                                |                                | (35,949)             |                                 | (35,949)        |
| <b>Total Equity at<br/>30 June 2012</b>                                                        | <b>212,833</b>    | <b>(10,222)</b>        | <b>17,041</b>                     | <b>970</b>       | <b>(6,765)</b>        | <b>65,090</b>                  | <b>(597)</b>                   | <b>11,289</b>        | <b>226</b>                      | <b>289,865</b>  |

The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 30 June 2012

|                                                             | Notes | Consolidated Entity |                  |
|-------------------------------------------------------------|-------|---------------------|------------------|
|                                                             |       | 2012<br>\$'000      | 2011<br>\$'000   |
| <b>Cash Flows From Operating Activities</b>                 |       |                     |                  |
| Receipts from customers                                     |       | 326,808             | 437,457          |
| Payments to suppliers and employees                         |       | (144,403)           | (122,193)        |
| Interest received                                           |       | 10,257              | 3,478            |
| Royalties paid                                              |       | (16,344)            | (22,135)         |
| Other receipts                                              |       | 12                  | 679              |
| Finance costs                                               |       | (24,252)            | (22,429)         |
| Realisation on settlement of derivatives                    |       | 8,699               | 1,378            |
| Income tax paid                                             |       | (1,524)             | -                |
| <b>Net Cash Provided by Operating Activities</b>            | 20(a) | <b>159,253</b>      | <b>276,235</b>   |
| <b>Cash Flows From Investing Activities</b>                 |       |                     |                  |
| Purchase of property, plant and equipment                   |       | (13,721)            | (13,409)         |
| Rental Deposit                                              |       | 9                   | (8)              |
| Mine development expenditure                                |       | (67,417)            | (70,664)         |
| Exploration & evaluation expenditure                        |       | (42,677)            | (20,074)         |
| Payment of termination of royalty agreement                 |       | (14,926)            | -                |
| Payment for subsidiary                                      | 35    | (71,100)            | -                |
| Purchase of available for sale financial assets             |       | (1,085)             | (1,999)          |
| <b>Net Cash Used In Investing Activities</b>                |       | <b>(210,917)</b>    | <b>(106,154)</b> |
| <b>Cash Flows From Financing Activities</b>                 |       |                     |                  |
| Proceeds from borrowings                                    |       | 45,000              | -                |
| Proceeds from issue of shares for non controlling interests |       | -                   | 380              |
| Finance lease principal repayments                          |       | (69)                | (125)            |
| Borrowing costs                                             |       | (764)               | (3,392)          |
| Dividends paid                                              |       | (35,949)            | (23,364)         |
| <b>Net Cash (Used in)/ Provided by Financing Activities</b> |       | <b>8,218</b>        | <b>(26,501)</b>  |
| Net increase / (decrease) in cash and cash equivalents held |       | (43,446)            | 143,580          |
| Cash and cash equivalents as at 1 July                      |       | 208,948             | 65,368           |
| <b>Cash and cash equivalents as at 30 June</b>              | 20(b) | <b>165,502</b>      | <b>208,948</b>   |

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2012

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the Consolidated Entity of Western Areas NL and its controlled entities (the "Consolidated Entity").

The separate financial statements of the parent entity, Western Areas NL, have not been presented within this financial report as permitted by amendments made to Corporation Act 2001 effective as at 28 June 2010.

The financial report was approved by the board of directors on 20 August 2012.

### Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

### Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, the adoption of AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project enabled the removal of certain disclosures in relation to commitments and the franking of dividends.

### (a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Western Areas NL at the end of the reporting period. A controlled entity is an entity over which Western Areas NL has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 8 to the financial statements.

In preparing consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interest in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

### Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exceptions).

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Principles of Consolidation (Continued)

#### Business Combinations Continued

The acquisition date fair value of the consideration transferred for a business shall form the cost of the investment in the separate financial statements.

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the income statement unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the income statement. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase. As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended.

The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies applied by the parent entity. All consolidated entities have a 30 June financial year end.

### (b) Revenue

Revenue from the sale of nickel is recognised when the risks and rewards of the products pass to the buyer, currently being the point at which the product is delivered on site to the buyer or passes the ships' rail or as otherwise agreed between Western Areas and the buyer. Revenue is recognised at estimated sales value. The estimated sales value is determined by reference to the estimated metal content, metal recovery, the metal price and exchange rate. An adjustment is made to reflect the final sales value when the actual metal content and metal recovery has been determined. The final metal content and metal recovery is generally known between 30 and 90 days after delivery to the customer.

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

All revenue is stated net of the amount of goods and services tax (GST).

### (c) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### (d) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories on hand by the method most appropriate to each class of inventory with the majority being valued on an average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

The cost of consumables and spare parts includes cost of materials and transportation costs.

### (e) Property, Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation. The carrying amount of property, plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount (note 1(m)).

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

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Property, Plant and Equipment (Continued)

#### Depreciation

The depreciable amount of all property, plant and equipment is depreciated on a straight line basis over their useful lives or the estimated life of mine, if shorter. The depreciation rates used for each major type of depreciable assets are:

| Type of Fixed Asset    | Depreciation Rate                                       |
|------------------------|---------------------------------------------------------|
| Property               | 2-20%                                                   |
| Plant and equipment    | 2-33% or unit of production basis over the life of mine |
| Motor vehicles         | 20%                                                     |
| Furniture and fittings | 6-27%                                                   |

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

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

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

### (f) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development and/or disposal of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

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

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where it is determined that uncertainty exists as to the ability to recoup carry forward exploration, evaluation and development costs an impairment loss will be raised against the asset and charged against profit in the year that determination is made.

Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as mine development.

### (g) Mine Development

Development expenditure incurred by or on behalf of the consolidated entity is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises costs directly attributable to the construction of a mine, the related infrastructure and capitalised exploration and evaluation expenditure transferred from capitalised exploration and evaluation expenditure account.

Amortisation is charged using the units-of production method, with separate calculations being made for each area of interest. The units-of-production basis results in a amortisation charge proportional to the depletion of proved and probable reserves.

Mine properties are tested for impairment in accordance with the policy in note 1 (m).

Costs of site restoration are provided for over the life of the facility from when exploration commences and are included in the costs from that stage. Site restoration costs include obligations relating to dismantling and removing mining plant, reclamation, waste dump rehabilitation and other costs associated with restoration and rehabilitation of the site. Such costs have been determined using estimates for current costs and current legal requirements and technology. Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Income Tax

The income tax expense for the year comprises current income tax expense and deferred tax expense.

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

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

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

### Tax Consolidation

Western Areas NL and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime from 1 July 2002. Western Areas NL is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The tax consolidated group has entered into a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Goods and Services Tax (GST)

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

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### (j) Employee Benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from salaries and wages, annual leave and sick leave have been measured at their nominal amount. Employee benefits that are expected to be settled after one year have been discounted to the present value of the future expected cash outflow to be made for those benefits.

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

### Share based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

### (k) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

### (l) Financial Instruments

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to the income statement immediately.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (I) Financial Instruments (Continued)

#### Classification and Subsequent Measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as:

- a) the amount at which the financial asset or financial liability is measured at initial recognition;
- b) less principal repayments;
- c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- d) less any reduction for impairment.

The *effective interest* method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

#### Financial assets at fair value through profit and loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets.)

#### Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

#### De-recognition

Financial assets are de-recognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

#### Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Financial Instruments (Continued)

#### **Derivative financial instruments**

Derivative financial instruments are used by the consolidated entity to hedge exposures to commodity prices and foreign currency exchange rates.

The Group documents at the inception of a transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Hedging derivatives are either Fair Value Hedges or Cashflow Hedges.

#### *Fair Value Hedges*

Changes in the fair value of derivatives classified as fair value hedges are recognised in the Income Statement, together with any changes in the fair value of the hedge asset or liability that are attributable to the hedged risk.

#### *Cash Flow Hedge*

The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in equity in the hedging reserve. The ineffective portion is recognised directly in the Income Statement.

#### *All Other Derivatives*

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the Income Statement.

### (m) Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

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

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

### (n) Rounding Amounts

The parent entity has applied the relief available to it under the ASIC Class Order 98/100 and accordingly, amounts in the financial report have been rounded to the nearest \$1,000.

### (o) Joint Ventures

The Group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. Details of the group's interests are shown at Note 28.

The parent entity's interests in joint venture entities are brought to account using the cost method.

### (p) Cash and Cash Equivalents

Cash and cash equivalents comprise cash-on-hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

### (q) Provisions

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

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Convertible Bonds

The component of the convertible bond that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this is carried as a long term liability. The increase in the liability due to the passage of time is recognised as a finance cost.

The remainder of the proceeds are allocated and included in shareholder equity, net of transaction costs. The carrying amount of the convertible bond is not remeasured in subsequent years.

### (s) Foreign Currency Transactions and Balances

#### Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

#### Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost, continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss can be directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

### (t) Critical Accounting Estimates and Balances

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

#### Key estimates

##### (i). Impairment

The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts for mine development assets are reassessed using the value-in-use calculations which incorporate various assumptions and estimates.

##### (ii). Reserve estimates

Estimates of recoverable quantities of proven and probable reserves include assumptions regarding commodity prices, exchange rates, discount rates, production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reserves and their anticipated recoveries. The economic, geological and technical factors we use to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the income statement and the calculation of inventory. The Group prepares reserve estimates in accordance with the JORC Code, guidelines prepared by the Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Critical Accounting Estimates and Balances (Continued)

#### Key judgements

##### (i). Available for sale financial assets

In the 2012 financial report the Group and the parent entity made a significant judgement about the impairment of a number of its available-for-sale assets.

In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the financial health and near term outlook for the investee, including factors such as status of its current exploration projects and planned exploration projects, industry and sector performances and operational and financing cashflows.

Consequently, after considering the factors mentioned above, management has concluded that the cumulative change between cost and fair value of these available for sale financial assets to be a change in fair value and therefore accounted through the statement of comprehensive income. The carrying value of available for sale assets at 30 June 2012 were \$3.5 million.

##### (ii). Exploration and evaluation expenditure

The Group capitalised expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at reporting date at \$133.3M.

### (u) Contributed equity

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

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit and loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### (v) Earnings per share

#### Basic earnings per share

Basic earnings per share are calculated by dividing:

- The profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 19).

#### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (w) Comparative figures

Where necessary, comparative figures have been restated to conform with changes in presentation for the current year.

### (x) Intangibles

Expenditure during the research phase of a project is recognised as an expense when incurred. Patents and trademarks are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

Patents and trademarks have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

|                                    | Consolidated Entity |                |
|------------------------------------|---------------------|----------------|
|                                    | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>NOTE 2: OTHER INCOME</b>        |                     |                |
| - Interest income                  | 8,624               | 5,242          |
| - Sundry income                    | 139                 | -              |
| - Premium on convertible bond swap | -                   | 1,440          |
| <b>Total other income</b>          | <b>8,763</b>        | <b>6,682</b>   |

|                                                                    | Notes | Consolidated Entity |                |
|--------------------------------------------------------------------|-------|---------------------|----------------|
|                                                                    |       | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>NOTE 3: PROFIT BEFORE INCOME TAX</b>                            |       |                     |                |
| Profit before income tax includes the following specific expenses: |       |                     |                |
| - Depreciation of property, plant and equipment                    | 9     | 15,258              | 15,229         |
| - Amortisation of mine development asset                           | 12    | 76,423              | 64,798         |
| - Rental expenditure relating to operating leases                  |       | 849                 | 483            |
| - Impairment of capitalised exploration expenditure                | 11    | 79                  | 4,334          |
| - Realised derivative (gains) / losses                             |       | (9,030)             | 1,728          |
| - Changes in fair value of derivatives                             |       | 1,181               | 1,943          |
| - Employee benefits expense                                        |       |                     |                |
| Defined contribution superannuation expense                        |       | 2,143               | 1,369          |
| - Finance costs:                                                   |       |                     |                |
| Interest expense – borrowings                                      |       | 24,367              | 23,948         |
| Bond accretion expense                                             |       | 9,083               | 8,503          |
| Interest expense – finance leases                                  |       | 5                   | 6              |
| Borrowing costs amortised                                          |       | 3,702               | 4,049          |
| Other borrowing costs                                              |       | 284                 | 215            |
| <b>Total borrowing costs</b>                                       |       | <b>37,441</b>       | <b>36,721</b>  |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

|                                                                                                                                                                                             | Consolidated Entity |                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------|
|                                                                                                                                                                                             | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>NOTE 4: INCOME TAX</b>                                                                                                                                                                   |                     |                |
| The components of the tax expense comprise:                                                                                                                                                 |                     |                |
| - Current tax                                                                                                                                                                               | 12,130              | -              |
| - Deferred tax                                                                                                                                                                              | 5,150               | 60,297         |
| Income tax expense                                                                                                                                                                          | <b>17,280</b>       | <b>60,297</b>  |
| The prima facia tax on the profit from ordinary activities before income tax at the statutory income tax rate to income tax expense at the groups' effective income tax rate is as follows: |                     |                |
| Prima facia tax payable on profit before income tax at 30% (2011: 30%)                                                                                                                      | 17,238              | 58,581         |
| <i>Adjusted for the tax effect of:</i>                                                                                                                                                      |                     |                |
| - Changes in fair value of derivatives                                                                                                                                                      | 354                 | (583)          |
| - Share based payment expense                                                                                                                                                               | 265                 | 172            |
| - Premium on convertible bond swap                                                                                                                                                          | -                   | (432)          |
| - Other non allowable items                                                                                                                                                                 | 136                 | 156            |
| - Share issue costs deductible                                                                                                                                                              | (109)               | (294)          |
| - Other temporary differences                                                                                                                                                               | 1,132               | 146            |
| - Royalty buy back                                                                                                                                                                          | (4,461)             | -              |
| - Convertible bond accretion expense                                                                                                                                                        | 2,725               | 2,551          |
| Tax Expense                                                                                                                                                                                 | <b>17,280</b>       | <b>60,297</b>  |

## NOTE 5: DIVIDENDS

|                                                                                                                       |               |               |
|-----------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>Dividends paid</b>                                                                                                 |               |               |
| Final unfranked ordinary dividend of 15 cents (2010: 3 cents) per share for the year ended 30 June 2011               | 26,962        | 5,393         |
| Interim unfranked ordinary dividend of 5 cents (2011: 10 cents) per share                                             | 8,987         | 17,971        |
|                                                                                                                       | <b>35,949</b> | <b>23,364</b> |
| <b>Dividends proposed</b>                                                                                             |               |               |
| Proposed final 2012 ordinary dividend of 6 cents (2011: 15 cents) per share, 30% partially franked and 70% unfranked. | <b>10,784</b> | <b>26,960</b> |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

|                                     | Notes | Consolidated Entity |                |
|-------------------------------------|-------|---------------------|----------------|
|                                     |       | 2012<br>\$'000      | 2011<br>\$'000 |
| NOTE 6: TRADE AND OTHER RECEIVABLES |       |                     |                |
| Trade debtors                       |       | 21,765              | 21,219         |
| Other debtors                       |       | 780                 | 2,012          |
| GST refund due                      |       | 1,741               | 2,136          |
| Prepayments                         |       | 1,074               | 2,352          |
|                                     |       | 25,360              | 27,719         |

There are no balances within trade and other receivables that contain assets that are past due. It is expected the balances will be received when due.

