



ABN 56 097 904 302

# **ANNUAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2009**

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Executive Chairman

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**CHAIRMAN'S ADDRESS**

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South Boulder's sixth year as a publicly listed company has been one of consolidation and acquisition in exploration projects.

During the year the company acquired a new, potentially world class potash project at Colluli in Eritrea. The target is an evaporite hosted potash deposit.

There was production from the region by Italian colonialists in early part of last century and extensive drilling was conducted from 1958 – 1968. Since 1968 there has been no work completed on the prospect.

The tenement was awarded to South Boulder in July. With several competing claims this was a testament to the good work that both Lorry and Liam have done establishing South Boulders credentials with the Eritrean Government.

I with Lorry made our first planning visit to the project in September. It was my first visit to Eritrea and I left with the feeling that it was a country that one can do business in.

The other fertilizer projects located in Western Australia and the Northern Territory have, either been put on the back burner or traded.

The Duketon Project has not been neglected during the year. Independence have continued exploring the Bulge region with the discovery of definite nickel sulphide in some drill intersections at the Rosie and Bulge C2 Prospects.

Using Independence's nickel drilling in the Bulge area and assaying the samples for gold, STB has made a new gold discovery, the Terminator Prospect. We are currently undertaking follow up drilling on this project.

The coming year promises to be a very active one for the company and I thank my fellow directors and all our staff for their hard work and effort over the past year.

*T. Grammer*

**TERRY GRAMMER**  
**Chairman**

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## **INTRODUCTION**

The 2009 Annual Report is South Boulder Mines Ltd (“South Boulder”) sixth annual report since listing on 17 October 2003.

It has been a turbulent year for most junior exploration companies across the globe due to the difficulty in raising capital and the subsequent share price depreciations brought on by the global financial crisis. South Boulder however remains in a strong position with respect to its quality assets and strong cash position. Management believe South Boulder is well placed to continue the advancement of our projects and strives toward the ultimate goal of profitable production.

Since February 2008, South Boulder decided to explore for fertilizer minerals to capitalise on the strong demand outlook for the commodities in the medium to long term. The key fertilizer commodities of potash and phosphate are trading at strong levels and the fundamental drivers for fertilizer demand remain strong. While we have seen the advancement of our original lead fertilizer asset at Lake Disappointment East slow considerably, we have been able to add a potentially world class potash project to our portfolio in the Colluli potash project, Eritrea.

Additional to South Boulder’s exciting fertilizer portfolio, the Duketon gold and nickel projects are starting to show some of the potential that management has believed in since the company’s inception. The new Terminator gold discovery is very exciting and our joint venture partner Independence Group (IGO), are having great success with the discovery and delineation of strong nickel-copper- PGE mineralisation at the new Rosie and the C2 Prospects.

South Boulder is well positioned with significant exploration exposure across a number of commodities and projects. The company’s equity holdings in ASX/TSX listed IXR, MZM, AGO, AVZ, BUX, UNX and CNI.V (TSX) add to the diversification of the exploration portfolio. These equities provide fund raising options to The Company through divestment.

## **COLLULI POTASH PROJECT**

South Boulder announced to the ASX on the 28<sup>th</sup> July that the Colluli Potash Project licence was granted on the 23<sup>rd</sup> of July by the Minister for Mines and Energy Eritrea. South Boulder believes that the project has potential to host world class buried evaporite potash deposits and is extremely pleased to have won the tender for the project. The Project is located in the Danakil Depression region of Eritrea approximately 200kms south east of the capital Asmara and comprises 906km<sup>2</sup> (Figure 1).

The Colluli Project consists of buried evaporite deposits in which two shallow potash bearing horizons were identified from historic diamond drilling conducted in 1968 by the former Ethiopian Potash Company (EPC). The first horizon intersected an average thickness of 1.7m sylvinite with average grades of 12.5% K<sub>2</sub>O at depths to the top of the horizon ranging from 23m – 180m. The second horizon intersected an average thickness of 17m carnallite with average grades of 50 - 70wt% (~17% K<sub>2</sub>O) at depths to the top of the horizon at 390m.

The Danakil Depression has a history of artisanal salt production with modern exploration and exploitation dating back to the early 1900’s. The most intensive period of exploration and trial

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underground mining occurred from 1958 – 1968 at the Musley and Crescent deposits, located approximately 15km south west of Colluli at Dallol, Ethiopia. Since 1968 there has been no exploration at the Colluli Potash Project.

The project is located less than 100kms south of the shallow water port of Mersa Fatma and less than 200kms south east of the deep water port of Massawa. The potential to utilise solar evaporation and solution mining techniques make the project very attractive to South Boulder. These factors coupled with the relatively shallow nature of the mineralisation could lead to relatively cheap capital and operating costs if a deposit is defined.

Since the license has been granted, South Boulder has advanced plans to conduct on ground exploration to confirm the historic mineralisation. The Company is in the process of leasing an office in Asmara and is hiring local personnel to administer the company activities in Eritrea. South Boulder has been highly encouraged by the quality of local staff available for administrative and geological work in Asmara.

The first site visit to Colluli was conducted in September by Terry Grammer and Lorry Hughes accompanied by local geologists, government officials and local traditional landowners. The initial findings were very positive with the condition of access tracks found to be excellent. South Boulder plans to drill 2-4 diamond holes before the end of calendar 2009 which, if successful, will provide enough data to compile an initial geological resource model to facilitate some early stage engineering studies.

An initial contract for expert potash consultancy services has been finalised with ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mBH to compile data, conduct a reconnaissance site investigation and design an initial confirmatory drill program. A drilling tender document has been distributed and it is expected drilling companies will conduct site visits to evaluate local conditions in October. The location of an initial drilling camp has been identified at the closest settlement to Colluli at Adailo which is located approximately 25kms north of the project.

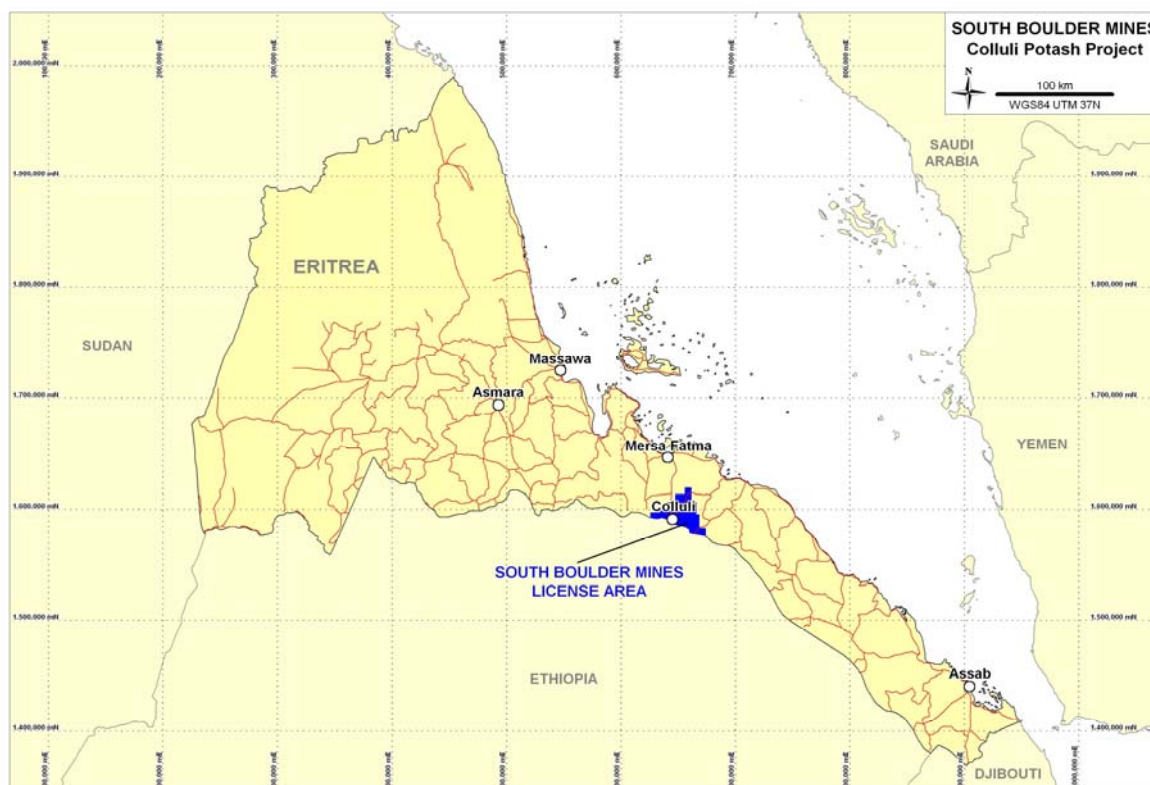
South Boulder originally applied for the license in May 2008 as part of an open tender process and won the right to negotiate terms for an exploration license agreement in June 2009. The minimum expenditure requirements of the license are USD\$500,000 in the first year and on application for a mining license, the Eritrean government is entitled to a 10% free-carried interest. The government also after delivery of a Bankable Feasibility Study (BFS) has the right to purchase an additional 30% equity participation interest in any mining project and up to a 3.5% royalty on salts.

Data used to form the basis of this report has been sourced from a high quality detailed summary report of all the historic potash exploration and mining that occurred in the Danakil Depression. The report was compiled by the former French State owned potash company, Enterprises Miniere et Chimiques (EMC) in 1983 that has since gone into administration. South Boulder is in the process of searching the archives of EMC to locate the complete set of original drill logs. The detailed original map of the EMC work with the new Eritrea – Ethiopia border (as supplied by the Eritrean government) is included in Figure 3.