## NOTE 7: INVENTORIES

|                                         |  |               |               |
|-----------------------------------------|--|---------------|---------------|
| Ore stockpiles – at cost                |  | 31,319        | 19,976        |
| Nickel concentrate stockpiles – at cost |  | 7,089         | 7,641         |
| Consumables and spare parts – at cost   |  | 3,713         | 3,325         |
|                                         |  | <b>42,121</b> | <b>30,942</b> |

## NOTE 8: FINANCIAL ASSETS

|                                  |       |         |         |
|----------------------------------|-------|---------|---------|
| Available for sale               | 8 (a) | 3,460   | 6,445   |
| Derivative financial instruments | 8 (b) | 1,973   | 4,739   |
|                                  |       | 5,433   | 11,184  |
| Less non-current portion         |       | (3,460) | (6,445) |
| Current portion                  |       | 1,973   | 4,739   |

### (a) Available for sale financial assets

|                                               |  |       |       |
|-----------------------------------------------|--|-------|-------|
| Investments in listed companies at fair value |  | 3,460 | 6,445 |
|-----------------------------------------------|--|-------|-------|

### (b) Derivative financial instruments

|                                 |        |              |              |
|---------------------------------|--------|--------------|--------------|
| Foreign exchange collar options |        | 1,973        | -            |
| Nickel collar options           | 29 (c) | -            | 4,739        |
|                                 |        | <b>1,973</b> | <b>4,739</b> |

Collar options are used to hedge cash flow risk associated with future transactions. Gains and losses arising from changes in the fair value of derivatives are initially recognised directly in the statement of comprehensive income. At the date of the transaction, amounts included in the hedge reserve are transferred from equity and included in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 8: OTHER FINANCIAL ASSETS (CONTINUED)

### (c) Investments in subsidiaries

| Name                                                                             | Country of Incorporation | Percentage of equity held |        |
|----------------------------------------------------------------------------------|--------------------------|---------------------------|--------|
|                                                                                  |                          | 2012 %                    | 2011 % |
| Western Platinum NL                                                              | Australia                | 100%                      | 100 %  |
| Australian Nickel Investments Pty Ltd                                            | Australia                | 100%                      | 100 %  |
| Bioheap Ltd                                                                      | Australia                | 100%                      | 100%   |
| FinnAust Mining PLC                                                              | United Kingdom           | 81%                       | 77%    |
| Western Areas Nickel Pty Ltd (formerly known as Kagara Nickel Pty Ltd) (Note 35) | Australia                | 100%                      | -      |

All the entities above, except FinnAust Mining PLC, are members of the tax consolidated group of which Western Areas NL is the head entity. Western Areas NL is the parent entity and is incorporated and domiciled in Australia.

Australian Nickel Investments Pty Ltd has a controlling interest in 1 unlisted company. Due to the immaterial value of the financial results of this company, the financial information of this company has not been consolidated into the consolidated entity.

|  | Consolidated Entity |             |
|--|---------------------|-------------|
|  | 2012 \$'000         | 2011 \$'000 |

### NOTE 9: PROPERTY, PLANT AND EQUIPMENT

|                                             |                |                |
|---------------------------------------------|----------------|----------------|
| Property – at cost                          | 22,871         | 20,937         |
| Accumulated depreciation                    | (6,481)        | (4,697)        |
|                                             | 16,390         | 16,240         |
| Plant & equipment – at cost                 | 127,820        | 119,268        |
| Accumulated depreciation                    | (37,357)       | (23,958)       |
|                                             | 90,463         | 95,310         |
| Plant & equipment under lease               | 779            | 579            |
| Accumulated depreciation                    | (521)          | (446)          |
|                                             | 258            | 133            |
| Total property, plant & equipment - at cost | 151,470        | 140,784        |
| Accumulated Depreciation                    | (44,359)       | (29,101)       |
| <b>Total</b>                                | <b>107,111</b> | <b>111,683</b> |

#### Assets Pledged as Security

The property, plant and equipment are assets over which a mortgage has been granted as security over project loans. The terms of the mortgage preclude the assets from being sold or being used as security for further mortgages without the permission of the existing mortgagor. Assets under lease are pledged as security for the associated lease liabilities.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 9: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Movement in carrying amounts:

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current year:

|                                                 | Consolidated Entity |                |
|-------------------------------------------------|---------------------|----------------|
|                                                 | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>Property</b>                                 |                     |                |
| Written down value at the beginning of the year | 16,240              | 16,226         |
| - Additions                                     | 1,934               | 1,677          |
| - Depreciation expense                          | (1,784)             | (1,663)        |
| Written down value at the end of the year       | <b>16,390</b>       | <b>16,240</b>  |
| <b>Plant &amp; Equipment</b>                    |                     |                |
| Written down value at the beginning of the year | 95,310              | 94,622         |
| - Additions                                     | 8,552               | 14,127         |
| - Depreciation expense                          | (13,399)            | (13,439)       |
| Written down value at the end of the year       | <b>90,463</b>       | <b>95,310</b>  |
| <b>Plant &amp; Equipment under Lease</b>        |                     |                |
| Written down value at the beginning of the year | 133                 | 260            |
| - Additions                                     | 200                 | -              |
| - Depreciation expense                          | (75)                | (127)          |
| Written down value at the end of the year       | <b>258</b>          | <b>133</b>     |

## NOTE 10: INTANGIBLE ASSETS

|                                                    |            |            |
|----------------------------------------------------|------------|------------|
| Capitalised patents and trademarks costs – at cost | <b>525</b> | <b>521</b> |
|----------------------------------------------------|------------|------------|

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

|                                                          | Consolidated Entity |                |
|----------------------------------------------------------|---------------------|----------------|
|                                                          | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>NOTE 11: EXPLORATION &amp; EVALUATION EXPENDITURE</b> |                     |                |
| Exploration & Evaluation Expenditure consists of:        |                     |                |
| - At cost                                                | 198,844             | 152,358        |
| - Transferred to mine development                        | (46,000)            | (41,000)       |
| - Accumulated impairment loss                            | (19,562)            | (19,483)       |
| Total Exploration and Evaluation Expenditure             | <b>133,282</b>      | <b>91,875</b>  |

## Movement in carrying amount:

Movement in the carrying amounts for exploration and evaluation expenditure between the beginning and the end of the current period:

|                                                 |                |               |
|-------------------------------------------------|----------------|---------------|
| <b>Exploration &amp; Evaluation Expenditure</b> |                |               |
| Written down value at the beginning of the year | 91,875         | 94,895        |
| - Expenditure incurred during the year          | 46,486         | 22,314        |
| - Transferred to mine development               | (5,000)        | (21,000)      |
| - Impairment loss                               | (79)           | (4,334)       |
| Written down value at the end of the year       | <b>133,282</b> | <b>91,875</b> |

The impairment losses recognised for the year were for the companies' regional areas of interests. While exploration is ongoing for these areas, the Company has raised impairment provisions due to the lack of economically viable discovery so far.

## Carry Forward Exploration & Evaluation Expenditure

The recovery of the costs of exploration and evaluation expenditure carried forward is dependent upon the discovery of commercially viable mineral and other natural resource deposits and their development and exploitation or alternatively their sale.

|                                                  | Consolidated Entity |                |
|--------------------------------------------------|---------------------|----------------|
|                                                  | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>NOTE 12: MINE DEVELOPMENT</b>                 |                     |                |
| Capitalised development expenditure consists of: |                     |                |
| - Mine development                               | 204,120             | 135,890        |
| - Acquisition of mining assets                   | 59,796              | -              |
| - Exploration expenditure transfer               | 46,000              | 41,000         |
| - Deferred mining expenditure                    | 194,468             | 164,891        |
| - Capitalised restoration costs                  | 5,843               | 5,843          |
| - Capitalised interest                           | 11,175              | 11,175         |
| - Accumulated amortisation                       | (225,768)           | (149,345)      |
| Total Mine Development                           | <b>295,634</b>      | <b>209,454</b> |

## Movement in carrying amount:

Movement in the carrying amounts for mine development expenditure between the beginning and the end of the current period:

|                                                 |                |                |
|-------------------------------------------------|----------------|----------------|
| <b>Development Expenditure</b>                  |                |                |
| Written down value at the beginning of the year | 209,454        | 180,403        |
| - Additions                                     | 157,603        | 71,313         |
| - Exploration expenditure transfer              | 5,000          | 21,000         |
| - Increase in restoration cost provision        | -              | 1,536          |
| - Amortisation charge for the year              | (76,423)       | (64,798)       |
| Written down value at the end of the year       | <b>295,634</b> | <b>209,454</b> |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

|                                                                                                           | Consolidated Entity |                |
|-----------------------------------------------------------------------------------------------------------|---------------------|----------------|
|                                                                                                           | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>NOTE 13: TAX</b>                                                                                       |                     |                |
| <b>Current</b>                                                                                            |                     |                |
| <b>Current tax liability</b>                                                                              |                     |                |
| Income tax expense                                                                                        | 12,130              | -              |
| Tax paid during the year                                                                                  | (1,524)             | -              |
|                                                                                                           | 10,606              | -              |
| <b>Non-Current</b>                                                                                        |                     |                |
| <b>(a) Liabilities</b>                                                                                    |                     |                |
| <b>Deferred tax liabilities comprise:</b>                                                                 |                     |                |
| - Exploration & mine development expenditure                                                              | 58,108              | 44,126         |
| - Other                                                                                                   | 773                 | 2,106          |
| Total                                                                                                     | 58,881              | 46,232         |
| <b>(b) Assets:</b>                                                                                        |                     |                |
| <b>Deferred tax assets comprise:</b>                                                                      |                     |                |
| - Future income tax benefits due to tax losses                                                            | -                   | 168            |
| - Provisions                                                                                              | 1,829               | 1,837          |
| - Property, plant and equipment                                                                           | 5,623               | 2,026          |
| - Mine development                                                                                        | 9,966               | 5,023          |
| - Other                                                                                                   | 244                 | 1,109          |
| Total                                                                                                     | 17,662              | 10,163         |
| <b>(c) Reconciliation</b>                                                                                 |                     |                |
| <i>(i) Gross movement</i>                                                                                 |                     |                |
| The overall movement in the deferred tax account is as follows:                                           |                     |                |
| Opening balance                                                                                           | (36,069)            | 24,228         |
| (Debit) / Credit to income statement                                                                      | (5,150)             | (60,297)       |
| Closing balance                                                                                           | (41,219)            | (36,069)       |
| <i>(ii) Deferred tax liability</i>                                                                        |                     |                |
| The movement in the deferred tax liabilities for each temporary difference during the year is as follows: |                     |                |
| Exploration & development expenditure                                                                     |                     |                |
| Opening balance                                                                                           | (44,126)            | (39,315)       |
| Credit to income statement                                                                                | (13,982)            | (4,811)        |
| Closing balance                                                                                           | (58,108)            | (44,126)       |
| Other                                                                                                     |                     |                |
| Opening balance                                                                                           | (2,106)             | (453)          |
| Debit / (Credit) to income statement                                                                      | 1,333               | (1,653)        |
| Closing balance                                                                                           | (773)               | (2,106)        |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

|                                                                                                      | Consolidated Entity |                |
|------------------------------------------------------------------------------------------------------|---------------------|----------------|
|                                                                                                      | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>NOTE 13: TAX ASSET (CONTINUED)</b>                                                                |                     |                |
| <i>(iii) Deferred tax assets</i>                                                                     |                     |                |
| The movement in the deferred tax assets for each temporary difference during the year is as follows: |                     |                |
| Deferred tax assets due to tax losses                                                                |                     |                |
| Opening balance                                                                                      | 168                 | 60,919         |
| (Credit) to income statement                                                                         | (168)               | (60,751)       |
| Closing balance                                                                                      | -                   | 168            |
| Provisions                                                                                           |                     |                |
| Opening balance                                                                                      | 1,837               | 1,783          |
| (Credit)/Debit to income statement                                                                   | (8)                 | 54             |
| Closing balance                                                                                      | 1,829               | 1,837          |
| Mine development                                                                                     |                     |                |
| Opening balance                                                                                      | 5,023               | 1,211          |
| Debit to income statement                                                                            | 4,943               | 3,812          |
| Closing balance                                                                                      | 9,966               | 5,023          |
| Property, plant & equipment                                                                          |                     |                |
| Opening balance                                                                                      | 2,026               | -              |
| Debit to income statement                                                                            | 3,597               | 2,026          |
| Closing balance                                                                                      | 5,623               | 2,026          |
| Other                                                                                                |                     |                |
| Opening balance                                                                                      | 1,109               | 83             |
| (Credit) / Debit to income statement                                                                 | (865)               | 1,026          |
| Closing balance                                                                                      | 244                 | 1,109          |
| <b>NOTE 14: TRADE &amp; OTHER PAYABLES</b>                                                           |                     |                |
| Current trade & other payables                                                                       | 15,214              | 13,822         |
| Accrued expenses                                                                                     | 39,377              | 30,053         |
| Accrued interest                                                                                     | 11,853              | 11,733         |
|                                                                                                      | <b>66,444</b>       | <b>55,608</b>  |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

|                                        | Notes              | Consolidated Entity |                |
|----------------------------------------|--------------------|---------------------|----------------|
|                                        |                    | 2012<br>\$'000      | 2011<br>\$'000 |
| NOTE 15: BORROWINGS                    |                    |                     |                |
| Current                                |                    |                     |                |
| Corporate loan facility                | 15 (a)             | 45,000              | -              |
| Convertible bond                       | 15 (b)             | 105,500             | -              |
| Convertible bond borrowing cost        |                    | (156)               | -              |
| Lease liabilities                      | 15 (c) &<br>21 (b) | 48                  | 61             |
|                                        |                    | 150,392             | 61             |
| Non Current                            |                    |                     |                |
| Convertible bonds                      | 15 (b)             | 213,563             | 309,980        |
| Convertible bond borrowing costs       |                    | (4,367)             | (8,155)        |
| Lease liabilities                      | 15 (c) &<br>21(b)  | 187                 | -              |
| Corporate loan facility borrowing cost |                    | (695)               | (695)          |
|                                        |                    | 208,688             | 301,825        |

## (a) Corporate loan facility

The Corporate Loan facility is available for broad company purposes as agreed between the Australia and New Zealand Banking Group Ltd (ANZ) and Western Areas NL. The amount drawn down at 30 June 2012 is repayable by 31 March 2013. The ANZ Bank corporate facility remains in place until March 2014.