In Figure 2 to the immediate south of the Colluli Potash Project in yellow, the area of extensive work that has been conducted at the Musley and Crescent potash deposits in Ethiopia by the former Ralph M. Parsons Company from 1958 – 1968 is shown. At Musley

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historic resources were defined which are now in part owned by Sainik Coal Mining Pvt. and Allana Resources Inc. (TSX.V AAA). Allana has defined a 43-101 Compliant Inferred resource of 105 million tonnes @ 20.8% composite grade KCl from their portion of the historic resource area. These resources occur approximately 15 km south of the Colluli Potash Project in Ethiopia.



**Figure 1** – Location of the Colluli Potash Project Eritrea.

South Boulder believes there is significant potential to discover and define similar resources at the Colluli Potash Project. The Musley deposit is the most analogous deposit to the mineralisation identified at Colluli and therefore provides South Boulder with a realistic exploration target within the project area.

### LAKE DISAPPOIEMENT EAST POTASH PROJECT

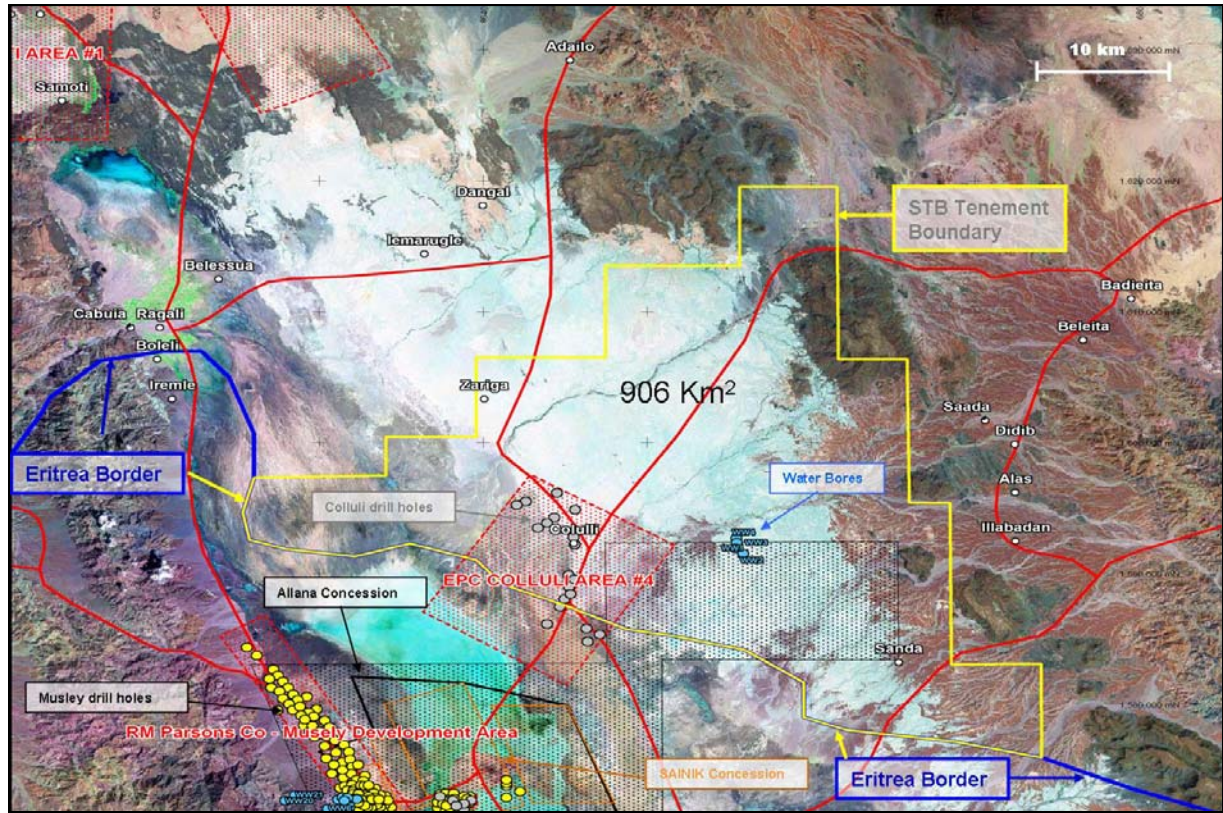
During the period the progress at the Lake Disappointment East project (E45/3122) has been protracted and slow due to negotiations between the Western Desert Lands Council (WDLAC) and Reward Minerals Ltd (ASX: RWD) who are the beneficial owner of the Lake Disappointment potash resource located immediately west of South Boulder’s Project.

Reward Minerals Ltd “Reward” (ASX: RWD) had their application for a mining lease over potash resources located at Lake Disappointment rejected in May 2009 by the National Native Title Tribunal. Subsequently an application by Reward to the Federal Attorney General to overrule the decision was also rejected in July 2009.

An exploration access agreement has been negotiated between South Boulder and the Traditional Owners of the area, that’s sets the framework for exploration and the next stage is to conduct site based heritage surveys prior to non-ground disturbing and ground disturbing

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exploration. At this stage, South Boulder is unsure when access to the ground will be possible, however the Company remains committed to the Project.



**Figure 2** – Colluli Potash Project. Exploration license – yellow (southern boundary is coincident with Eritrea Border), Colluli Potash Project drill hole collars – grey dots, Musley Potash deposit drill collars – yellow dots, local roads – red line, former EPC exploration areas – red stipple, former Ralph M. Parsons Co. exploration areas – black stipple, Eritrea Border – blue.

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**DUKETON PROJECT**

South Boulder's Duketon Project is located north of Laverton in Western Australia. The Duketon Project totals approximately 2,000km<sup>2</sup> in area, making South Boulder the largest single land holder in the Duketon Greenstone Belt. The Duketon Project is highly prospective for gold, nickel sulphide and base metals. South Boulder owns 100% of the gold and base metal rights to the package as part of the Duketon Gold Project and Independence Group NL "Independence" (ASX: IGO) are earning 70% of the nickel rights on selected tenements by the delivery of a Bankable Feasibility Study.

The Achaean Duketon Greenstone Belt is located ~ 80kms north of Laverton in Western Australia and is dominated by a broad, complex north-northwest trending fold structure known as the Erlistoun Syncline (Figure 3). The core of this syncline is occupied by the Ingi-jingi Felsic Volcanic Complex. The Ingi-jingi Felsic Volcanic Complex consists dominantly of rhyolitic and dacitic tuffs, and represents the youngest rocks in the belt.

The western limb of the Erlistoun Syncline is formed by a sequence of mafic and ultramafic volcanics and intrusives, epiclastic and chemical sediments, and minor felsics known as the Bandy Mafics. To the west the Bandy Mafics are bounded by the Hootanui Fault and the Granite Hills Batholith.

The north-eastern limb of the Erlistoun Syncline is formed by a sequence of mafic volcanics informally known as the Riccaboni Mafics. These mafics underlie the Ingi-jingi Felsic Volcanic Complex, and are intruded to the north by the Mount Joanna batholith.

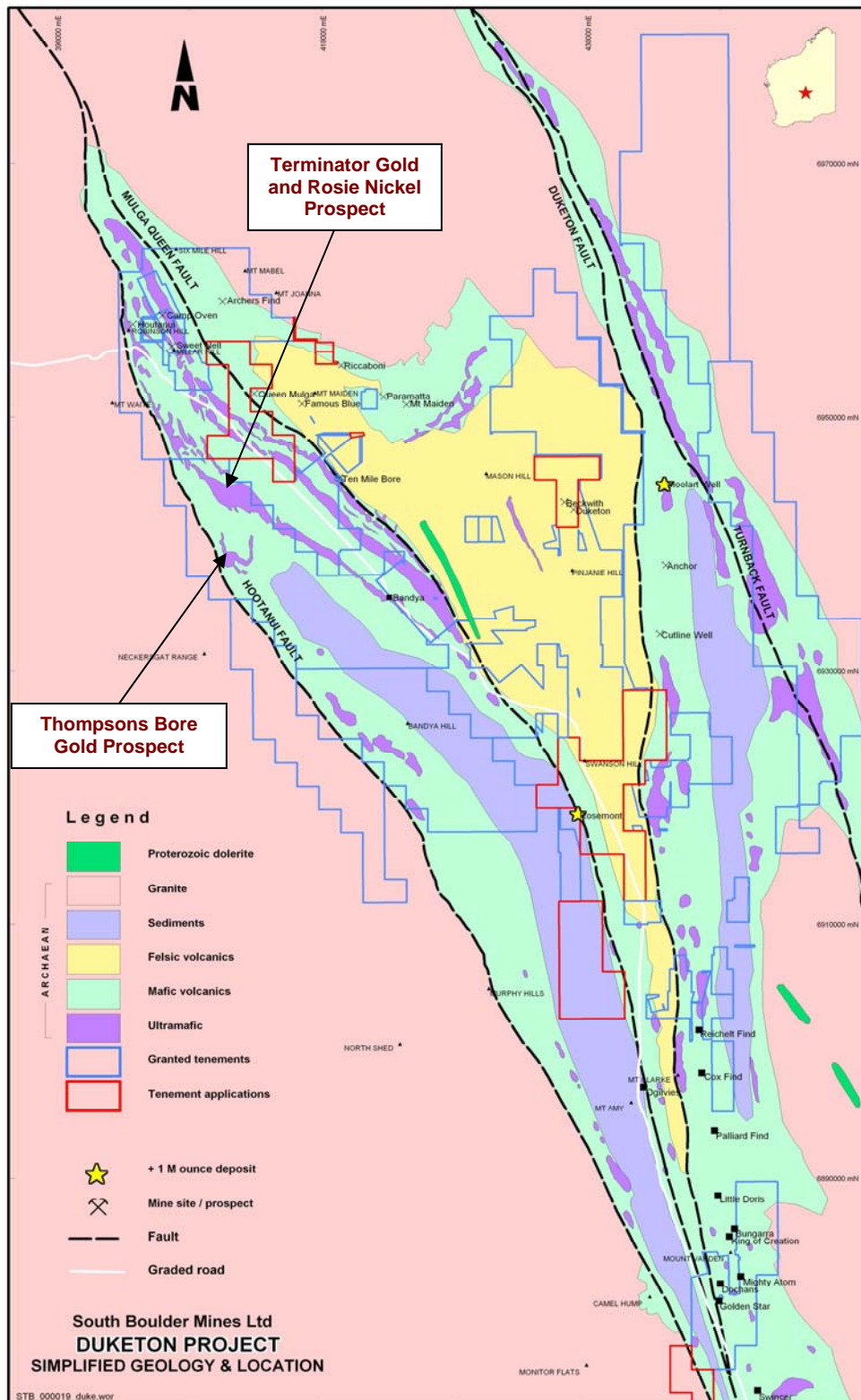
**DUKETON GOLD PROJECT**

From the early 90's the majority of the Duketon Project was held by Normandy Mining Limited and Newmont Mining Corporation. Although wide spaced reconnaissance exploration was sporadically conducted, the vast majority of the project remains under shallow cover and vastly under explored.

The Duketon Belt contains highly prospective geological sequences and mineralised structures. Numerous structures are known to contain significant gold mineralisation and this is demonstrated by the approximately +3M ounces of unmined gold resources currently defined to date within the belt. In addition the +1.5M ounce Moolart Well Gold Project is currently being developed by Regis Resources NL "Regis" (ASX: RRL). Once operational this will be the only mining operation in the Duketon Belt. The recent development in the belt announced by Regis and A1 Minerals (ASX: AAM) are under consideration and will likely have a very positive impact on the future of the Duketon Belt.

During the period most work was focussed on exploration of a target generative nature in order to support a conceptual initial public offering of the majority of the gold rights. Subsequent to the end of the period a new discovery was made at the Terminator Prospect. The recent improvement in the gold price and investor appetite for gold has help refocus South Boulder's efforts on the project.

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**Figure 3 - Duketon Project tenements over Duketon Greenstone Belt geology.**

**Terminator Prospect**

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Subsequent to the end of the period, the Terminator Prospect was discovered by Independence while they were conducting geochemical aircore drilling exploring for nickel on E38/1537. The Prospect is located approximately 300m South of the Bulge C2 Nickel Prospect and up until the time of compiling this report consists of the following significant intercepts;

- TBAC111 - 37m @ 2.18g/t Au from 1m ;
- TBAC114 - 16m @ 1.16g/t Au from surface, incl. 8m @ 2.21g/t Au from 4m ;
- TBAC012 - 8m @ 1.06 from surface.

A 4,000m aircore drilling program is expected to be completed in October 2009. The program is designed to test for continuity of shallow gold mineralisation previously intercepted at Terminator over 220m in strike length (Figure 4).

Drilling will target the sheared contact between an ultramafic and mafic sequence, which is currently believed to be the control on the gold mineralisation. The majority of holes will be drilled to blade refusal and fenced on a 40m x 40m pattern. In addition a number of closer spaced holes as well as some wider spaced exploratory drill holes are also planned.

### **Thompson's Bore Prospect**

The Thompson's Bore Gold Prospect is located within E38/1537, 5km due south of the Bulge Nickel Sulphide discovery and 30km east of the 1.5M ounce Moolart Well deposit owned by Regis Resources NL (Figure 3). Significant results from shallow air-core drilling previously announced include:

- TBAC009 - 8m @ 0.59g/t from 0m + 4m @ 12.7g/t from 44m;
- TBAC010 - 16m @ 7.8g/t (inc 4m @ 14.4g/t) from 32m;
- TBAC018 - 4m @ 3.1g/t from 56m;
- TBAC020 - 12m @ 2.3g/t (inc 4m @ 3.5g/t) from 20m;
- TBAC009 - 5m @ 2.92g/t (inc 1m @ 8.13g/t from 0m) + 1m @ 59.0g/t from 44m;
- TBAC010 - 11m @ 8.70g/t (inc 2m @ 27.75g/t) from 35m;
- TBAC018 - 4m @ 3.26g/t (inc 1m @ 6.5g/t) from 57m;
- TBAC020 - 7m @ 4.01g/t from 23m.

Most recent 1m re-split samples (announced on 11<sup>th</sup> March 2008) include:

- TBAC034 - 1m @ 75.30g/t from 14m;
- TBAC042 - 7m @ 5.80g/t (inc 2m @ 15.70g/t) from 18m;
- TBAC036 - 4m @ 5.0g/t (inc 1m @ 17.3g/t) from 8m;
- TBAC030 - 12m @ 2.10g/t from 76m;
- TBAC041 - 4m @ 3.03g/t (inc 2m @ 5.2g/t) from 37m;
- TBAC040 - 5m @ 3.98g/t (inc 1m @ 6.44g/t) from 63m;
- TBAC047 - 4m @ 4.4g/t from 44m.

The mineralisation is considered open in all directions and indications are that mineralised intersections are significantly depleted down to depths of ~ 80m. At least 2 and possibly 3 steeply dipping, parallel north - north west striking gold zones exist within the project. Gold mineralisation at Thompson's Bore appears to be related to (smokey and often pink) quartz veining and ferruginous structures in the oxidised zone of the weathering profile. Host rocks are volcanic in origin and often intercalated with chert bands.

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A 250m aircore drilling program will target both shallow up dip extensions as well as strike extension to narrow high grade mineralization previously intercepted in a buried quartz vein. The program is designed to test an approximate strike length of 150m and generally aims to intercept the quartz vein between 5m and 30m vertical depth. The vein is northwest to south east striking and is concealed by between 1m and 2m of transported cover.

### **DUKETON NICKEL JOINT VENTURE**

In April 2004 South Boulder signed a farm-out Joint Venture Agreement with Independence. Under the terms of the agreement Independence will farm-in to earn 70% of the nickel metal rights on tenements held by South Boulder within the Duketon Project by delivery of a Bankable Feasibility Study “BFS”. The BFS must be completed within 5 years from grant of the relevant tenement interest.

The Duketon Nickel Joint Venture (DNJV) covers ultramafic rich stratigraphy in the Duketon Greenstone Belt which are considered highly prospective for Ni-Cu-PGE mineralisation. The tenure held within the DNJV is shown in Figure 5.

The Duketon Nickel Joint Venture covers approximately 100 strike kilometres of ultramafic rich stratigraphy in the Duketon Greenstone Belt – considered highly prospective for Ni-Cu-PGE mineralisation. To date only about 30% of this ultramafic stratigraphy has been subjected to modern exploration techniques.

Nickel sulphide mineralisation within the Duketon Greenstone Belt is highlighted by the recent Collurabbie discovery by Falcon Minerals Ltd and BHP Billiton Ltd to the north of the Duketon Project; and by the recently revived Windarra nickel mine to the south.