The carrying value of assets secured under the corporate loan facility is as follows:

|                             |                |                |
|-----------------------------|----------------|----------------|
| Mine development            | 295,634        | 209,454        |
| Property, plant & equipment | 106,853        | 111,550        |
|                             | <b>402,487</b> | <b>321,004</b> |

## (b) Convertible bonds

|                                         |                |                |
|-----------------------------------------|----------------|----------------|
| <b>Current</b>                          |                |                |
| Convertible bond (Issued June 2007)     | 105,500        | -              |
| <b>Non-current</b>                      |                |                |
| Convertible bond (Issued June 2007)     | -              | 103,186        |
| Convertible bond (Issued April 2010)    | 111,934        | 108,645        |
| Convertible bond (Issued November 2010) | 101,629        | 98,149         |
| <b>Total non-current</b>                | <b>213,563</b> | <b>309,980</b> |
| <b>Total convertible bond borrowing</b> | <b>319,063</b> | <b>309,980</b> |

- (i) The convertible bond issued in June 2007 matured on 2 July 2012 and was paid off subsequent to reporting period.
- (ii) The convertible bond issued in November 2010 and April 2010 mature on 2 July 2014 and 2 July 2015 respectively. The November 2010 and April 2010 convertible bond are convertible into fully paid ordinary share at \$7.53/share and \$6.46/share respectively prior to maturity.
- (iii) Interest is payable on the convertible note as follows:
- 8% on convertible bond issued in June 2007
  - 6.4% on convertible bond issued in April 2010
  - 6.375% on convertible bond issued in November 2010

## (c) Lease liabilities

The lease liabilities are secured over the assets under the lease. The finance leases have an average term of 3 years and an average implicit discount rate of 6.4%. Refer to note 9 for the carrying value of the assets under lease.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

|                                                       | Notes  | Consolidated Entity |                |
|-------------------------------------------------------|--------|---------------------|----------------|
|                                                       |        | 2012<br>\$'000      | 2011<br>\$'000 |
| NOTE 16: PROVISIONS                                   |        |                     |                |
| Current                                               |        |                     |                |
| Employee Entitlements                                 | 16 (a) | 1,374               | 1,344          |
| Non Current                                           |        |                     |                |
| Rehabilitation and restoration cost                   |        |                     |                |
| Opening balance                                       |        | 6,122               | 4,886          |
| Unwinding of discount                                 |        | 284                 | 214            |
| Rehabilitation expenditure incurred during the period |        | (310)               | (514)          |
| Additional provision raised                           |        | -                   | 1,536          |
| Closing balance                                       | 16 (b) | 6,096               | 6,122          |

(a) Employee entitlements relate to balance of annual leave and long service leave accrued by the consolidated entity's employees. Recognition and measurement criteria have been disclosed in Note 1.

(b) Rehabilitation and restoration cost relates to an estimate of restoration costs that will result from the development of the Forrestania Nickel Project. The current mine life is 10 years, after which time the rehabilitation activities will be undertaken.

## NOTE 17: FINANCIAL LIABILITIES

|                                         | Notes  | Consolidated Entity |                |
|-----------------------------------------|--------|---------------------|----------------|
|                                         |        | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>Derivative financial instruments</b> |        |                     |                |
| Foreign exchange collar options         | 29 (c) | 284                 | -              |
| Nickel collar options                   | 29 (c) | -                   | 2,839          |
|                                         |        | <b>284</b>          | <b>2,839</b>   |

Collar options are used to hedge cash flow risk associated with future transactions. Gains and losses arising from changes in the fair value of derivatives are initially recognised directly in the statement of comprehensive income. At the date of the transaction, amounts included in the hedge reserve are transferred from equity and included in the income statement.

## NOTE 18: ISSUED CAPITAL

### a) Issued capital

|                                                            | Consolidated Entity |                |
|------------------------------------------------------------|---------------------|----------------|
|                                                            | 2012<br>\$'000      | 2011<br>\$'000 |
| 179,735,899 fully paid ordinary shares (2011: 179,735,899) | <b>202,611</b>      | <b>202,611</b> |

### b) Movements in issued capital

There was no movement in issued capital during the year (2011: Nil).

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. There were no changes to the consolidated entity's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Board effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 18: ISSUED CAPITAL (CONTINUED)

### c) Share options

Information relating to options issued, exercised, lapsed during the year and the options outstanding at the end of the year is detailed in Note 31 Share Based Payments.

### d) Terms and conditions of ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

## NOTE 19: EARNINGS PER SHARE

|                                                                                                                        | Consolidated Entity    |                        |
|------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
|                                                                                                                        | 2012<br>\$'000         | 2011<br>\$'000         |
| Earnings used to calculate basic / diluted earnings per share                                                          | 40,181                 | 134,973                |
|                                                                                                                        | <b>2012<br/>Number</b> | <b>2011<br/>Number</b> |
| Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share    | 179,735,899            | 179,735,899            |
| Weighted average number of dilutive options outstanding*                                                               | -                      | -                      |
| Weighted average number of ordinary shares outstanding during the year used in calculating dilutive earnings per share | 179,735,899            | 179,735,899            |

\* As at 30 June 2011 and 30 June 2012, none of the outstanding options were dilutive as the weighted average exercise price of the options were higher than the weighted average share price for the year.

## NOTE 20: CASH FLOW INFORMATION

|                                                                                                   | Consolidated Entity |                |
|---------------------------------------------------------------------------------------------------|---------------------|----------------|
|                                                                                                   | 2012<br>\$'000      | 2011<br>\$'000 |
| <b>a) Reconciliation of the net profit after tax to net cash provided by operating activities</b> |                     |                |
| Profit after income tax                                                                           | 40,181              | 134,973        |
| Depreciation expense                                                                              | 15,258              | 15,229         |
| Amortisation expense                                                                              | 80,125              | 68,847         |
| Convertible bond accretion expense                                                                | 9,083               | 8,503          |
| Premium on convertible bond payout                                                                | -                   | (1,440)        |
| Impairment expenses                                                                               | 79                  | 4,334          |
| Interest receivable                                                                               | 1,633               | (1,764)        |
| Others                                                                                            | 3,765               | (1,477)        |
| Share based payment expense                                                                       | 882                 | 574            |
| <b>Changes in fair value of derivatives</b>                                                       | 1,181               | (1,943)        |
| Stamp duty on acquisition of subsidiary (Note 35)                                                 | 3,487               | -              |
| Change in Assets and Liabilities                                                                  |                     |                |
| Increase in trade and other payables                                                              | 688                 | 850            |
| Increase in inventories                                                                           | (7,875)             | (5,714)        |
| Increase in trade and other receivables                                                           | (1,806)             | (6,560)        |
| Decrease in interest payable                                                                      | 120                 | 1,526          |
| Increase in tax liabilities                                                                       | 15,756              | 60,297         |
| Net cash provided by operating activities                                                         | <b>159,253</b>      | <b>276,235</b> |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 20: CASH FLOW INFORMATION (CONTINUED)

### b) Reconciliation of Cash and Cash Equivalents

|                                       | Consolidated Entity |                |
|---------------------------------------|---------------------|----------------|
|                                       | 2012<br>\$'000      | 2011<br>\$'000 |
| Cash and cash equivalents comprises : |                     |                |
| Cash on hand and at bank              | 165,502             | 208,948        |

The cash at bank on 30 June 2012 includes restricted cash of \$105.5M and \$11.7M for the convertible bond payment and \$11.7M interest on convertible bonds payable on 2 July 2012.

### c) Financing Facilities Available

As at the reporting date the Consolidated Entity had the following financing facilities in place:

|                          | Total Facility<br>\$'000 | Utilised at<br>Balance Date<br>\$'000 | Available<br>Facilities (*)<br>\$'000 |
|--------------------------|--------------------------|---------------------------------------|---------------------------------------|
| Banking Facilities:-     |                          |                                       |                                       |
| ANZ Banking Group        |                          |                                       |                                       |
| - Cash advance facility* | 110,000                  | 45,000                                | 65,000                                |
| Performance Guarantees:- |                          |                                       |                                       |
| ANZ Banking Group        |                          |                                       |                                       |
| - Security bond facility | 15,000                   | 7,475                                 | 7,525                                 |
| Commonwealth Bank        |                          |                                       |                                       |
| - Security bond facility | 71                       | 71                                    | -                                     |
|                          | 125,071                  | 52,546                                | 72,525                                |

\* The facility is made available to the Company upon satisfaction of conditions precedent typically associated with corporate loans.

### d) Non Cash Financing Activities

During the year, the consolidated entity acquired plant & equipment by means of a finance lease to the value of \$200k (2011: Nil).

## NOTE 21: COMMITMENTS

The Directors are not aware of any commitments as at the date of these financial statements other than those listed below.

### a) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the accounts.

|                                                | Consolidated Entity |                |
|------------------------------------------------|---------------------|----------------|
|                                                | 2012<br>\$'000      | 2011<br>\$'000 |
| - no later than 1 year                         | 876                 | 304            |
| - later than 1 year and not later than 5 years | 3,610               | 153            |
| Lease expenditure contracted for at year end   | 4,486               | 457            |

The operating leases are for miscellaneous office equipment and office premises in West Perth. The West Perth office lease expires September 2018.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 21: COMMITMENTS (CONTINUED)

### b) Finance Lease Commitments

|                                                | Consolidated Entity |                |
|------------------------------------------------|---------------------|----------------|
|                                                | 2012<br>\$'000      | 2011<br>\$'000 |
| - no later than 1 year                         | 48                  | 61             |
| - later than 1 year and not later than 5 years | 187                 | -              |
| Total Minimum Lease Payments                   | 235                 | 61             |
| - future finance charges                       | 28                  | 4              |
| Total Lease Liability                          | 263                 | 65             |
|                                                |                     |                |
| - current                                      | 61                  | 61             |
| - non current                                  | 202                 | 4              |
|                                                | 263                 | 65             |

The finance lease commitments relate primarily to the motor vehicles, but also include some office equipment. Motor vehicles are finance leased under 3 year contracts at normal commercial rates, balloon payments are generally required at the expiry of the finance lease, at which point the Company takes ownership of the vehicle.

### c) Capital Expenditure Commitments

|                                                |   |     |
|------------------------------------------------|---|-----|
| - no later than 1 year                         | - | 623 |
| - later than 1 year and not later than 5 years | - | -   |
| Total minimum commitments                      | - | 623 |

### d) Exploration Expenditure Commitments

|                                                |        |        |
|------------------------------------------------|--------|--------|
| - no later than 1 year                         | 5,138  | 4,315  |
| - later than 1 year and not later than 5 years | 20,552 | 17,260 |
| Total Minimum Payments                         | 25,690 | 21,575 |

Under the terms and conditions of the Company's title to its various tenements, it has an obligation to meet tenement rentals and minimum levels of exploration expenditure as gazetted by the Department of Mines and Petroleum.

## NOTE 22: AUDITOR REMUNERATION

|                                                                                                              | Consolidated Entity |                |
|--------------------------------------------------------------------------------------------------------------|---------------------|----------------|
|                                                                                                              | 2012<br>\$'000      | 2011<br>\$'000 |
| During the year the following fees were paid or payable for services provided by the auditor of the Company: |                     |                |
| - Audit and review of financial statements                                                                   | 159                 | 141            |
| - Other services                                                                                             | -                   | 9              |
|                                                                                                              | 159                 | 150            |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 23: MATERIAL CONTRACTS

Western Areas NL has two main customers. A summary of the key terms of the off-take agreements entered into with these customers are detailed below. Credit risk associated with these customers is detailed in note 29.

In May 2009 the Company entered a Concentrate Purchase Agreement ("CPA") with BHP Billiton Ltd. Under the terms of this agreement BHP Billiton are entitled to purchase up to 10,000 tonnes per annum of nickel in concentrate produced from the Forrestania tenements. The agreement is for a term of 7.5 years. In March 2012 the quantity of nickel in concentrate sold to BHP increased to 12,000 tonnes per annum.

In November 2011, the Company extended the Sale and Purchase Agreement for Nickel Concentrates entered into in June 2009 with Jinchuan Group Ltd ("Jinchuan") to deliver up to 25,000 tonnes of nickel concentrate for a period of 2 years. Under the extension, the Company has agreed to deliver and Jinchuan has agreed to purchase up to 15,000 tonnes of nickel concentrate for a one year period commencing March 2012.