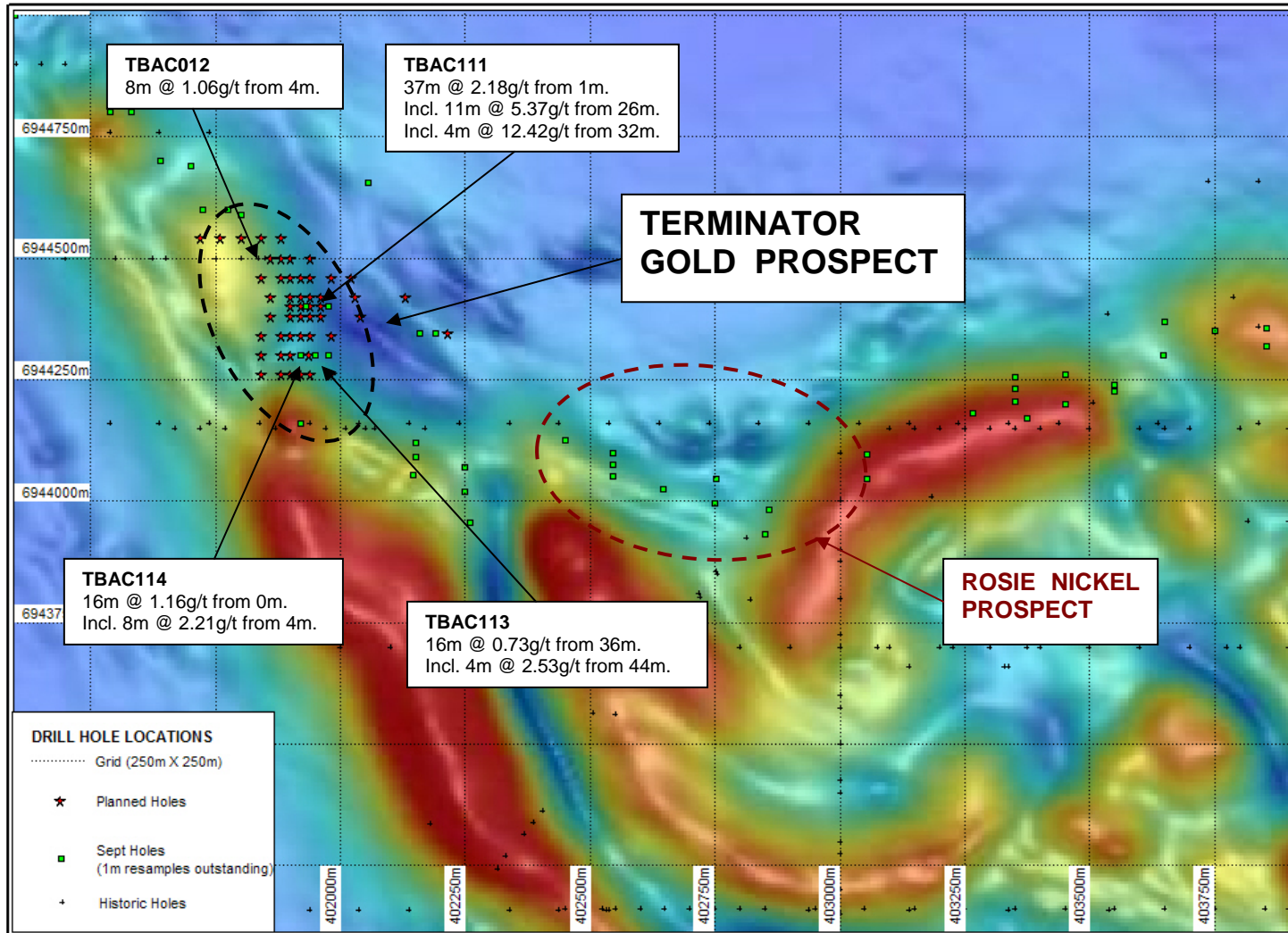
### **The Bulge C2 Prospect**

As announced in an ASX release on the 21<sup>st</sup> of July, recently completed drilling intersected significant nickel sulphide mineralisation at the Bulge C2 Prospect. The prospect is within E38/1537, approximately 100km northwest of Laverton. IGO has confirmed the nickel prospectivity of the belt by the discovery of an extensive area of disseminated magmatic Ni-(Cu-PGE) within the Bulge ultramafic.

The C2 mineralisation occurs in three horizons (eastern contact, central and western contact) and significantly also contains discrete zones of blebby and stringer sulphide mineralisation with grades up to 3.43% Ni providing strong encouragement that massive nickel sulphide mineralisation may be present within the Bulge ultramafic.

Elsewhere in Western Australia, similar large accumulations of disseminated nickel sulphides such as the deposits at Mt Goode (Cosmos camp) and Black Swan have associated massive sulphide deposits.

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**Figure 4** - The Terminator Gold Prospect showing historic and planned holes.

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During the quarter a further three diamond holes were completed at the C2 prospect targeting a down hole EM conductor and down plunge/down dip positions of mineralisation intersected in previous drilling. All three holes intersected nickel sulphide mineralisation, with the best result coming from TBDD074 which intersected:

- **50m at 0.92% Ni (including 37m @ 1.05% Ni) from 275m**

This intersection indicates that both the width and grade of the eastern zone mineralisation is improving with depth (Figure 6).

TBD067 targeting an intersection of 2.2% Ni in TBRC066 (western contact position) failed to reach the planned final depth due to hole difficulties but did return an intercept of 15m @ 0.51% Ni in the targeted position.

TBDD075 was drilled targeting a modelled down hole EM plate associated with an intercept of 1.26% Ni in TBDD073. The hole intersected two zones of disseminated mineralisation (max 1.7% Ni) both approximately 4.5m wide in the eastern contact position.

Subsequent to the end of the period a high resolution aeromagnetic survey over the entire Bulge ultramafic was completed in July 2009 with results received. The survey was designed to assist in future drill hole targeting by better defining the mafic/ultramafic contact and to examine in detail the structure of the Bulge ultramafic.

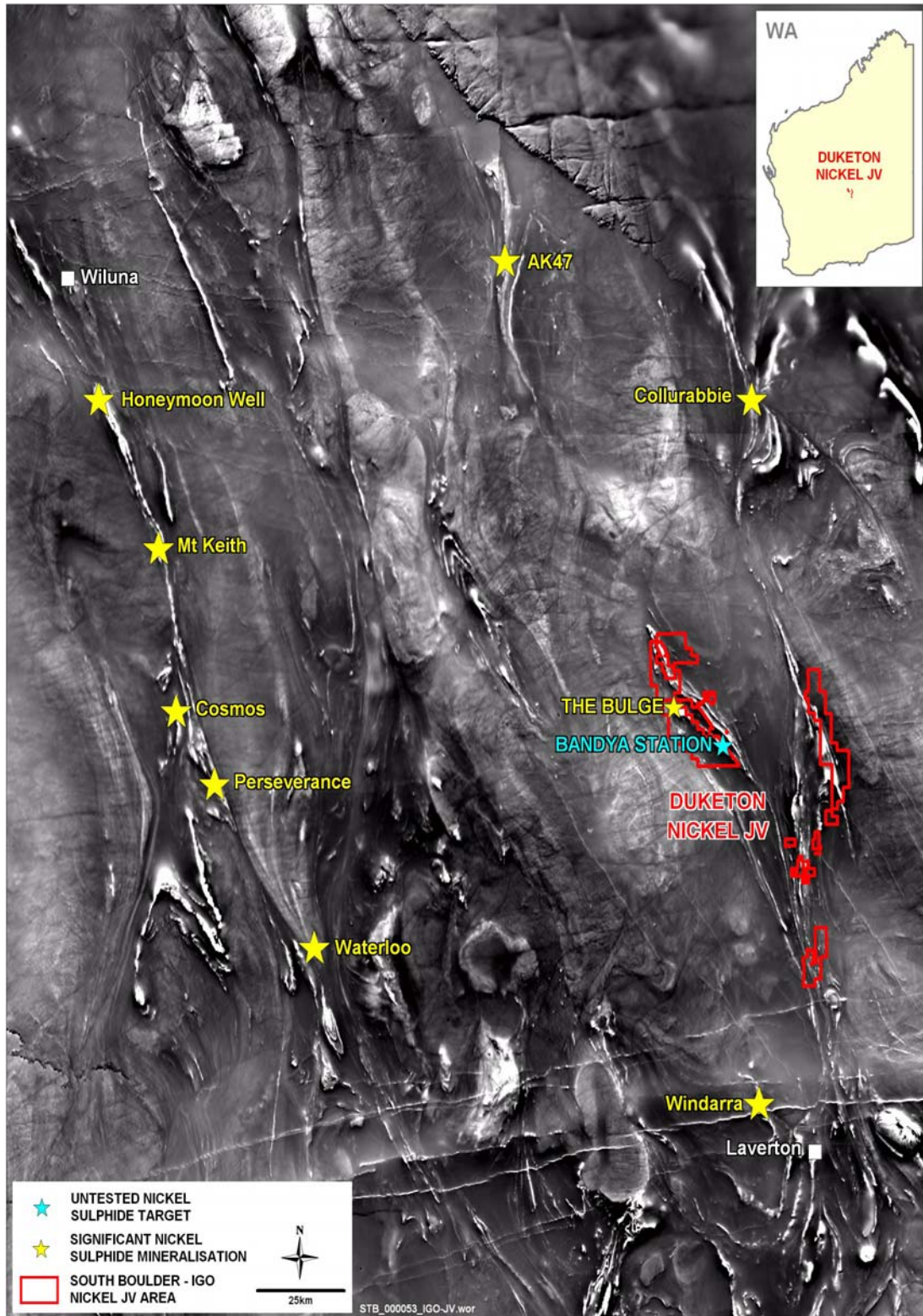
Also subsequent to the end of the period a 61 hole (4,581m) aircore program was completed to test the south east extensions of the interpreted mafic/ultramafic contact. This program resulted in the discovery of the Rosie Nickel Prospect.

What appears clear from the cross and long section diagrams is that the strongly mineralised intercept of 50m @ 0.92% including 37m @ 1.05% Ni in TBDD074, is open down dip and south down plunge.

This hole intercepted 3m @ 1.75g/t Pt/Pd, 0.5% Ni and 0.2% Cu including 2m @ 2.4g/t Pt/Pd, 0.5% Ni and 0.24% Cu from 78m. This occurs within a broader halo of copper anomalism grading 7m @ 0.2% Copper. Also of particular note are the higher platinum values which are on average 1.5 times the palladium values.

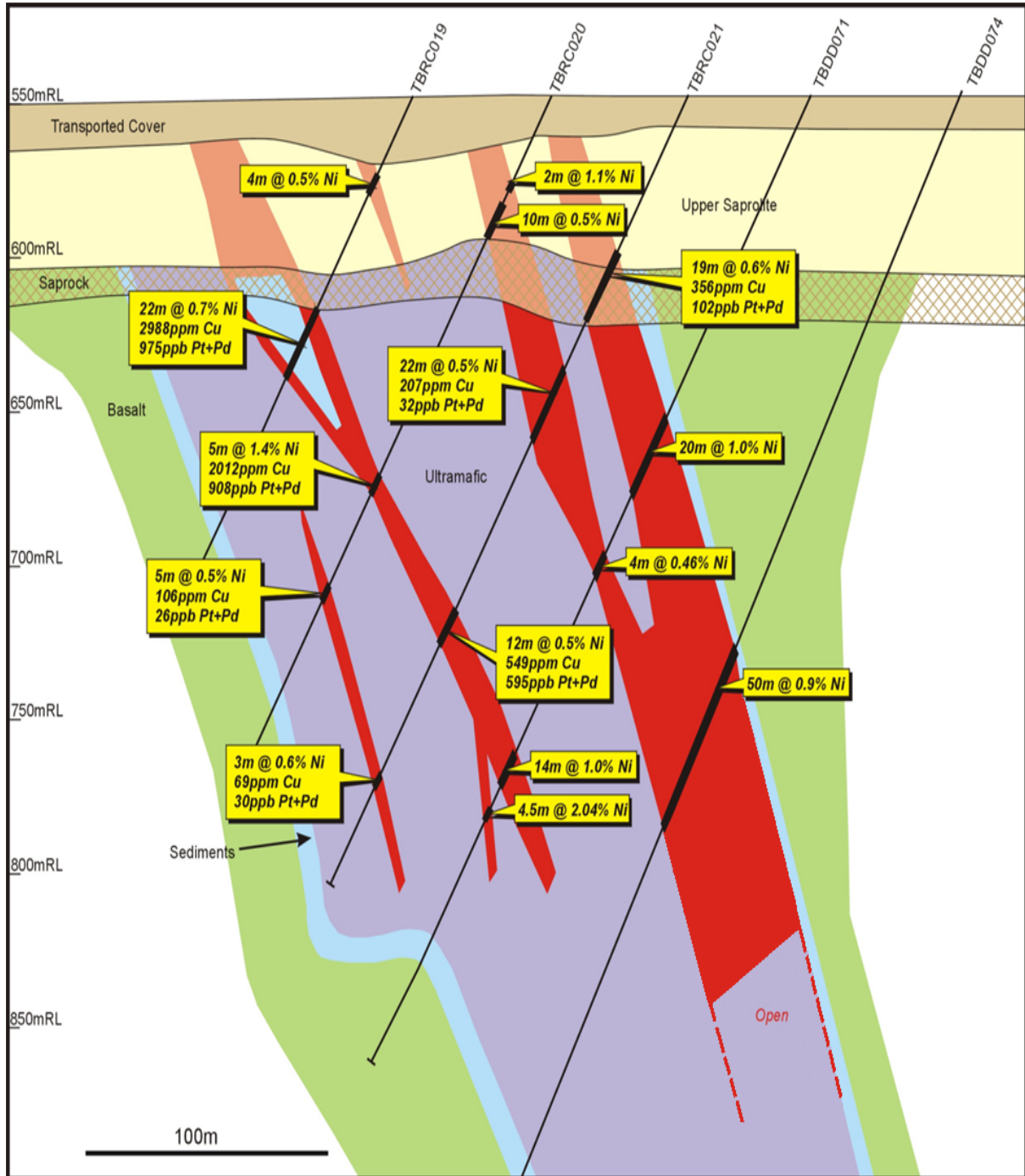
This 'potential sulphide mineralisation' could represent the strike extension of the same horizon hosting the Bulge nickel sulphide mineralisation. TBRC034 was drilled 2km south of the Bulge C2 nickel sulphide discovery.

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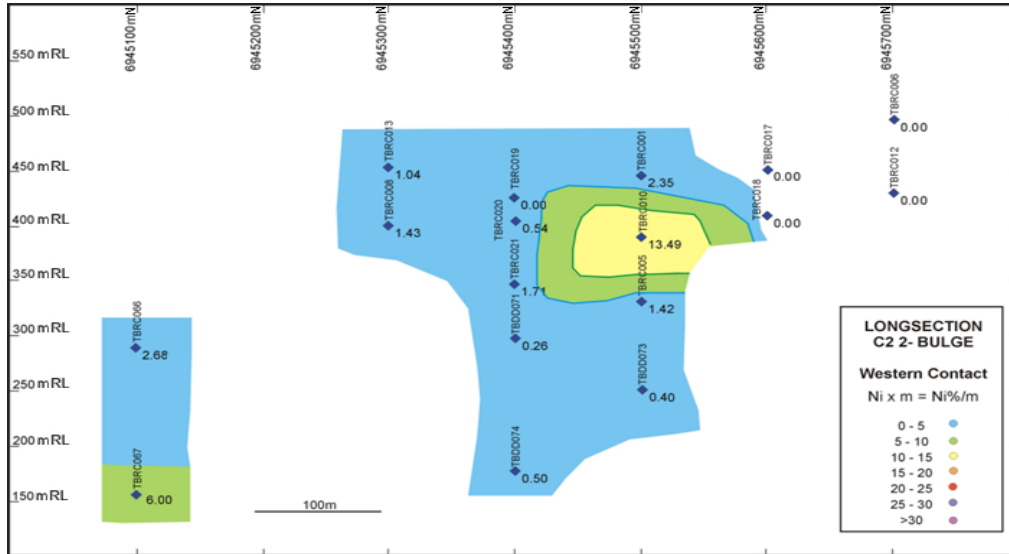
**Figure 5** – Duketon Nickel JV location and magnetic image showing key nickel deposits in the region.

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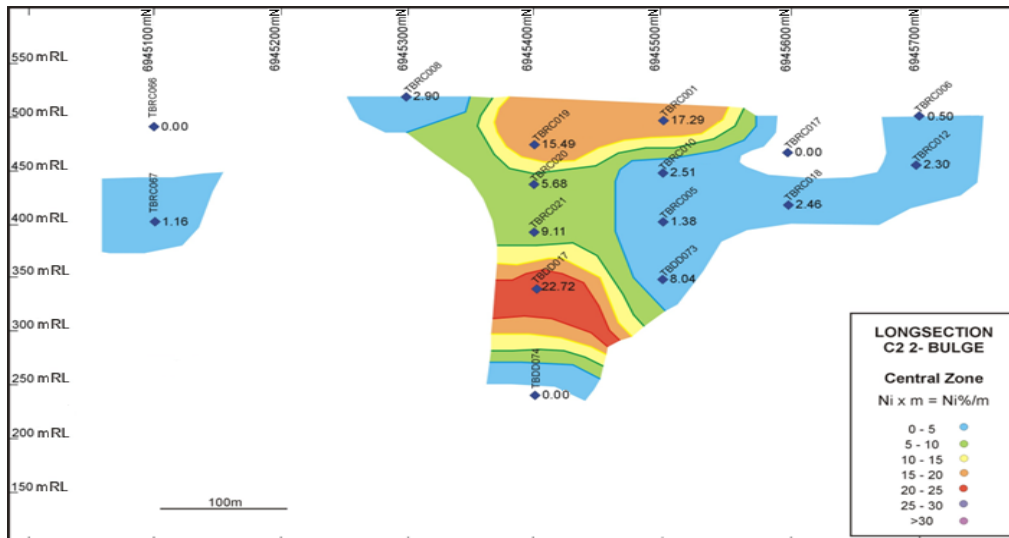


**Figure 6** – The Bulge C2 Prospect 6,945,400mN schematic cross-section (west – east) showing significant drilling results to date. The mineralisation outlines in red represent from left to right; The Western, The Central and The Eastern Zones. These zones are shown as schematic long-section (south – north) in Figures 7, 8 and 9.

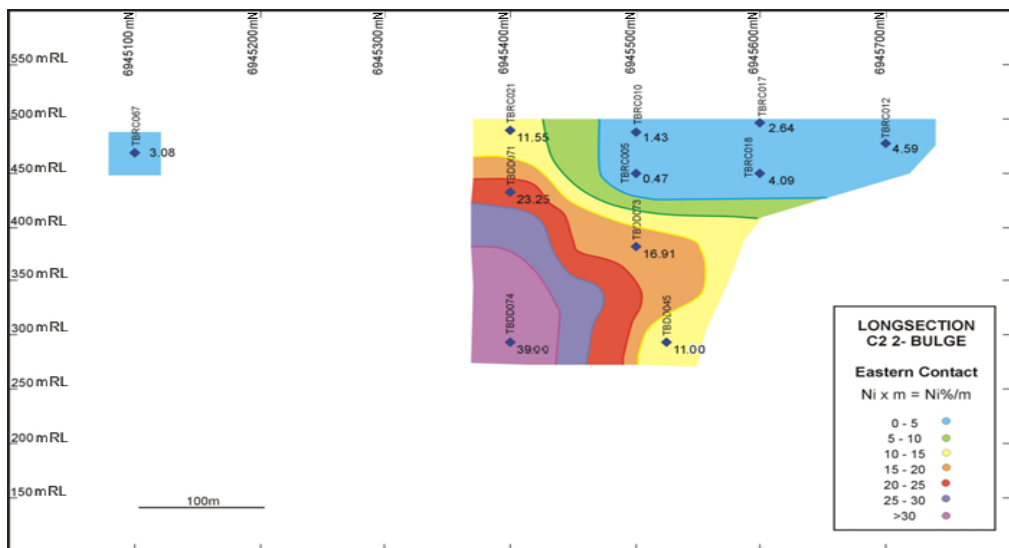
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**Figure 7** – The Bulge C2 Western Zone schematic long-section.



**Figure 8** – The Bulge C2 Central Zone schematic long-section.



**Figure 9** – The Bulge C2 Eastern Zone schematic long-section.

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Subsequent to the end of the period, the “Rosie” Nickel-copper-PGE Prospect was discovered by Independence (Figure 10).

South Boulder announced on the 5<sup>th</sup> of October, 4m composite results from the newly discovered Rosie Nickel-Copper-Platinum-Palladium sulphide Prospect. All results have now been received from the follow up one metre sampling program of the initial four metre composite sampling conducted by Independence. This re-sampling has highlighted an excellent first pass platinum/palladium/nickel/copper/gold signature over an approximate 350m strike length largely from within the oxide zone. It is important to note that within the transitional zone disseminated sulphides and in some cases possible matrix style accumulations of sulphides were observed in the drill chips.