## NOTE 24: CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities as at the date of these financial statements.

## NOTE 25: SUBSEQUENT EVENTS

The Board of Directors on 20 August 2012, declared a final 30% partially franked ordinary dividend of 6 cents per share to the holders of fully paid ordinary shares for the year ended 30 June 2012.

On 2 July 2012, the Consolidated Entity repaid \$105.5M convertible bond issued in June 2007 from cash reserves.

Other than matters detailed above, there have been no subsequent events to 30 June 2012 which have a material effect on the financial statements for the year ended 30 June 2012.

## NOTE 26: STATEMENT OF OPERATIONS BY SEGMENTS

### Identification of reportable segment

The group identifies its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group operates primarily in nickel mining and exploration in Australia and exploration in Finland. The financial information in relation to the operations in Finland is not reported separately to the chief operating decision maker and as a result, the financial information presented in the income statements and statement of financial position is the same as that presented to chief operating decision maker.

### Basis of accounting for purposes of reporting by operating segments

#### Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker is in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

## NOTE 27: KEY MANAGEMENT PERSONNEL

### Key Management Personnel

Key management personnel of the Consolidated Entity (as defined by AASB 124: Related Party transactions) include the following:

|              |                                                       |
|--------------|-------------------------------------------------------|
| T Streeter   | Chairman (Non-Executive)                              |
| J Hanna      | Director (Non-Executive) (Appointed 1 February 2012)  |
| R Dunbar     | Director (Non-Executive)                              |
| R Yeates     | Director (Non-Executive)                              |
| D Cooper     | Director (Non-Executive) (Resigned 30 September 2011) |
| I MacIver    | Director (Non-Executive) (Appointed: 1 October 2011)  |
| D Lougher    | Managing Director (Appointed 1 February 2012)         |
| D Southam    | Finance Director                                      |
| J Belladonna | Chief Financial Officer / Company Secretary           |
| C Wilkinson  | General Manager Exploration                           |
| G Marshall   | General Manager Commercial                            |
| K McKenzie   | General Manager Forrestania Operations                |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 27: KEY MANAGEMENT PERSONNEL (CONTINUED)

Refer to the remuneration report contained in the Directors' report for details of the remuneration paid or payable to each member of the group's key management personnel for the year ended 30 June 2012.

The total of remuneration paid to key management personnel of the Consolidated Entity during the year is detailed below:

|                              | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------|----------------|----------------|
| Short term employee benefits | 5,813          | 4,664          |
| Share based payments         | 646            | 912            |
| Post-employment benefits     | 324            | 308            |
|                              | 6,783          | 5,884          |

### Performance Rights held by Key Management Personnel

|              | Balance at<br>1 July 2011 | Granted as<br>Remuneration | Exercised | Expired /<br>Lapsed | Balance at<br>30 June 2012 | Performance<br>Rights Vested |
|--------------|---------------------------|----------------------------|-----------|---------------------|----------------------------|------------------------------|
| D Lougher    | -                         | 113,891                    | -         | -                   | 113,891                    | -                            |
| D Southam    | -                         | 107,354                    | -         | -                   | 107,354                    | -                            |
| C Wilkinson  | -                         | 46,399                     | -         | -                   | 46,399                     | -                            |
| G Marshall   | -                         | 42,182                     | -         | -                   | 42,182                     | -                            |
| J Belladonna | -                         | 64,411                     | -         | -                   | 64,411                     | -                            |
| K McKenzie   | -                         | 54,234                     | -         | -                   | 54,234                     | -                            |
| <b>TOTAL</b> | <b>-</b>                  | <b>428,471</b>             | <b>-</b>  | <b>-</b>            | <b>428,471</b>             | <b>-</b>                     |

### Shareholding by Key Management Personnel 2012

|              | Balance at<br>1 July 2011 | Granted as<br>Remuneration | On Exercise<br>of Options | Other Changes<br>During the Year | Balance at<br>30 June 2012 |
|--------------|---------------------------|----------------------------|---------------------------|----------------------------------|----------------------------|
| J Hanna      | 1,293,987                 | -                          | -                         | (159,321)                        | 1,134,666                  |
| T Streeter   | 25,809,410                | -                          | -                         | 80,000                           | 25,889,410                 |
| R Dunbar     | 102,500                   | -                          | -                         | -                                | 102,500                    |
| D Cooper **  | 1,000,000                 | -                          | -                         | (1,000,000)                      | -                          |
| I MacIver *  | -                         | -                          | -                         | 20,000                           | 20,000                     |
| R Yeates     | 6,000                     | -                          | -                         | 4,000                            | 10,000                     |
| D Lougher    | 50,884                    | -                          | -                         | 14,000                           | 64,884                     |
| D Southam    | -                         | -                          | -                         | -                                | -                          |
| C Wilkinson  | 7,000                     | -                          | -                         | -                                | 7,000                      |
| J Belladonna | 60,000                    | -                          | -                         | -                                | 60,000                     |
| K McKenzie   | 27,918                    | -                          | -                         | 31,000                           | 58,918                     |
| <b>TOTAL</b> | <b>28,357,699</b>         | <b>-</b>                   | <b>-</b>                  | <b>(1,010,321)</b>               | <b>27,347,378</b>          |

\* Mr Ian MacIver joined the board on 1 October 2011 and held the above shares at that time.

\*\* Mr David Cooper resigned as non-executive director on 30 September 2011 and held the above shares at that time.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 27: KEY MANAGEMENT PERSONNEL (CONTINUED)

### Shareholding by Key Management Personnel 2011

|              | Balance at<br>1 July 2010 | Granted as<br>Remuneration | On Exercise of<br>Options | Other Changes<br>During the Year | Balance at<br>30 June 2011 |
|--------------|---------------------------|----------------------------|---------------------------|----------------------------------|----------------------------|
| J Hanna      | 1,360,179                 | -                          | -                         | (66,192)                         | 1,293,987                  |
| D Cooper     | 1,000,000                 | -                          | -                         | -                                | 1,000,000                  |
| T Streeter   | 25,809,410                | -                          | -                         | -                                | 25,809,410                 |
| R Dunbar     | 102,500                   | -                          | -                         | -                                | 102,500                    |
| R Yeates     | -                         | -                          | -                         | 6,000                            | 6,000                      |
| D Lougher    | 50,884                    | -                          | -                         | -                                | 50,884                     |
| C Wilkinson  | 7,000                     | -                          | -                         | -                                | 7,000                      |
| J Belladonna | 65,000                    | -                          | -                         | (5,000)                          | 60,000                     |
| K McKenzie   | 27,918                    | -                          | -                         | -                                | 27,918                     |
| <b>TOTAL</b> | <b>28,422,891</b>         | <b>-</b>                   | <b>-</b>                  | <b>(65,192)</b>                  | <b>28,357,699</b>          |

### Options held by Key Management Personnel 2012

|              | Balance at<br>1 July 2011 | Granted as<br>Remuneration | On Exercise<br>of Options | Purchases /<br>(Sales) | Expired /<br>Lapsed | Balance at<br>30 June<br>2012 | Options<br>Vested<br>(*) |
|--------------|---------------------------|----------------------------|---------------------------|------------------------|---------------------|-------------------------------|--------------------------|
| J Hanna      | 200,000                   | -                          | -                         | -                      | -                   | 200,000                       | 200,000                  |
| D Lougher    | 200,000                   | -                          | -                         | -                      | -                   | 200,000                       | 200,000                  |
| C Wilkinson  | 100,000                   | -                          | -                         | -                      | -                   | 100,000                       | 100,000                  |
| G Marshall   | 50,000                    | -                          | -                         | -                      | -                   | 50,000                        | 50,000                   |
| J Belladonna | 100,000                   | -                          | -                         | -                      | -                   | 100,000                       | 100,000                  |
| K McKenzie   | 100,000                   | -                          | -                         | -                      | -                   | 100,000                       | 100,000                  |
| <b>TOTAL</b> | <b>750,000</b>            | <b>-</b>                   | <b>-</b>                  | <b>-</b>               | <b>-</b>            | <b>750,000</b>                | <b>750,000</b>           |

(\*) 100% of options that have vested with the Directors and Executives are exercisable at any time up until expiry.

### Options held by Key Management Personnel 2011

|              | Balance at<br>1 July 2010 | Granted as<br>Remuneration | On Exercise<br>of Options | Purchases /<br>(Sales) | Expired /<br>Lapsed | Balance<br>at 30 June<br>2011 | Options<br>Vested<br>(*) |
|--------------|---------------------------|----------------------------|---------------------------|------------------------|---------------------|-------------------------------|--------------------------|
| J Hanna      | 600,000                   | -                          | -                         | -                      | (400,000)           | 200,000                       | 100,000                  |
| D Cooper     | 400,000                   | -                          | -                         | -                      | (400,000)           | -                             | -                        |
| T Streeter   | 400,000                   | -                          | -                         | -                      | (400,000)           | -                             | -                        |
| R Dunbar     | 400,000                   | -                          | -                         | -                      | (400,000)           | -                             | -                        |
| D Lougher    | 600,000                   | -                          | -                         | -                      | (400,000)           | 200,000                       | 100,000                  |
| C Wilkinson  | 340,000                   | -                          | -                         | -                      | (240,000)           | 100,000                       | 50,000                   |
| G Marshall   | 50,000                    | -                          | -                         | -                      | -                   | 50,000                        | 25,000                   |
| J Belladonna | 180,000                   | -                          | -                         | -                      | (80,000)            | 100,000                       | 50,000                   |
| K McKenzie   | 190,000                   | -                          | -                         | -                      | (90,000)            | 100,000                       | 50,000                   |
| <b>TOTAL</b> | <b>3,160,000</b>          | <b>-</b>                   | <b>-</b>                  | <b>-</b>               | <b>(2,410,000)</b>  | <b>750,000</b>                | <b>375,000</b>           |

(\*) 100% of options that have vested with the Directors and Executives are exercisable at any time until expiry.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 28: INTERESTS IN JOINT VENTURES

At balance date the consolidated entity had entered into the following material unincorporated joint ventures. The consolidated entity and percentage interest and share of non-current assets after impairment write off is listed below:

| Joint Venture          | % Interest | Principal Activities        | Consolidated Entity |                |
|------------------------|------------|-----------------------------|---------------------|----------------|
|                        |            |                             | 2012<br>\$'000      | 2011<br>\$'000 |
| Koolyanobbing (3 JV's) | 51% - 100% | Nickel & Gold exploration   | 832                 | 200            |
| Sandstone Project      | 51% - 70%  | Nickel exploration          | 5,625               | 2,500          |
| Mt Alexander           | 25%        | Nickel & Copper exploration | 100                 | 100            |
| Great Western Project  | 51%-70%%   | Nickel & Copper exploration | 1,772               | 100            |
| Kawana Project         | 70%-80%    | Nickel & Copper exploration | 304                 | 100            |

The principal activities of the consolidated entity joint ventures are to explore tenement interests for exploitable mineral resources.

## NOTE 29: FINANCIAL RISK MANAGEMENT

### Financial Risk Management Policies

The Treasury Committee consisting of senior management and non executive board members meets on a regular basis to analyse and discuss amongst other issues, monitoring and managing financial risk exposures of the consolidated entity. The Treasury Committee monitors the consolidated entity financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk.

The Treasury Committee's overall risk management strategy seeks to assist the consolidated entity in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

### Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and commodity and equity price risk.

#### a) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets exposed to credit risk is detailed below:

|                                     | 2012<br>'000 | 2011<br>'000 |
|-------------------------------------|--------------|--------------|
| Cash and cash equivalents           | 165,502      | 208,948      |
| Trade and other receivables         | 25,360       | 27,719       |
| Available for sale financial assets | 3,460        | 6,445        |
| Derivative financial instruments    | 1,973        | 4,739        |

#### Cash and cash equivalents and derivative financial instruments

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings.

#### Trade and other receivables

The consolidated entity does not have significant credit risk exposure to trade receivables as the consolidated entity's customers are considered to be of high credit quality. There were no balances within trade and other receivables that are past due. It is expected these balances will be received when due.

#### Available for sale financial assets

Credit risk on available for sale financial assets is minimised by undertaking transactions with recognised counterparties on recognised exchanges.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)

### b) Liquidity Risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms which include:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- using derivatives that are only traded in highly liquid markets
- monitoring undrawn credit facilities, to the extent that they exist
- obtaining funding from a variety of sources
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- investing surplus cash only with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

The tables below reflect an undiscounted contractual maturity analysis for financial assets and liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

### Financial liability and financial asset maturity analysis

The Consolidated Entity's contractual maturity analysis of financial assets and financial liabilities is shown below:

| 2012 Consolidated Entity                      |                          |                                |                                |                                              |
|-----------------------------------------------|--------------------------|--------------------------------|--------------------------------|----------------------------------------------|
|                                               | 1 year or less<br>\$'000 | Over 1 to 5<br>years<br>\$'000 | More than 5<br>Years<br>\$'000 | Total<br>contractual<br>cash flows<br>\$'000 |
| <b>Financial Assets – Non Derivative</b>      |                          |                                |                                |                                              |
| Cash and Cash Equivalents                     | 165,502                  | -                              | -                              | <b>165,502</b>                               |
| Trade and Other Receivables                   | 25,360                   | -                              | -                              | <b>25,360</b>                                |
| <b>Financial Assets –Derivative</b>           |                          |                                |                                |                                              |
| Nickel Collar Options (net settled)           | 1,973                    | -                              | -                              | <b>1,973</b>                                 |
|                                               | 192,835                  | -                              | -                              | <b>192,835</b>                               |
| <b>Financial Liabilities – Non Derivative</b> |                          |                                |                                |                                              |
| Trade and Other Payables                      | 66,444                   | -                              | -                              | <b>66,444</b>                                |
| Convertible bonds                             | 105,500                  | 273,212                        | -                              | <b>378,712</b>                               |
| Corporate loan facility                       | 45,000                   | -                              | -                              | <b>45,000</b>                                |
| Lease liabilities                             | 61                       | 202                            | -                              | <b>263</b>                                   |
| <b>Financial Liabilities –Derivative</b>      |                          |                                |                                |                                              |
| Collar options (net settled)                  | 284                      |                                |                                | <b>284</b>                                   |
|                                               | 217,289                  | 273,414                        | -                              | <b>490,703</b>                               |
| Net Financial Assets/(Liabilities)            | <b>(24,454)</b>          | <b>(273,414)</b>               | -                              | <b>(297,868)</b>                             |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)