The presence of nickel-copper-PGE sulphide mineralisation is also confirmed by sulphur analyses (maximum 27.5%) and some correlation of these with nickel, copper and PGE results occurs in places. The metal grades intersected are in the oxide and transition zones, so primary grades may vary from the initial results. Maximum metal results intersected to date at the Rosie prospect are 1.40%Ni, 0.99% Cu, 3.09g/t Pt and 5.14g/t Pd. Also there is a definite gold association in all of the holes at the Rosie prospect with a best intercept of 2m @ 2.35g/t from 36m to 38m in TBAC124.

In addition to the strong PGE nickel-copper signature and visible sulphides the MLTEM coverage of the Rosie prospect indicates the presence nearby of a strong continuous conductor. DHEM has been completed on the AC holes in the Rosie prospect to try to delineate the orientation of this conductor with respect to the contact position, and also to test for any conductors which may be associated with the mineralisation. The interpretation of these geophysical results are pending.

No sediment has been intersected on the ultramafic contact in the drilling to date at the Rosie Prospect. Elsewhere to the east and west the contact is almost continuously associated with siltstones and carbonaceous black shales. The sediment horizon may locally be within the footwall basalts rather than on the contact position.

| <i>Hole No.</i> | <i>Easting (m)</i> | <i>Northing (m)</i> | <i>Azimuth (degr)</i> | <i>Dip (degr)</i> | <i>From (m)</i> | <i>To (m)</i> | <i>Interval (m)</i> | <i>Ni (%)</i> | <i>Cu (ppm)</i> | <i>Pt (ppb)</i> | <i>Pd (ppb)</i> |
|-----------------|--------------------|---------------------|-----------------------|-------------------|-----------------|---------------|---------------------|---------------|-----------------|-----------------|-----------------|
| TBAC102         | 401349             | 6945000             | 270                   | -60               | 89              | 92            | 3                   | 0.30          | 602             | 1115            | 621             |
| TBAC122         | 402450             | 6944125             | 180                   | -60               | 65              | 72            | 7                   | 0.64          | 3149            | 916             | 1499            |
| TBAC124         | 402545             | 6944050             | 180                   | -60               | 32              | 42            | 10                  | 0.40          | 4856            | 1130            | 1120            |
| TBAC126         | 402645             | 6944025             | 180                   | -60               | 32              | 67            | 35                  | 0.40          | 2699            | 867             | 725             |
| TBAC127         | 402750             | 6943995             | 180                   | -60               | 32              | 44            | 12                  | 0.31          | 2053            | 457             | 313             |
|                 |                    |                     |                       |                   | 81              | 83            | 2                   | 0.59          | 1260            | 242             | 422             |
|                 |                    |                     |                       |                   | 91              | 94            | 3                   | 0.59          | 1088            | 253             | 368             |

**Table 1** – Significant platinum + palladium, one metre sample results from the reconnaissance nickel sulphide drilling.

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| Hole No. | Easting (m) | Northing (m) | Azimuth (degr) | Dip (degr) | From (m) | To (m) | Interval (m) | Ni (%) | Cu (ppm) | Pt (ppb) | Pd (ppb) |
|----------|-------------|--------------|----------------|------------|----------|--------|--------------|--------|----------|----------|----------|
| TBAC102  | 401349      | 6945000      | 270            | -60        | 84       | 88     | 4            | 0.41   | 229      | 49       | 66       |
|          |             |              |                |            | 101      | 113    | 12           | 0.46   | 206      | 36       | 53       |
|          |             |              |                |            | 118      | 120    | 2            | 0.50   | 223      | 70       | 85       |
| TBAC106  | 401700      | 6944690      | 270            | -60        | 86       | 90     | 4            | 0.42   | 276      | 31       | 51       |
| TBAC111  | 401930      | 6944400      | 270            | -60        | 55       | 58     | 3            | 0.46   | 109      | 20       | 13       |
| TBAC114  | 401920      | 6944300      | 270            | -60        | 20       | 24     | 4            | 0.47   | 195      | 26       | 22       |
|          |             |              |                |            | 28       | 35     | 7            | 0.44   | 249      | 29       | 21       |
|          |             |              |                |            | 60       | 80     | 20           | 0.51   | 3        | 11       | 0        |
| TBAC122  | 402450      | 6944125      | 180            | -60        | 61       | 81     | 20           | 0.61   | 1425     | 373      | 613      |
|          |             |              |                |            | 84       | 91     | 7            | 0.49   | 89       | 16       | 23       |
| TBAC124  | 402545      | 6944050      | 180            | -60        | 33       | 37     | 4            | 0.53   | 7520     | 1700     | 1558     |
|          |             |              |                |            | 46       | 60     | 14           | 0.59   | 672      | 107      | 184      |
| TBAC126  | 402645      | 6944025      | 180            | -60        | 41       | 44     | 3            | 0.54   | 3567     | 900      | 1198     |
|          |             |              |                |            | 47       | 54     | 7            | 0.57   | 2771     | 1010     | 629      |
|          |             |              |                |            | 62       | 81     | 19           | 0.57   | 1291     | 310      | 377      |
| TBAC127  | 402750      | 6943995      | 180            | -60        | 36       | 40     | 4            | 0.42   | 1930     | 395      | 350      |
|          |             |              |                |            | 48       | 59     | 11           | 0.81   | 399      | 55       | 98       |
|          |             |              |                |            | 63       | 78     | 15           | 0.63   | 199      | 12       | 30       |
|          |             |              |                |            | 81       | 87     | 6            | 0.52   | 841      | 176      | 284      |
| TBAC141  | 403550      | 6944240      | 360            | -60        | 40       | 52     | 12           | 0.68   | 345      | 7        | 0        |
|          |             |              |                |            | 91       | 95     | 4            | 0.55   | 964      | 225      | 330      |
| TBAC142  | 403648      | 6944300      | 360            | -60        | 28       | 32     | 4            | 0.43   | 62       | 0        | 0        |
| TBAC144  | 403750      | 6944350      | 360            | -60        | 36       | 40     | 4            | 0.42   | 248      | 0        | 0        |
| TBAC146  | 403853      | 6944318      | 360            | -60        | 32       | 40     | 8            | 0.44   | 75       | 8        | 0        |
|          |             |              |                |            | 44       | 48     | 4            | 0.42   | 84       | 5        | 0        |
| TBAC152  | 404440      | 6943805      | 270            | -60        | 32       | 40     | 8            | 0.42   | 37       | 18       | 0        |
| TBAC161  | 402260      | 6943955      | 270            | -60        | 44       | 48     | 4            | 0.50   | 18       | 30       | 0        |

**Table 2** – Significant nickel, one metre sample results from the reconnaissance nickel sulphide drilling.

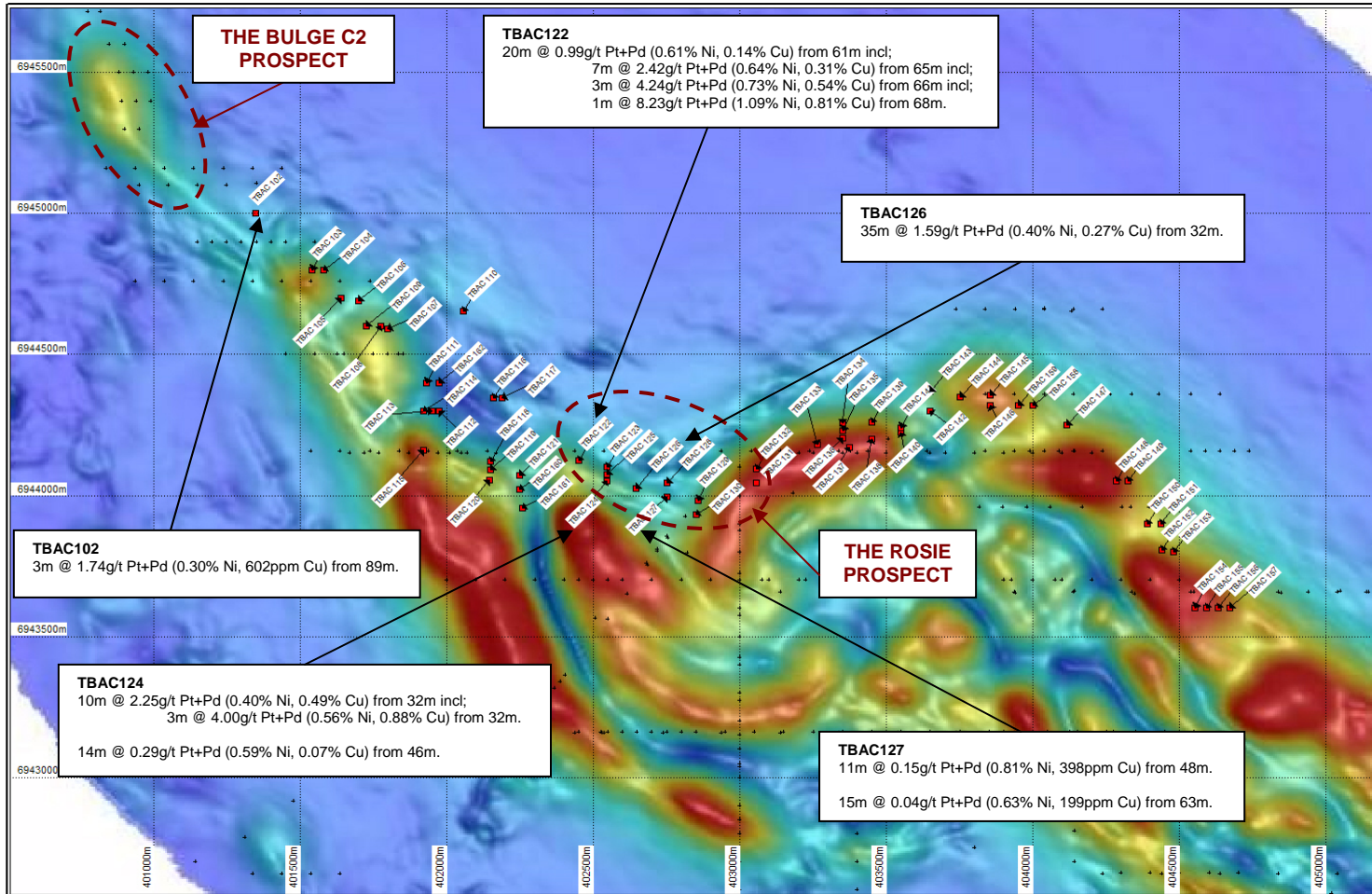
*Note: Samples were originally collected as 4m composites and then followed up with 1m individual samples in geologically encouraging areas. Nickel and copper values have been assayed using ICP-AES mixed acid digest. Some very high Platinum and Palladium values have been assayed using the Fire Assay Method (FA40) with ICP-AES Quantification. Significant assay results are tabulated if Ni  $\geq$  0.40%, or Pt+Pd  $\geq$  500ppb over a minimum 2m interval. Maximum internal waste allowed is 2m. Results have been rounded where appropriate. Intervals are expressed as down hole intervals in metres. There is insufficient information at present to make an estimation of the true width of the mineralisation encountered.*

### Camp Oven Prospect

The Camp Oven Prospect is located approximately 15km northwest and along strike of The Bulge Prospect. Previous rock chip sampling of a small outcrop of weathered ultramafic olivine cumulate returned 0.9% Ni, 2.3% Cu, 0.68g/t Pd, 0.70g/t Pt and 0.44g/t Au. Such anomalous nickel suite geochemistry is highly encouraging and is considered indicative of nickel sulphide mineralisation.

Petrographic analysis of these rock chips samples by CSIRO Exploration and Mining confirmed the presence of cumulus Ni-Cu sulphides. Soil and lag geochemical sampling along strike from the outcrop further confirmed anomalism and returned 0.34% Ni, 406ppm Cu, 140ppb Pd and 85ppb Pt.

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**Figure 10** – The “Bulge C2” and the “Rosie” Nickel Sulphide Prospects with significant drill intercepts.

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Initial drill testing of the Camp Oven Prospect was delayed because ‘noise’ in the IP data resulted in an inconclusive signature, making it difficult to accurately plan drilling. There was also an access issue surrounding one of the major drainage channels in the area. Drilling will commence once access issues have been resolved.

**The Robinson Prospect**

The Robinson Prospect is located within E38/1511 between the Camp Oven and Bulge Prospects. Ground TEM geophysical surveys were completed over 11 strike km of covered ultramafic stratigraphy. A total of 93 line km of data was collected, identifying 6 bedrock conductors.

5 of these bedrock conductors are considered to be indicative of sedimentary horizons. The sixth conductor (“Anomaly B”) is closely associated with a magnetic anomaly and is considered to be indicative of sulphides. Anomaly B is a high priority target which will be drilled as soon as access issues are resolved and a suitable drill rig sourced.

**PORTFOLIO DEVELOPMENT**

South Boulder has a policy of constantly reviewing its project and equity portfolios with a view to adding or realising value. Due to prevailing global financial conditions over the last year rationalisation of the project portfolio has been important to ensure the company focuses on core projects and is well funded to add value.

In order for South Boulder to focus on a portfolio of core projects, during the period the board decided to divest the non-core phosphate exploration portfolio comprising the Cardabia and the Georgina Basin phosphate projects. Discussions are well advanced with 3<sup>rd</sup> parties over divestment of these assets. South Boulder will continue to implement a policy of reviewing acquisitions both within Australia and offshore and will inform shareholders if and when an acquisition is tendered.

The equity portfolio of listed exploration companies derived from divestment of non-core exploration assets is valued at ~ AUD \$1.5m. The portfolio is under regular periodic review in order to determine opportunities for divestment to add to funds for working capital. Over the last 12 months as equity markets have been depressed it has been difficult to justify divestment. Towards the end of the period, investor sentiment in the overall market has seen some marked improvement which should provide opportunities in the future to realise better value for South Boulder shareholders.

South Boulder holds a number of shares and options in other ASX and TSX listed companies:

| Company Name                 | Stock Exchange | No of fully paid Shares | 20c Options | Option Expiry Date |
|------------------------------|----------------|-------------------------|-------------|--------------------|
| IMX Resources NL             | ASX            | 1,325,000               |             |                    |
| Montezuma Mining Company Ltd | ASX            | 4,150,000               | 1,037,500   | 31/08/2011         |
| Buxton Resources Limited     | ASX            | 250,000                 | 750,000     | 30/06/2012         |
| Atlas Iron Limited           | ASX            | 12,490                  |             |                    |
| Avonlea Minerals Limited     | ASX            | 400,000                 |             |                    |
| Uranex NL                    | TSX            | 700,000                 |             |                    |
| Continental Nickel           | TSX            | 121,200                 |             |                    |

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**Uranium Joint Venture – Thatcher Soak**

The Thatcher Uranium Joint Venture on P38/3298 was divested to Uranex NL “Uranex” (ASX: UNX) for a consideration of 700,000 Uranex shares in August 2009.

**Cardabia Phosphate Project**

The 100% owned Cardabia Phosphate Project is located in the northern Carnarvon Basin in Western Australia, approximately 200km north northeast from Carnarvon. The project comprises ~1,384km<sup>2</sup> (ELA08/1941, ELA08/1945, ELA08/1955 and ELA08/2005).

**Southern Georgina Phosphate Project**

The 100% owned Southern Georgina Phosphate Project is located in the central east Northern Territory, approximately 450km east north-east of Alice Springs. The tenements comprise 3 granted exploration licenses (EL26380, EL25983 and EL25982).

**Central Georgina Phosphate Project**

The 100% owned Central Georgina Phosphate Project is located in the central east Northern Territory, approximately 1,000km south east of Darwin. The tenements comprise 3 exploration licenses (EL26761, ELA26763 and ELA26766).

**CORPORATE**

South Boulder is listed on the Frankfurt, Munich and Berlin Stock Exchanges. The relevant codes are SO3.F, SO3.MU and SO3.BE respectively, and can be accessed via Yahoo Finance.

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## Corporate Information

### Principal Office

South Boulder Mines Ltd  
133-135 Edward Street  
PERTH 6000  
Western Australia

Telephone: (61 8) 9227 1144  
Facsimile: (61 8) 9328 8302

### Registered Office

23 Altona Street  
WEST PERTH WA 6005  
Telephone: (08) 9481 7288  
Facsimile: (08) 9389 2199

### Share Registry

Security Transfers Registrars Pty Ltd  
770 Canning Highway  
APPLECROSS 6153  
Western Australia  
Telephone: (08) 9315 2333  
Facsimile: (08) 9315 2233

ASX Code (STB)

For more information visit the South Boulder Mines website [www.southbouldermines.com.au](http://www.southbouldermines.com.au)

*This ASX release has been compiled by Lorry Hughes using information on exploration results supplied by South Boulder Mines Ltd and Independence Group who are the operator of the Duketon Nickel JV. Lorry Hughes is a member of the Australian Institute of Mining and Metallurgy. Mr Hughes has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Lorry Hughes consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

# SOUTH BOULDER MINES LIMITED

## 2009 ANNUAL REPORT

### Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of South Boulder Mines Limited and the entities it controlled at the end of, or during, the year ended 30 June 2009.

#### DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

#### Names, qualifications, experience and special responsibilities

##### **Terrence Grammer**, (Non Executive Chairman)

Mr Grammer is a geologist with over 30 years experience in mining and mineral exploration with extensive experience in Australia, Southern Africa, East Asia & New Zealand and has operated in Western Australia since 1988. He has extensive experience in exploring for gold and base metals.

Mr Grammer was awarded The Association of Mining and Exploration Companies (AMEC) Prospector of the Year Award (jointly with Mr Anthony Rovira) in 2000 for the Discovery of Jubilee Mines NL's Cosmos Nickel Deposit. The initial Cosmos discovery defined a resource of approximately 400,000t @ 8.2% Ni. The project has grown significantly since then.

He was also a founder and promoter in 1999 of the successful nickel explorer Western Areas NL where he was the Exploration Manager from 2000 until retiring in 2004.

Mr Grammer became a Non Executive Director of Hannans Reward Ltd and, after assisting a \$3.4m refunding of Hannans, became an Executive Director in January 2007. Mr Grammer is a former director of Montezuma Mining Company Limited within the last 3 years.

##### **David "Lorry" Hughes**, BSc, MAusIMM (Managing Director)

Mr Hughes is a Geologist with 15 years industry experience and was South Boulder Mines' Exploration Manager since March 2008.

Mr Hughes has held management positions on exploration and operational mining projects for Energy Metals Ltd, CSA Australia and Energy Resources Australia. His industry experience was gained from various gold mines and exploration prospects in the NE goldfields of Western Australia while working for Plutonic/Homestake, Aberfoyle and Mt Grace. Mr Hughes has also experience in Malaysia and Indonesia working at the Penjom gold mine in Malaysia and on gold and base metals exploration projects for Pt Inco in Indonesia.