### b) Liquidity Risk (Continued)

#### Financial liability and financial asset maturity analysis (continued)

| 2011 Consolidated Entity                      |                          |                                |                                |                                              |
|-----------------------------------------------|--------------------------|--------------------------------|--------------------------------|----------------------------------------------|
|                                               | 1 year or less<br>\$'000 | Over 1 to<br>5 years<br>\$'000 | More than<br>5 Years<br>\$'000 | Total<br>contractual<br>cash flows<br>\$'000 |
| <b>Financial Assets – Non Derivative</b>      |                          |                                |                                |                                              |
| Cash and Cash Equivalents                     | 208,948                  | -                              | -                              | <b>208,948</b>                               |
| Trade and Other Receivables                   | 27,719                   | -                              | -                              | <b>27,719</b>                                |
| <b>Financial Assets –Derivative</b>           |                          |                                |                                |                                              |
| Nickel Collar Options (net settled)           | 4,739                    | -                              | -                              | <b>4,739</b>                                 |
|                                               | 241,406                  | -                              | -                              | <b>241,406</b>                               |
| <b>Financial Liabilities – Non Derivative</b> |                          |                                |                                |                                              |
| Trade and Other Payables                      | 55,608                   | -                              | -                              | <b>55,608</b>                                |
| Convertible bonds                             | -                        | 402,173                        | -                              | <b>402,173</b>                               |
| Lease liabilities                             | 65                       | -                              | -                              | <b>65</b>                                    |
| <b>Financial Liabilities –Derivative</b>      |                          |                                |                                |                                              |
| Collar options (net settled)                  | 2,839                    | -                              | -                              | <b>2,839</b>                                 |
|                                               | 58,512                   | 402,173                        | -                              | <b>460,685</b>                               |
| Net Financial Assets/(Liabilities)            | <b>182,894</b>           | <b>(402,173)</b>               | -                              | <b>(219,279)</b>                             |

### c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, price risk and currency risk.

#### i) Interest Rate Risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. Interest rate risk is managed using a mix of fixed and floating rate debt.

At the reporting date, the interest rate risk profile of the consolidated entity's interest bearing financial instruments was as follows:

| 2012 Consolidated Entity           | Fixed Interest maturing in:            |                             |                                |                                   |                                       | Total<br>\$'000 | Weighted<br>Average<br>Interest<br>Rate |
|------------------------------------|----------------------------------------|-----------------------------|--------------------------------|-----------------------------------|---------------------------------------|-----------------|-----------------------------------------|
|                                    | Floating<br>Interest<br>Rate<br>\$'000 | 1 year or<br>less<br>\$'000 | Over 1 to 5<br>years<br>\$'000 | More<br>than 5<br>Years<br>\$'000 | Non-<br>Interest<br>Bearing<br>\$'000 |                 |                                         |
| Financial Assets                   |                                        |                             |                                |                                   |                                       |                 |                                         |
| Cash and Cash Equivalents          | 165,502                                | -                           | -                              | -                                 | -                                     | 165,502         | 3.75%                                   |
| Trade and Other Receivables        | -                                      | -                           | -                              | -                                 | 25,360                                | 25,360          |                                         |
|                                    | 165,502                                | -                           | -                              | -                                 | 25,360                                | 190,862         |                                         |
| Financial Liabilities              |                                        |                             |                                |                                   |                                       |                 |                                         |
| Trade and Other Payables           | -                                      | -                           | -                              | -                                 | 66,444                                | 66,444          |                                         |
| Corporate loan facility            | -                                      | 45,000                      | -                              | -                                 | -                                     | 45,000          | 5.4%                                    |
| Convertible bonds                  | -                                      | 105,344                     | 209,196                        | -                                 | -                                     | 314,540         | 7.05%                                   |
| Lease liability                    | -                                      | 48                          | 187                            | -                                 | -                                     | 235             | 6.4%                                    |
|                                    | -                                      | 150,392                     | 209,383                        | -                                 | 66,444                                | 426,219         |                                         |
| Net Financial Assets/(Liabilities) | 165,502                                | (150,392)                   | (209,383)                      | -                                 | (41,084)                              | (235,357)       |                                         |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)

### c) Market Risk (Continued)

| 2011 Consolidated Entity           | Fixed Interest maturing in:            |                             |                                |                                   |                                   | Total<br>\$'000  | Weighted<br>Average<br>Interest<br>Rate |
|------------------------------------|----------------------------------------|-----------------------------|--------------------------------|-----------------------------------|-----------------------------------|------------------|-----------------------------------------|
|                                    | Floating<br>Interest<br>Rate<br>\$'000 | 1 year or<br>less<br>\$'000 | Over 1 to 5<br>years<br>\$'000 | More<br>than 5<br>Years<br>\$'000 | Non-Interest<br>Bearing<br>\$'000 |                  |                                         |
| <b>Financial Assets</b>            |                                        |                             |                                |                                   |                                   |                  |                                         |
| Cash and Cash Equivalents          | 208,948                                | -                           | -                              | -                                 | -                                 | <b>208,948</b>   | 6.12%                                   |
| Trade and Other Receivables        | -                                      | -                           | -                              | -                                 | 27,719                            | <b>27,719</b>    | -                                       |
|                                    | 208,948                                | -                           | -                              | -                                 | 27,719                            | <b>236,667</b>   |                                         |
| <b>Financial Liabilities</b>       |                                        |                             |                                |                                   |                                   |                  |                                         |
| Trade and Other Payables           | -                                      | -                           | -                              | -                                 | 55,608                            | <b>55,608</b>    | -                                       |
| Convertible bonds                  | -                                      | -                           | 301,825                        | -                                 | -                                 | <b>301,825</b>   | 7.05%                                   |
| Lease liability                    | -                                      | 61                          | -                              | -                                 | -                                 | <b>61</b>        | 6.09%                                   |
|                                    | -                                      | 61                          | 301,825                        | -                                 | 55,608                            | <b>357,494</b>   |                                         |
| Net Financial Assets/(Liabilities) | <b>208,948</b>                         | <b>(61)</b>                 | <b>(301,825)</b>               | -                                 | <b>(27,889)</b>                   | <b>(120,827)</b> |                                         |

Interest rate sensitivities have not been included in the financial report as the changes in profit before tax due to changes in interest rate is not material to the results of the Consolidated Entity.

### ii) Price Risk

#### a) Equity Price Risk

The consolidated entity is exposed to equity securities price risk. This arises from investments held by the Group and classified on the statement of financial position as available-for-sale.

A majority of the consolidated entity's equity investments are publicly traded and are quoted either on the ASX or the TSX.

The table below summarises the impact of increases/decreases of these two indexes on the Consolidated Entity's comprehensive income. The analysis is based on the assumption that the equity indexes had increased by 10% / decreased by 10% (2011 – increased by 10% / decreased by 10%) and foreign exchange rate increased by 5% / decrease by 5% (2011 increased by 5% / decrease by 5%) with all other variables held constant and all the Consolidated Entity's equity instruments moved according to the historical correlation with the index. The percentages are the sensitivity rates used when reporting equity price risk internally to key management personnel and represents management's assessment of the possible change in equity prices.

| Available for sale financial assets Index | Impact on comprehensive income |                        |
|-------------------------------------------|--------------------------------|------------------------|
|                                           | 30 June 2012<br>\$'000         | 30 June 2011<br>\$'000 |
| ASX                                       | 27                             | 66                     |
| TSX                                       | 143                            | 273                    |

Comprehensive income would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale. A decrease in the share price and exchange rate would result in a further decrease in fair value compared to cost. Management is satisfied that the decrease in fair value will not require an impairment loss to be recognised in the income statement.

#### b) Commodity Price Risk

The Consolidated Entity is exposed to commodity price risk. Commodity price risk arises from the sale of nickel. The entity manages its commodity price risk exposure arising from future commodity sales through sensitivity analysis, cash flow management and forecasting and where appropriate utilise derivative financial instruments to reduce price risk.

The following table details the Consolidated Entity's sensitivity to a USD 500 increase and decrease in the nickel price. USD 500 is the sensitivity rate used when reporting commodity price risk internally to key management personnel and represents management's assessment of the possible change in commodity price. The table below assumes all other variables remaining constant.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)

| Sensitivity analysis           | Profit<br>\$'000 | Equity<br>\$'000 |
|--------------------------------|------------------|------------------|
| <b>Year Ended 30 June 2012</b> |                  |                  |
| +/- \$500 / tonne nickel       | +/-1,143         | +/-1,143         |

|                                | Profit<br>\$'000 | Equity<br>\$'000 |
|--------------------------------|------------------|------------------|
| <b>Year Ended 30 June 2011</b> |                  |                  |
| +/- \$500 / tonne nickel       | +/-1,283         | +/-1,283         |

### Nickel Collar Options

The consolidated entity enters into financial transactions in the normal course of business and in line with Board guidelines for the purpose of hedging and managing its expected exposure to nickel prices. The hedges are treated as cashflow hedges in accordance with AASB 139 "Financial Instruments: Recognition and Measurement".

As at 30 June 2012 the Consolidated Entity did not have any open nickel collar options. Additional information on nickel collar options open at 30 June 2011 is detailed in the table below:

|                          | 30 June 2012 | 30 June 2011 |
|--------------------------|--------------|--------------|
| Nickel Tonnes            | -            | 3,300        |
| US Price (\$/tonne) Call | -            | 27,429       |
| USD Value (\$'000)       | -            | 90,516       |
| US Price (\$/tonne) Put  | -            | 22,141       |
| USD Value (\$'000)       | -            | 73,065       |

### iii) Currency Risk

Currency risk arises when future commercial transactions and recognised financial assets and liabilities are denominated in a currency that is not the entity's functional currency. The Consolidated Entity manages its foreign currency risk exposure through sensitivity analysis, cash flow management, forecasting and where appropriate, utilises derivative financial instruments. The carrying amount of the Consolidated Entity's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

|            | 30 June 2012          |                  | 30 June 2011          |                  |
|------------|-----------------------|------------------|-----------------------|------------------|
|            | Financial liabilities | Financial assets | Financial liabilities | Financial assets |
| US\$ '000  | -                     | 24,231           | -                     | 32,080           |
| Euros '000 | -                     | 1,207            | -                     | 1,835            |

The following table details the consolidated entity's sensitivity to a 5% increase and decrease in the Australian Dollar against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates.

| Sensitivity analysis           | Profit<br>\$'000 | Equity<br>\$'000 |
|--------------------------------|------------------|------------------|
| <b>Year Ended 30 June 2012</b> |                  |                  |
| + 5% in \$A/\$US               | (1,796)          | (1,796)          |
| - 5% in \$A/\$US               | 1,985            | 1,985            |

|                                | Profit<br>\$'000 | Equity<br>\$'000 |
|--------------------------------|------------------|------------------|
| <b>Year Ended 30 June 2011</b> |                  |                  |
| + 5% in \$A/\$US               | (2,726)          | (2,726)          |
| - 5% in \$A/\$US               | 3,013            | 3,013            |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)

### c) Market Risk (Continued)

#### Foreign exchange collar options

The consolidated entity had open foreign exchange collar options at 30 June 2012 relating to highly probable forecast transactions and recognised financial assets and financial liabilities. These contracts commit the Group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates. The hedges are treated as cash flow hedges in accordance with AASB 139 "Financial Instruments: Recognition and Measurement".

The following table summarises the notional amounts of the consolidated entity's commitments in relation to foreign exchange collar options. The notional amounts do not represent amounts exchanged by the transaction counter parties and are therefore not a measure of the exposure of the consolidated entity through the use of these contracts.

| Consolidated Group        | Notional Amounts |               | Exchange Rate |        |            |      |
|---------------------------|------------------|---------------|---------------|--------|------------|------|
|                           | 2012<br>\$000    | 2011<br>\$000 | 2012<br>\$    |        | 2011<br>\$ |      |
| <i>Buy AUD / Sell USD</i> |                  |               | Put           | Call   | Put        | Call |
| Settlement                |                  |               |               |        |            |      |
| - less than 6 months      | 40,000           | -             | 1.007         | 0.9031 | -          | -    |
| - 6 months to 1 year      | 20,000           | -             | 1.007         | 0.9031 | -          | -    |

### d) Net fair values

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the balance sheet. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments which are carried at amortised cost are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the Group.

|                                         |       | 2012                      |                          | 2011                      |                          |
|-----------------------------------------|-------|---------------------------|--------------------------|---------------------------|--------------------------|
|                                         |       | Carrying Amount<br>\$'000 | Net Fair Value<br>\$'000 | Carrying Amount<br>\$'000 | Net Fair Value<br>\$'000 |
| <b>Financial Assets</b>                 |       |                           |                          |                           |                          |
| Cash and cash equivalents               | (i)   | 165,502                   | 165,502                  | 208,948                   | 208,948                  |
| Available-for-sale assets at fair value | (ii)  | 3,460                     | 3,460                    | 6,445                     | 6,445                    |
| Derivative financial assets             | (iii) | 1,973                     | 1,973                    | 4,739                     | 4,739                    |
| Loans and receivables                   | (i)   | 25,360                    | 25,360                   | 27,719                    | 27,719                   |
|                                         |       | 196,295                   | 196,295                  | 247,851                   | 247,851                  |

|                                  |       | 2012                      |                          | 2011                      |                          |
|----------------------------------|-------|---------------------------|--------------------------|---------------------------|--------------------------|
|                                  |       | Carrying Amount<br>\$'000 | Net Fair Value<br>\$'000 | Carrying Amount<br>\$'000 | Net Fair Value<br>\$'000 |
| <b>Financial Liabilities</b>     |       |                           |                          |                           |                          |
| Trade and other payables         | (i)   | 66,444                    | 66,444                   | 55,608                    | 55,608                   |
| Convertible bonds                | (iv)  | 314,540                   | 333,500                  | 301,825                   | 333,500                  |
| Derivative financial liabilities | (iii) | 284                       | 284                      | 2,839                     | 2,839                    |
| Corporate loan facility          | (iv)  | 44,305                    | 44,500                   | -                         | -                        |
| Other liabilities                | (i)   | 235                       | 235                      | 61                        | 61                       |
|                                  |       | 425,808                   | 444,963                  | 360,333                   | 392,008                  |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)

### d) Net fair values (Continued)

The fair values disclosed in the above table have been determined based on the following methodologies:

- Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is not considered a financial instrument.
- Quoted closing bid prices at reporting date.
- Fair valuation performed by financial risk management firm which include valuation techniques incorporating observable market data relevant to the hedged position.
- Discounted cash flow models are used to determine the fair values of loans and advances. Discount rates used on the calculations are based on interest rates existing at reporting date for similar types of loans and advances. Differences between fair values and carrying values largely represent movements of the effective interest rate determined on initial recognition and current market rates.

### Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

| Consolidated Group                  |                  |                  |                  |                |
|-------------------------------------|------------------|------------------|------------------|----------------|
|                                     | Level 1<br>\$000 | Level 2<br>\$000 | Level 3<br>\$000 | Total<br>\$000 |
| <b>2012</b>                         |                  |                  |                  |                |
| <b>Financial assets:</b>            |                  |                  |                  |                |
| Available-for-sale financial assets | 3,460            | -                | -                | 3,460          |
| Derivative financial instrument     | -                | 1,973            | -                | 1,973          |
| <b>Total financial assets</b>       | <b>3,460</b>     | <b>1,973</b>     | <b>-</b>         | <b>5,433</b>   |
| <b>Financial liabilities</b>        |                  |                  |                  |                |
| Derivative financial instruments    | -                | 284              | -                | 284            |
| <b>2011</b>                         |                  |                  |                  |                |
| <b>Financial assets:</b>            |                  |                  |                  |                |
| Available-for-sale financial assets | 6,445            | -                | -                | 6,445          |
| Derivative financial instrument     | -                | 4,739            | -                | 4,739          |
| <b>Total financial assets</b>       | <b>6,445</b>     | <b>4,739</b>     | <b>-</b>         | <b>11,184</b>  |
| <b>Financial liabilities</b>        |                  |                  |                  |                |
| Derivative financial instruments    | -                | 2,839            | -                | 2,839          |

## NOTE 30: RELATED PARTY TRANSACTIONS

Mr Julian Hanna received \$45k for consulting services provided through Ravelstone Consulting Ltd.

There were no other related party transactions during the financial year, except for the key management compensation as disclosed in the directors' report.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 31: SHARE BASED PAYMENTS

### (a) Expenses arising from share based transactions

|                                                                     | Consolidated Entity |                |
|---------------------------------------------------------------------|---------------------|----------------|
|                                                                     | 2012<br>\$'000      | 2011<br>\$'000 |
| Equity settled share options and performance rights granted during: |                     |                |
| Year ended 30 June 2011                                             | 347                 | 574            |
| Year ended 30 June 2012                                             | 535                 | -              |
| <b>Total expense recognised as employee costs</b>                   | <b>882</b>          | <b>574</b>     |

### (b) Performance rights

Under the Performance Rights plan, executives are granted a right to be issued a share in the future subject to the performance based vesting conditions being met. The company's share price performance is measured via a relative total shareholder return ('TSR'). The Company's TSR will be measured against a customised peer group of companies.

For grants made under the Long Term Incentive (LTI) plan during FY12, vesting will occur subject to the meeting of service and performance conditions as follows:

- One-third of the rights will be performance tested against the relative TSR measure for the period 1 July 2011 to 30 June 2012.
- One-third of the rights will be performance tested against the relative TSR measure for the period 1 July 2012 to 30 June 2013.
- One-third of the rights will be performance tested against the relative TSR measure for the period 1 July 2013 to 30 June 2014.

All of the grant will be subject to a service based vesting condition which will provide that, notwithstanding the passing of the performance test, no Performance Rights will vest and become exercisable into shares unless the participant remains employed as at 30 June 2014.

The following table sets out the vesting outcome based on the Company's relative TSR performance:

| Relative TSR performance                                 | Performance Vesting Outcomes                   |
|----------------------------------------------------------|------------------------------------------------|
| Less than 50 <sup>th</sup> percentile                    | 0% vesting                                     |
| At the 50 <sup>th</sup> percentile                       | 50% vesting                                    |
| Between 50 <sup>th</sup> and 75 <sup>th</sup> percentile | Pro-rata / progressive vesting from 50% - 100% |
| At or above 75 <sup>th</sup> percentile                  | 100% vesting                                   |

No Performance Rights will vest unless the percentile ranking of the Company's TSR for the relevant performance year, as compared to the TSRs for the peer group companies, is at or above the 50th percentile.

The valuation inputs used in determining the fair value of performance rights issued during the year is detailed below:

|                              | 2012       |
|------------------------------|------------|
| Underlying share price       | \$5.66     |
| Exercise price of rights     | Nil        |
| Risk free rate               | 3.12%      |
| Volatility factor            | 35% to 55% |
| Dividend yield               | 4.0%       |
| Effective life               | 2.58 years |
| Entitled number of employees | 6          |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 31: SHARE BASED PAYMENTS (CONTINUED)

### (b) Performance rights (continued)

#### Performance Rights held by Key Management Personnel at 30 June 2012

|              | Balance at<br>1 July 2011 | Granted as<br>Remuneration | Exercise of<br>Performance<br>Rights | Expired /<br>Lapsed | Balance at 30<br>June 2012 | Performance<br>Rights Vested |
|--------------|---------------------------|----------------------------|--------------------------------------|---------------------|----------------------------|------------------------------|
| D Lougher    | -                         | 113,891                    | -                                    | -                   | 113,891                    | -                            |
| D Southam    | -                         | 107,354                    | -                                    | -                   | 107,354                    | -                            |
| C Wilkinson  | -                         | 46,399                     | -                                    | -                   | 46,399                     | -                            |
| G Marshall   | -                         | 42,182                     | -                                    | -                   | 42,182                     | -                            |
| J Belladonna | -                         | 64,411                     | -                                    | -                   | 64,411                     | -                            |
| K McKenzie   | -                         | 54,234                     | -                                    | -                   | 54,234                     | -                            |
| <b>TOTAL</b> | <b>-</b>                  | <b>428,471</b>             | <b>-</b>                             | <b>-</b>            | <b>248,471</b>             | <b>-</b>                     |

No performance rights were issued in 2011.

### (c) Option plans

Options issued to employees under the Western Areas Employee Share Option Scheme and Directors incentive options vest as detailed below:

- (i) The \$7.25 employee options issued in September 2009, expiring in September 2012, vest as follows: half vest 12 months before expiry and half vest 24 months before expiry date.
- (ii) The \$7.50 directors' options issued in November 2009, expiring in September 2012, vest as follows: half vest 12 months before the expiry date and half vest 24 months before expiry date.

The weighted average contractual life remaining for the current outstanding options is 3 months.

The fair value of the options outstanding as at 30 June 2012 was determined as detailed below:

- (i) The employee options issued on 17 September 2009 were independently valued via the Binomial option pricing model applying the following inputs. Average closing share price: \$4.87, option exercise price: \$7.25, life of the option: 3 years, price volatility: 76% and risk free rate: 4.66% for year 1, price volatility: 83% and risk free rate: 4.86% for year 2.
- (ii) The directors options issued on 24 November 2009 were independently valued via the Binomial option pricing model applying the following inputs. Average closing share price: \$4.87, option exercise price: \$7.50, life of the option: 3 years, price volatility: 76% and risk free rate: 5.09% for year 1, price volatility: 74% and risk free rate: 5.09% for year 2.

The following options were outstanding at 30 June 2012:

| Consolidated Entity    |                      |                                    |                      |                                    |
|------------------------|----------------------|------------------------------------|----------------------|------------------------------------|
|                        | 2012                 |                                    | 2011                 |                                    |
|                        | Number of<br>options | Weighted average<br>exercise price | Number of<br>options | Weighted average<br>exercise price |
| Opening balance        | 2,010,000            | 7.32                               | 7,300,000            | 12.80                              |
| Options cancelled      | (110,000)            | 7.32                               | (420,000)            | 8.73                               |
| Options Expired        | -                    | -                                  | (4,870,000)          | 15.38                              |
| <b>Closing balance</b> | <b>1,900,000</b>     | <b>7.32</b>                        | <b>2,010,000</b>     | <b>7.32</b>                        |
| <b>Vested balance</b>  | <b>1,900,000</b>     | <b>7.32</b>                        | <b>1,340,000</b>     | <b>7.32</b>                        |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 31: SHARE BASED PAYMENTS (CONTINUED)

### (c) Option plans (continued)

The movement in the various classes of options for the year ended 30 June 2012 were as follows:

|                        | Option Terms (Exercise Price and Maturity) |                           |                  |
|------------------------|--------------------------------------------|---------------------------|------------------|
|                        | Director<br>\$7.50 Sep 12                  | Employee<br>\$7.25 Sep 12 | TOTAL            |
| Opening balance        | <b>600,000</b>                             | <b>1,410,000</b>          | <b>2,010,000</b> |
| Options cancelled      |                                            | (110,000)                 | (110,000)        |
| <b>Closing balance</b> | <b>600,000</b>                             | <b>1,300,000</b>          | <b>1,900,000</b> |

The movement in the various classes of options for the year ended 30 June 2011 were as follows:

| -- Option Terms (Exercise Price and Maturity) -- |                              |                               |                                 |                               |                              |                              |                  |
|--------------------------------------------------|------------------------------|-------------------------------|---------------------------------|-------------------------------|------------------------------|------------------------------|------------------|
|                                                  | Employee<br>\$7.50<br>Jan 11 | Employee<br>\$15.00<br>May 11 | Contractor<br>\$17.00<br>May 11 | Director<br>\$17.00<br>May 11 | Director<br>\$7.50<br>Sep 12 | Employee<br>\$7.25<br>Sep 12 | TOTAL            |
| Opening balance                                  | <b>500,000</b>               | <b>1,730,000</b>              | <b>400,000</b>                  | <b>2,400,000</b>              | <b>600,000</b>               | <b>1,670,000</b>             | <b>7,300,000</b> |
| Options issued                                   | -                            | -                             | -                               | -                             | -                            | -                            | -                |
| Options Expired                                  | (500,000)                    | (1,570,000)                   | (400,000)                       | (2,400,000)                   | -                            | -                            | (4,870,000)      |
| Options Cancelled                                | -                            | (160,000)                     | -                               | -                             | -                            | (260,000)                    | (420,000)        |
| Options exercised                                | -                            | -                             | -                               | -                             | -                            | -                            | -                |
| <b>Closing balance</b>                           | <b>-</b>                     | <b>-</b>                      | <b>-</b>                        | <b>-</b>                      | <b>600,000</b>               | <b>1,410,000</b>             | <b>2,010,000</b> |

## NOTE 32: RESERVES

### (i) Option equity reserve

The option reserve records the items recognised as expenses on valuation of employee share options.

### (ii) Hedge reserve

The hedge reserve records revaluations of items designated as hedges.

### (iii) Investment Revaluation reserve

The investment revaluation reserve records revaluations of available for sale financial assets.

### (iv) Convertible Bond Reserve

The Convertible bond reserve records the equity proportion value of the convertible bond.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 33: NEW ACCOUNTING STANDARDS FOR APPLICATION IN THE FUTURE PERIODS

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

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

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

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

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

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

This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

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

The amendments are not expected to significantly impact the Group.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 33: NEW ACCOUNTING STANDARDS FOR APPLICATION IN THE FUTURE PERIODS (CONTINUED)

- **AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).**

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either “joint operations” (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or “joint ventures” (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a “structured entity”, replacing the “special purpose entity” concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- **AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 17, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).**

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

- **AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).**

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Group.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 34: PARENT INFORMATION

The following information has been extracted from the books of the parent and has been prepared in accordance with the accounting standards.

### Statement of Financial Position

|                          | Parent Entity  |                |
|--------------------------|----------------|----------------|
|                          | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Assets</b>            |                |                |
| Current Assets           | 232,009        | 269,664        |
| Non Current Assets       | 548,814        | 422,381        |
| <b>Total Assets</b>      | <b>780,823</b> | <b>692,045</b> |
|                          |                |                |
| <b>Liabilities</b>       |                |                |
| Current Liabilities      | 227,388        | 59,064         |
| Non Current Liabilities  | 256,003        | 344,017        |
| <b>Total Liabilities</b> | <b>483,391</b> | <b>403,081</b> |
|                          |                |                |
| <b>Net Assets</b>        | <b>297,432</b> | <b>288,964</b> |
| <b>Equity</b>            |                |                |
| Issued capital           | 202,611        | 202,611        |
| Reserves                 | 76,335         | 78,554         |
| Retained Earnings        | 18,486         | 7,799          |
| <b>Total Equity</b>      | <b>297,432</b> | <b>288,964</b> |

### Statement of Comprehensive Income

|                                         |               |                |
|-----------------------------------------|---------------|----------------|
| Profit for the year                     | <b>46,640</b> | <b>132,162</b> |
| Total comprehensive income for the year | <b>43,540</b> | <b>135,965</b> |

### Guarantees

Western Areas NL has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

### Contingent Liabilities

The Directors are not aware of any contingent liabilities as at the date of these financial statements.

### Contractual Commitments

Refer to Note 21 as all commitments entered into were by Western Areas NL.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For The Year Ended 30 June 2012

## NOTE 35: BUSINESS COMBINATION

### Acquisition of Kagara Nickel Pty Ltd

On 29 February 2012, Western Areas NL, acquired 100% of the paid-up capital of Kagara Nickel Pty Ltd from Kagara Ltd. Kagara Nickel Pty Ltd is principally engaged in nickel mining and exploration and owns the high grade Lounge Lizard nickel deposit, located adjacent to Western Areas' 100% owned Flying Fox nickel mine, at the Forrester Nickel Project. The purchase consideration of \$68M was paid from cash reserves of \$23M and \$45M utilising the ANZ corporate facility. As part of the agreement, a further \$3.1M was paid from cash reserves in April as consideration for the ore stockpiles.

| Net Identifiable Assets Acquired and Liabilities Assumed at Fair Value at Date of Acquisition | 2012<br>\$'000 |
|-----------------------------------------------------------------------------------------------|----------------|
| Inventory                                                                                     | 3,128          |
| Receivables                                                                                   | 150            |
| Property, plant and equipment                                                                 | 26             |
| Mine development                                                                              | 59,796         |
| Exploration and evaluation expenditure                                                        | 8,000          |
|                                                                                               | <b>71,100</b>  |
| Cash consideration paid                                                                       | <b>71,100</b>  |

Kagara Nickel Pty Ltd did not generate any revenue or incur any expenses since 29 February 2012. Had the results of Kagara Nickel Pty Ltd been consolidated from 1 July 2011, revenue of the consolidated group would have been \$330.7M and consolidated profit would have been \$40.2M for the year ended 30 June 2012.

## NOTE 36: ADDITIONAL COMPANY INFORMATION

Western Areas NL is a Public Company, incorporated and domiciled in Australia.

Registered office and Principal place of business:

Level 2

2 Kings Park Road

West Perth WA 6005

Tel: +61 8 9334 7777

Fax: +61 8 9486 7866

Web: [www.westernareas.com.au](http://www.westernareas.com.au)

Email: [info@westernareas.com.au](mailto:info@westernareas.com.au)

# DIRECTORS' DECLARATION

1. In the opinion of the Directors of Western Areas NL:
  - (a) the Consolidated Entity's financial statements and notes set out on pages 44 to 87 are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 and of its performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australia Accounting Interpretations) and the Corporations Regulations 2001;
  - (b) the financial report also complies with International Financial Reporting Standards as set out in note 1;
  - (c) the remuneration disclosures that are contained in the remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001;
  - (c) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.
2. the Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer, Managing Director, Financial Director and Chief Financial Officer for the financial year ended 30 June 2012.

Signed in accordance with a resolution of the Board of Directors.

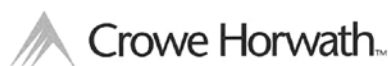


**D Lougher**

**Managing Director**

Dated this 20th day of August 2012

# INDEPENDENT AUDITOR'S OPINION



## INDEPENDENT AUDIT REPORT TO MEMBERS OF WESTERN AREAS NL AND ITS CONTROLLED ENTITIES

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

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### Auditor's Responsibility

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

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

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

### Independence

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

### Auditor's Opinion

In our opinion:

- (a) the financial report of Western Areas NL is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Crowe Horwath Perth is a WHK Group Firm and a member of Crowe Horwath International, a Swiss versian.  
Each member firm of Crowe Horwath is a separate and independent legal entity

# INDEPENDENT AUDITOR'S OPINION CONTINUED



## REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 11 to 22 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's Opinion

In our opinion, the Remuneration Report of Western Areas NL for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads "Crowe Horwath".

CROWE HORWATH PERTH

A handwritten signature in black ink that reads "Sean McGurk".

SEAN MCGURK  
Partner

Signed at Perth, 20 August 2012

Crowe Horwath Perth is a WHK Group Firm and a member of Crowe Horwath International, a Swiss Verein.  
Each member firm of Crowe Horwath is a separate and independent legal entity

# TENEMENT LISTING

For The Year Ended 30 June 2012

| Areas of Interest | Tenements | Status      | Company's Interest | Joint Venture Partners |
|-------------------|-----------|-------------|--------------------|------------------------|
| Forrestania       | E74/00470 | Granted     | 100%               |                        |
|                   | E74/00499 | Granted     | 100%               |                        |
|                   | E77/01864 | Application | 100%               |                        |
|                   | E77/00806 | Granted     | 100%               |                        |
|                   | E77/01086 | Granted     | 100%               |                        |
|                   | E77/01399 | Granted     | 100%               |                        |
|                   | E77/01400 | Granted     | 100%               |                        |
|                   | E77/01416 | Granted     | 100%               |                        |
|                   | E77/01436 | Granted     | 100%               |                        |
|                   | E77/01581 | Granted     | 100%               |                        |
|                   | E77/01865 | Granted     | 100%               |                        |
|                   | G70/00226 | Granted     | 100%               |                        |
|                   | G70/00231 | Granted     | 100%               |                        |
|                   | L70/00109 | Granted     | 100%               |                        |
|                   | L70/00111 | Granted     | 100%               |                        |
|                   | L74/00011 | Granted     | 100%               |                        |
|                   | L74/00012 | Granted     | 100%               |                        |
|                   | L74/00025 | Granted     | 100%               |                        |
|                   | L74/00044 | Granted     | 100%               |                        |
|                   | L77/00104 | Granted     | 100%               |                        |
|                   | L77/00141 | Granted     | 100%               |                        |
|                   | L77/00182 | Granted     | 100%               |                        |
|                   | L77/00197 | Granted     | 100%               |                        |
|                   | L77/00202 | Granted     | 100%               |                        |
|                   | L77/00203 | Granted     | 100%               |                        |
|                   | L77/00204 | Granted     | 100%               |                        |
|                   | L77/00217 | Granted     | 100%               |                        |
|                   | M74/00057 | Granted     | 100%               |                        |
|                   | M74/00058 | Granted     | 100%               |                        |
|                   | M74/00064 | Granted     | 100%               |                        |
|                   | M74/00065 | Granted     | 100%               |                        |
|                   | M74/00081 | Granted     | 100%               |                        |
|                   | M74/00090 | Granted     | 100%               |                        |
|                   | M74/00091 | Granted     | 100%               |                        |
|                   | M74/00092 | Granted     | 100%               |                        |
|                   | M77/00098 | Granted     | 100%               |                        |
|                   | M77/00099 | Granted     | 100%               |                        |
|                   | M77/00215 | Granted     | 100%               |                        |
|                   | M77/00216 | Granted     | 100%               |                        |
|                   | M77/00219 | Granted     | 100%               |                        |
|                   | M77/00284 | Granted     | 100%               |                        |
|                   | M77/00285 | Granted     | 100%               |                        |
|                   | M77/00286 | Granted     | 100%               |                        |
|                   | M77/00329 | Granted     | 100%               |                        |
|                   | M77/00335 | Granted     | 100%               |                        |
|                   | M77/00336 | Granted     | 100%               |                        |
|                   | M77/00389 | Granted     | 100%               |                        |
|                   | M77/00399 | Granted     | 100%               |                        |
|                   | M77/00458 | Granted     | 100%               |                        |
|                   | M77/00467 | Granted     | 100%               |                        |
|                   | M77/00468 | Granted     | 100%               |                        |
|                   | M77/00542 | Granted     | 100%               |                        |
|                   | M77/00543 | Granted     | 100%               |                        |
|                   | M77/00544 | Granted     | 100%               |                        |
|                   | M77/00545 | Granted     | 100%               |                        |
|                   | M77/00550 | Granted     | 100%               |                        |
|                   | M77/00568 | Granted     | 100%               |                        |
|                   | M77/00574 | Granted     | 100%               |                        |
|                   | M77/00582 | Granted     | 100%               |                        |
|                   | M77/00583 | Granted     | 100%               |                        |

# TENEMENT LISTING CONTINUED

For The Year Ended 30 June 2012

| Areas of Interest | Tenements | Status      | Company's Interest | Joint Venture Partners                                  |
|-------------------|-----------|-------------|--------------------|---------------------------------------------------------|
|                   | M77/00584 | Granted     | 100%               |                                                         |
|                   | M77/00585 | Granted     | 100%               |                                                         |
|                   | M77/00586 | Granted     | 100%               |                                                         |
|                   | M77/00587 | Granted     | 100%               |                                                         |
|                   | M77/00588 | Granted     | 100%               |                                                         |
|                   | M77/00589 | Granted     | 100%               |                                                         |
|                   | M77/00911 | Granted     | 100%               |                                                         |
|                   | M77/00912 | Granted     | 100%               |                                                         |
|                   | P74/00316 | Granted     | 100%               |                                                         |
|                   | P77/03572 | Granted     | 100%               |                                                         |
|                   | P77/03733 | Granted     | 100%               |                                                         |
|                   | P77/03734 | Granted     | 100%               |                                                         |
|                   | P77/03735 | Granted     | 100%               |                                                         |
|                   | P77/03736 | Granted     | 100%               |                                                         |
|                   | P77/03737 | Granted     | 100%               |                                                         |
|                   | P77/03738 | Granted     | 100%               |                                                         |
|                   | P77/03743 | Granted     | 100%               |                                                         |
|                   | P77/03748 | Granted     | 100%               |                                                         |
|                   | P77/03749 | Granted     | 100%               |                                                         |
|                   | P77/03750 | Granted     | 100%               |                                                         |
|                   | P77/03751 | Granted     | 100%               |                                                         |
|                   | P77/03752 | Granted     | 100%               |                                                         |
|                   | P77/03758 | Granted     | 100%               |                                                         |
|                   | P77/03836 | Granted     | 100%               |                                                         |
|                   | P77/03837 | Granted     | 100%               |                                                         |
|                   | P77/03838 | Granted     | 100%               |                                                         |
|                   | P77/03839 | Granted     | 100%               |                                                         |
|                   | P77/03840 | Granted     | 100%               |                                                         |
|                   | P77/03846 | Granted     | 100%               |                                                         |
|                   | P77/03847 | Granted     | 100%               |                                                         |
|                   | P77/03860 | Granted     | 100%               |                                                         |
|                   | P77/03861 | Granted     | 100%               |                                                         |
|                   | P77/03862 | Granted     | 100%               |                                                         |
|                   | P77/03863 | Granted     | 100%               |                                                         |
|                   | P77/03864 | Granted     | 100%               |                                                         |
|                   | P77/03865 | Granted     | 100%               |                                                         |
|                   | P77/04065 | Application | 100%               |                                                         |
|                   | P77/04067 | Application | 100%               |                                                         |
|                   | P77/04075 | Granted     | 100%               |                                                         |
|                   | E74/00305 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | E74/00313 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | E74/00320 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | E74/00368 | Granted     | 100%               | Jindalee Resources Ltd / Uran Ltd                       |
|                   | E74/00428 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | E74/00445 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | E74/00446 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | E77/01537 | Granted     | 100%               | Jindalee Resources Ltd                                  |
|                   | E77/01545 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | E77/01546 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | E77/01547 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | E77/01590 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | E77/01677 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | P74/00251 | Granted     | 100%               | Great Western Exploration Ltd                           |
|                   | P74/00322 | Granted     | 100%               | Great Western Exploration Ltd                           |
| <b>Kawana</b>     | E77/01093 | Granted     | 70%                | Bildex Holdings Pty Ltd & Fleet Street Holdings Pty Ltd |
|                   | E77/01355 | Granted     | 70%                | Bildex Holdings Pty Ltd & Fleet Street Holdings Pty Ltd |
|                   | E77/01365 | Granted     | 70%                | Bildex Holdings Pty Ltd & Fleet Street Holdings Pty Ltd |
|                   | E77/01394 | Granted     | 70%                | Wheatbelt Holdings Pty Ltd                              |
|                   | E77/01438 | Granted     | 70%                | Bildex Holdings Pty Ltd & Wheatbelt Holdings Pty Ltd    |
|                   | E77/01674 | Granted     | 70%                | Fleet Street Holdings Pty Ltd & Bildex Holdings Pty Ltd |
|                   | E77/01686 | Granted     | 70%                | Fleet Street Holdings Pty Ltd & Bildex Holdings Pty Ltd |
|                   | P77/03618 | Granted     | 70%                | Fleet Street Holdings Pty Ltd & Bildex Holdings Pty Ltd |

# TENEMENT LISTING CONTINUED

For The Year Ended 30 June 2012

| Areas of Interest      | Tenements | Status  | Company's Interest | Joint Venture Partners                    |
|------------------------|-----------|---------|--------------------|-------------------------------------------|
| <b>Koolyanobbing</b>   | E77/01004 | Granted | 100% Ni rights     | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | E77/01307 | Granted | 100%               | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | E77/01407 | Granted | 100%               | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | L77/00214 | Granted | 100%               | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | M77/00606 | Granted | 100% Ni rights     | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | M77/00607 | Granted | 100% Ni rights     | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | M77/00611 | Granted | 100% Ni rights     | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | M77/00676 | Granted | 100%               | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | M77/00737 | Granted | 100%               | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | M77/00839 | Granted | 100%               | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | M77/00988 | Granted | 100% Ni rights     | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | M77/00989 | Granted | 100% Ni rights     | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | M77/00990 | Granted | 100% Ni rights     | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | P77/03482 | Granted | 100% Ni rights     | Cliffs Asia Pacific Iron Ore Pty Ltd      |
|                        | P77/03807 | Granted | 100%               | Cliffs Asia Pacific Iron Ore Pty Ltd      |
| <b>Lake King</b>       | E70/02148 | Granted | 80%                | Swanoak Holdings Pty Ltd                  |
|                        | E70/04028 | Pending | 80%                | Swanoak Holdings Pty Ltd                  |
|                        | E70/04029 | Pending | 80%                | Swanoak Holdings Pty Ltd                  |
|                        | P70/1630  | Pending | 80%                | Swanoak Holdings Pty Ltd                  |
|                        | P70/1631  | Pending | 80%                | Swanoak Holdings Pty Ltd                  |
|                        | P70/1632  | Pending | 80%                | Swanoak Holdings Pty Ltd                  |
|                        | P70/1633  | Pending | 80%                | Swanoak Holdings Pty Ltd                  |
|                        | P70/1634  | Pending | 80%                | Swanoak Holdings Pty Ltd                  |
|                        | P70/1630  | Pending | 80%                | Swanoak Holdings Pty Ltd                  |
| <b>Mount Alexander</b> | E29/00638 | Granted | 25%                | Bhp Billiton Nickel West Pty Ltd          |
| <b>Mount Jewell</b>    | P24/04041 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P24/04042 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P24/04043 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P24/04044 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P24/04045 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P24/04046 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P24/04047 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P24/04048 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P24/04049 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P27/01695 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P27/01696 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P27/01697 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P27/01698 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P27/01699 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P27/01700 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P27/01701 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P29/01905 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P29/01906 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P29/01907 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P29/01908 | Granted | 20%                | Magma Metals Ltd                          |
|                        | P29/01909 | Granted | 20%                | Magma Metals Ltd                          |
| <b>Sandstone</b>       | M57/00206 | Granted | 70% Ni rights      | Bennett, John                             |
|                        | M57/00450 | Granted | 70% Ni rights      | Bennett, John                             |
|                        | P57/01076 | Granted | 70% Ni rights      | Bennett, John                             |
|                        | P57/01239 | Granted | 70% Ni rights      | Bennett, John Paul                        |
|                        | P57/01247 | Granted | 70% Ni rights      | Bennett, John Paul                        |
|                        | P57/01248 | Granted | 70% Ni rights      | Bennett, John                             |
|                        | P57/01249 | Granted | 70% Ni rights      | Bennett, John Paul                        |
|                        | P57/01187 | Granted | 70% Ni rights      | Donald-Hill, Richard Forbes               |
|                        | P57/01188 | Granted | 70% Ni rights      | Donald-Hill, Richard Forbes               |
|                        | P57/01189 | Granted | 70% Ni rights      | Donald-Hill, Richard Forbes               |
|                        | E57/00642 | Granted | 70% Ni rights      | Elixir Holdings Pty Ltd Troy Resources NI |
|                        | E57/00667 | Granted | 70% Ni rights      | Elixir Holdings Pty Ltd Troy Resources NI |

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For The Year Ended 30 June 2012

| Areas of Interest | Tenements | Status  | Company's Interest | Joint Venture Partners                                                                    |
|-------------------|-----------|---------|--------------------|-------------------------------------------------------------------------------------------|
|                   | P57/01091 | Granted | 70% Ni rights      | Elixir Holdings Pty Ltd Troy Resources NI                                                 |
|                   | P57/01092 | Granted | 70% Ni rights      | Elixir Holdings Pty Ltd Troy Resources NI                                                 |
|                   | P57/01114 | Granted | 70% Ni rights      | Elixir Holdings Pty Ltd Troy Resources NI                                                 |
|                   | P57/01115 | Granted | 70% Ni rights      | Elixir Holdings Pty Ltd Troy Resources NI                                                 |
|                   | P57/01218 | Granted | 70% Ni rights      | Garbutt, Robert Sydney Kjellgren, Gary Herbert Spraggon, Robin Guy                        |
|                   | E57/00778 | Granted | 70% Ni rights      | Gibson, Peter Ronald                                                                      |
|                   | P57/00970 | Granted | 70% Ni rights      | Gloede, Danny James                                                                       |
|                   | P57/01231 | Granted | 70% Ni rights      | Gloede, Danny James                                                                       |
|                   | M57/00272 | Granted | 70% Ni rights      | Kjellgren, Gary Herbert Spraggon, Robin Guy                                               |
|                   | M57/00239 | Granted | 70% Ni rights      | Kjellgren, Norman William Wirraminna Gold NI                                              |
|                   | E57/00664 | Granted | 70% Ni rights      | Legendre, Bruce Robert Troy Resources NI Wirraminna Gold NI                               |
|                   | P57/01110 | Granted | 70% Ni rights      | Legendre, Bruce Robert Troy Resources NI Wirraminna Gold NI                               |
|                   | P57/01047 | Granted | 70% Ni rights      | Legendre, Bruce Robert Voermans Geological Services Pty Ltd Wasse, Bernfried Gunter Franz |
|                   | P57/01048 | Granted | 70% Ni rights      | Legendre, Bruce Robert Voermans Geological Services Pty Ltd Wasse, Bernfried Gunter Franz |
|                   | E57/00765 | Granted | 70% Ni rights      | Legendre, Joseph Paul                                                                     |
|                   | E57/00788 | Granted | 70% Ni rights      | Mindax Ltd                                                                                |
|                   | E57/00826 | Granted | 70% Ni rights      | Mithril Resources Ltd                                                                     |
|                   | E57/00779 | Granted | 70% Ni rights      | Plasia Pty Ltd                                                                            |
|                   | P57/01240 | Granted | 70% Ni rights      | Reilly, Graeme Edward                                                                     |
|                   | P57/01210 | Granted | 70% Ni rights      | Sheppard, Robert Ernst John                                                               |
|                   | E57/00485 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00576 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00580 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00581 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00583 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00584 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00585 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00587 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00592 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00595 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00596 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00637 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00639 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00640 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00641 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00662 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00663 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00665 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00670 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00703 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | E57/00808 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | G57/00003 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | L57/00010 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | L57/00015 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | L57/00022 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | L57/00023 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | L57/00024 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | L57/00025 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | L57/00026 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | L57/00027 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | L57/00033 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | L57/00034 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | M57/00001 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | M57/00022 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | M57/00040 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | M57/00068 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | M57/00088 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | M57/00128 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | M57/00129 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |
|                   | M57/00130 | Granted | 70% Ni rights      | Troy Resources NI                                                                         |

# TENEMENT LISTING CONTINUED

For The Year Ended 30 June 2012

| Areas of Interest | Tenements | Status  | Company's Interest | Joint Venture Partners               |
|-------------------|-----------|---------|--------------------|--------------------------------------|
|                   | M57/00163 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | M57/00248 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | M57/00301 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | M57/00529 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | M57/00530 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | M57/00632 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01038 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01072 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01085 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01086 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01089 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01090 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01096 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01097 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01098 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01108 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01109 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01112 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01121 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01122 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01201 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01202 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01203 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01204 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01207 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01208 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01211 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01212 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01220 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01224 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01229 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01246 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01252 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01253 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01254 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | P57/01255 | Granted | 70% Ni rights      | Troy Resources NI                    |
|                   | M57/00417 | Granted | 70% Ni rights      | Troy Resources NI Wirraminna Gold NI |
|                   | P57/01116 | Granted | 70% Ni rights      | Troy Resources NI Wirraminna Gold NI |
|                   | P57/01117 | Granted | 70% Ni rights      | Troy Resources NI Wirraminna Gold NI |
|                   | P57/01118 | Granted | 70% Ni rights      | Troy Resources NI Wirraminna Gold NI |
|                   | P57/01119 | Granted | 70% Ni rights      | Troy Resources NI Wirraminna Gold NI |
|                   | P57/01230 | Granted | 70% Ni rights      | Troy Resources NI Wirraminna Gold NI |
|                   | E57/00704 | Granted | 70% Ni rights      | Troy Resources NI Wirraminna Gold NI |
|                   | M57/00415 | Granted | 70% Ni rights      | Troy Resources NI Wirraminna Gold NI |
|                   | M57/00416 | Granted | 70% Ni rights      | Troy Resources NI Wirraminna Gold NI |
|                   | E57/00800 | Granted | 70% Ni rights      | Vanguard Exploration Pty Ltd         |
|                   | E57/00666 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | M57/00266 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | M57/00439 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01095 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01111 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01205 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01206 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01209 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01219 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01221 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01222 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01223 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01225 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01235 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01236 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01237 | Granted | 70% Ni rights      | Wirraminna Gold NI                   |
|                   | P57/01245 | Granted | 70% Ni rights      | Zuks, Adam Zuks, Nikolajas           |

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For The Year Ended 30 June 2012

| Areas of Interest     | Tenements  | Status  | Company's Interest | Joint Venture Partners    |
|-----------------------|------------|---------|--------------------|---------------------------|
| <b>Southern Cross</b> | E29/0564-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E29/0593-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E29/0653-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E29/0654-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E29/0655-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E30/0331-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1034-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1063   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1117-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1141-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1164-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1171   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1233   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1268-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1275-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1293-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1295-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1314-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1320   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1321-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1322-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1342-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1353-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1368   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1371-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1372   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1373   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1374-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1376-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1380   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1384-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1390   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1391-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1423   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1424   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1427-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1459   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1474   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1477   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1488-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1490   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1496   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1497-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1498   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1499   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1500-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1505   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1508   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1509   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1566   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1599   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1630   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1642   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1649-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1650-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1653-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1654-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1657-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1658-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                       | E77/1659-I | Granted | 70% Ni rights      | Southern Cross Goldfields |

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For The Year Ended 30 June 2012

| Areas of Interest | Tenements  | Status  | Company's Interest | Joint Venture Partners    |
|-------------------|------------|---------|--------------------|---------------------------|
|                   | E77/1699   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1721   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1726-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1728-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1741-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1742   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1765-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1766   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1773   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1775   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1776   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1777-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1778-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1790-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1791   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1803   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1814   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1817   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1837   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1874   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1878   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1879   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | E77/1880   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | G77/0035   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | L77/0211   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | L77/0221   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | L77/0223   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | L77/0224   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | L77/0225   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | L77/0226   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0123   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0166   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0228   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0394   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0576   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0581   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0646   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0824   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0931   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0948   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/0962   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1025   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1044   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1064   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1089   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1090   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1094   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1101   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1102   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1103   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1246   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1250   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1253-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | M77/1256   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P29/1922-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P29/1923-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P29/1924-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P29/1925-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P29/1926-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P29/1927-l | Granted | 70% Ni rights      | Southern Cross Goldfields |

# TENEMENT LISTING CONTINUED

For The Year Ended 30 June 2012

| Areas of Interest | Tenements  | Status  | Company's Interest | Joint Venture Partners    |
|-------------------|------------|---------|--------------------|---------------------------|
|                   | P30/1011-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3304   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3333   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3412   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3413   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3414   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3425   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3427   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3428   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3429   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3430   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3447   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3458   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3459   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3460   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3461   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3462   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3470-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3476   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3477   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3552   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3553-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3554-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3555-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3564-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3565-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3597   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3601   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3602   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3603   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3604   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3624-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3624-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3624-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3625   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3626   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3627   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3628   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3629   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3630-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3631-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3632-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3633-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3634-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3635-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3636-I | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3645   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3646   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3647   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3648   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3649   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3650   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3651   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3652   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3653   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3656   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3657   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3658   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3659   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3660   | Granted | 70% Ni rights      | Southern Cross Goldfields |

# TENEMENT LISTING CONTINUED

For The Year Ended 30 June 2012

| Areas of Interest | Tenements  | Status  | Company's Interest | Joint Venture Partners    |
|-------------------|------------|---------|--------------------|---------------------------|
|                   | P77/3661   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3662   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3663   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3664   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3670-l | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3698   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3699   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3801   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3802   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3808   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3809   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3810   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3811   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3812   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3813   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3816   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3817   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3818   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3830   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3868   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3898   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3899   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3900   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3901   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3902   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3903   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3907   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3908   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3936   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3957   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3958   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3959   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3967   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3978   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3979   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3994   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3996   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/3997   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/4016   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/4022   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/4028   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/4029   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/4032   | Granted | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/4033-l | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/4036   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/4037   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/4038   | Pending | 70% Ni rights      | Southern Cross Goldfields |
|                   | P77/4055   | Pending | 70% Ni rights      | Southern Cross Goldfields |

# SHAREHOLDER INFORMATION

The Shareholder Information set out below shows the position as at 31 July 2012

## A) DISTRIBUTION OF SHAREHOLDINGS

|                                                        | Ordinary Shares* |
|--------------------------------------------------------|------------------|
| i) Distribution schedule of holdings:                  |                  |
| 1 – 1,000                                              | 1,900            |
| 1,001 – 5,000                                          | 2,112            |
| 5001 – 10,000                                          | 614              |
| 10,001 – 100,000                                       | 547              |
| 100,001 – over                                         | 110              |
| Total number of holders                                | 5,283            |
| ii) Number of holders of less than a marketable parcel | 350              |
| iii) Number of overseas Holders                        | 234              |
| iv) Percentage held by 20 largest holders              | 63.07%           |

\*All ordinary shares carry one vote per share without restriction.

## B) LARGEST SECURITY HOLDERS

Names of the 20 largest holders of Ordinary Shares are listed below:

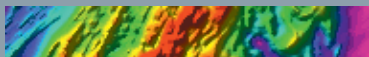
| Name                                      | No of Shares Held | %      |
|-------------------------------------------|-------------------|--------|
| Terence E Streeter                        | 25,889,410        | 14.40% |
| Commonwealth Bank Group                   | 15,416,618        | 8.58%  |
| Margaret & Allan Greenwell                | 9,792,180         | 5.45%  |
| Northward Capital Pty Ltd.                | 5,738,262         | 3.19%  |
| Giovanni Santalucia                       | 5,714,390         | 3.18%  |
| Eley Griffiths Group Pty Ltd.             | 5,435,590         | 3.02%  |
| UBS AG                                    | 5,075,836         | 2.82%  |
| Celeste Funds Management Limited          | 4,598,313         | 2.56%  |
| State Street Corporation                  | 4,388,671         | 2.44%  |
| Paradice Investment Management Pty. Ltd.  | 4,295,678         | 2.39%  |
| Antares Capital Partners Limited          | 4,185,271         | 2.33%  |
| Concise Asset Management Limited          | 3,444,151         | 1.92%  |
| Independent Asset Management Pty. Ltd.    | 3,232,445         | 1.80%  |
| Vanguard Group Inc                        | 3,130,627         | 1.74%  |
| Mount Kellett Capital Management, LP      | 3,060,980         | 1.70%  |
| BlackRock, Inc.                           | 2,353,123         | 1.31%  |
| Marchesani Family Holdings (Retail Group) | 2,050,677         | 1.14%  |
| Credit Suisse (Broker Group)              | 1,943,256         | 1.08%  |
| Kosmos Asset Management Pty. Ltd.         | 1,819,185         | 1.01%  |
| John & Cheryl Susan Marinovich            | 1,816,951         | 1.01%  |

## C) SUBSTANTIAL SHAREHOLDERS

| Name                       | No of Shares Held | %      |
|----------------------------|-------------------|--------|
| Terence E Streeter         | 25,889,410        | 14.40% |
| Commonwealth Bank Group    | 15,416,618        | 8.58%  |
| Margaret & Allan Greenwell | 9,792,180         | 5.45%  |



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