Mr Hughes has previously been responsible for mining and exploration/development operations management including, geological resource interpretation/estimation, project generation, mine planning, near mine resource development and environmental management. Mr Hughes has not held any former directorships in the last 3 years.

##### **Liam Cornelius**, BApp.Sc (Executive Director)

Mr Cornelius graduated from Curtin University of Technology with a BApp.Sc in Geology. Mr Cornelius has been involved in the exploration industry within Australia and Africa for 15 years. Whilst specializing in gold he has experience with a wide range of commodities including nickel, copper, platinum and uranium.

As a founding member of South Boulder Mines Ltd, Mr Cornelius has played a key role in outlining areas of interest for the Company. In addition to project generation and providing guidance to the board on future directions, his responsibilities include public relations and fund raising. Mr Cornelius has not held any former directorships in the last 3 years.

#### COMPANY SECRETARY

##### **Dennis Wilkins**, B.Bus, MAICD, ACIS

Mr Wilkins is an accountant who has been a director, company secretary or acted in a corporate advisory capacity to listed resource companies for over 20 years.

Mr Wilkins previously served as the Finance Director and Company Secretary for a mid tier gold producer and also spent five years working for a leading merchant bank in the United Kingdom. Resource postings to Indonesia, South Africa and New Zealand in managerial roles has broadened his international experience.

Mr Wilkins has extensive experience in capital raising specifically for the resources industry and is the principal of DWCorporate Pty Ltd which provides advisory, funding and administrative management services to the resource sector. Mr Wilkins is a director of Bonaparte Diamond Mines NL, Key Petroleum Limited and Minemakers Limited. Mr Wilkins is a former director of Marengo Mining Limited and South Boulder Mines Limited within the last 3 years.

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## Directors' Report continued

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of South Boulder Mines Limited were:

|                | Ordinary<br>Shares | Options over<br>Ordinary<br>Shares |
|----------------|--------------------|------------------------------------|
| Terry Grammer  | 100,000            | 1,700,000                          |
| Lorry Hughes   | 100,000            | 2,400,000                          |
| Liam Cornelius | 2,452,125          | 5,250,000                          |

### PRINCIPAL ACTIVITIES

During the year the Group carried out exploration on its tenements and applied for or acquired additional tenements with the objective of identifying economic mineral deposits.

There was no significant change in the nature of the Group's activities during the year.

### DIVIDENDS

No dividends were paid or declared during the financial year. No recommendation for payment of dividends has been made.

### REVIEW OF OPERATIONS

#### Finance Review

The Group began the financial year with a cash reserve of \$2,813,003. During the year total tenement acquisition and exploration expenditure incurred by the Group amounted to \$824,039. In line with the Group's accounting policies, all exploration expenditure was written off at year end. Net administration expenditure incurred amounted to \$769,236. This has resulted in an operating loss after income tax for the year ended 30 June 2009 of \$1,593,275 (2008: \$2,185,329).

At 30 June 2009 surplus funds available totalled \$2,509,126.

#### Operating Results for the Year

Summarised operating results are as follows:

|  | 2009     |             |
|--|----------|-------------|
|  | Revenues | Results     |
|  | \$       | \$          |
| Consolidated entity revenues and loss from ordinary activities before income tax expense | 169,325  | (1,593,275) |

#### Shareholder Returns

|                                  | 2009  | 2008  |
|----------------------------------|-------|-------|
| Basic earnings per share (cents) | (2.9) | (4.9) |

### Risk Management

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The Group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed in this Annual Report no significant changes in the state of affairs of the Group occurred during the financial year.

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## Directors' Report continued

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 23, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group expects to maintain the present status and level of operations and hence there are no likely developments in the Group's operations.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation in respect to its exploration activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Company are not aware of any breach of environmental legislation for the year under review.

### REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

#### A Principles used to determine the nature and amount of remuneration

##### *Remuneration Policy*

The remuneration policy of South Boulder Mines Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The board of South Boulder Mines Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group.

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

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The board reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the Group and expensed. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$200,000). Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

##### *Performance based remuneration*

The Group currently has no performance based remuneration component built into director and executive remuneration packages.

**SOUTH BOULDER MINES LIMITED**  
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## Directors' Report continued

### *Company performance, shareholder wealth and directors' and executives' remuneration*

The remuneration policy has been tailored to increase the direct positive relationship between shareholders investment objectives and directors and executives performance. Currently, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The Group believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced. For details of directors and executives interests in options at year end, refer to note 17 of the financial statements.

### B Details of remuneration

Details of the remuneration of the directors, the key management personnel (as defined in AASB 124 *Related Party Disclosures*) and specified executives of South Boulder Mines Limited are set out in the following table.

The key management personnel of South Boulder Mines Limited include the directors and company secretary as per page 3 above.

Given the size and nature of operations of South Boulder Mines Limited, there are no other employees who are required to have their remuneration disclosed in accordance with the Corporations Act 2001.

### *Key management personnel and other executives of South Boulder Mines Limited*

|  | Short-Term     |              | Post Employment |                     | Share-based    | Total          |
|--|----------------|--------------|-----------------|---------------------|----------------|----------------|
|  | Salary & Fees  | Non Monetary | Superannuation  | Retirement benefits | Payments       |                |
|  | \$             | \$           | \$              | \$                  | Options        | \$             |
| <b>Directors</b>                                   |                |              |                 |                     |                |                |
| Terry Grammer                                      |                |              |                 |                     |                |                |
| 2009   | <b>85,796</b>  | <b>2,464</b> | <b>7,719</b>    | -                   | <b>18,080</b>  | <b>114,059</b> |
| 2008   | 21,909         | 1,430        | 1,972           | -                   | 69,300         | 94,611         |
| Lorry Hughes                                       |                |              |                 |                     |                |                |
| 2009   | <b>153,462</b> | <b>2,464</b> | <b>13,812</b>   | -                   | <b>54,400</b>  | <b>224,138</b> |
| 2008   | 48,865         | 179          | 4,398           | -                   | 67,240         | 120,682        |
| Liam Cornelius                                     |                |              |                 |                     |                |                |
| 2009   | <b>84,808</b>  | <b>2,464</b> | <b>7,633</b>    | -                   | <b>21,500</b>  | <b>116,405</b> |
| 2008   | 100,307        | 2,144        | 9,028           | -                   | 69,300         | 180,779        |
| Brian Rear (resigned 23 May 2008)                  |                |              |                 |                     |                |                |
| 2008   | 41,248         | 1,966        | 3,750           | -                   | -              | 46,964         |
| <b>Other key management personnel</b>              |                |              |                 |                     |                |                |
| Dennis Wilkins                                     |                |              |                 |                     |                |                |
| 2009   | <b>38,723</b>  | -            | -               | -                   | <b>15,800</b>  | <b>54,523</b>  |
| 2008   | 81,395         | 1,966        | -               | -                   | -              | 83,361         |
| Sharon Bell (resigned 31 December 2007)            |                |              |                 |                     |                |                |
| 2008   | 64,901         | -            | 5,841           | -                   | -              | 70,742         |
| <b>Total key management personnel compensation</b> |                |              |                 |                     |                |                |
| 2009   | <b>362,789</b> | <b>7,392</b> | <b>29,164</b>   | -                   | <b>109,780</b> | <b>509,125</b> |
| 2008   | 358,625        | 7,685        | 24,989          | -                   | 205,840        | 597,139        |

### C Service agreements

The details of service agreements of the key management personnel of South Boulder Mines Limited are as follows:

Lorry Hughes, Managing Director:

- Term of agreement - 2 years commencing 23 May 2008.
- Base salary at the commencement of the financial year, exclusive of superannuation, of \$165,000 was reduced to \$140,000 effective 3 January 2009, to be reviewed annually by the Board.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, of one months salary following one months written notice of termination.

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## Directors' Report continued

Liam Cornelius, Executive Director:

- Term of agreement - 2 years commencing 23 May 2008.
- Base salary at the commencement of the financial year, exclusive of superannuation, of \$97,500 was reduced to \$70,000 effective 3 January 2009, to be reviewed annually by the Board.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, includes an amount equal to the amounts due for the balance of the term of the contract from the date of termination.

### D Share-based compensation

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of South Boulder Mines Limited to increase goal congruence between executives, directors and shareholders. The following options were granted to or vesting with key management personnel during the year.

|                                       | Grant Date | Granted Number | Vesting Date | Expiry Date | Exercise Price (cents) | Value per option at grant date (cents) | Exercised Number | % of Remuneration |
|---------------------------------------|------------|----------------|--------------|-------------|------------------------|--|------------------|-------------------|
| <b>Directors</b>                      |            |                |              |             |                        |  |                  |                   |
| Terry Grammer                         | 8/09/2008  | 500,000        | 8/09/2008    | 31/07/2013  | 35                     | 3.2                                    | N/A              | 13.8              |
| Terry Grammer                         | 29/06/2009 | 100,000        | 29/06/2009   | 30/06/2014  | 20                     | 2.3                                    | N/A              | 2.0               |
| Lorry Hughes                          | 8/09/2008  | 1,500,000      | 8/09/2008    | 31/07/2013  | 35                     | 3.2                                    | N/A              | 14.1              |
| Lorry Hughes                          | 29/06/2009 | 1,000,000      | 29/06/2009   | 30/06/2014  | 20                     | 2.3                                    | N/A              | 10.2              |
| Liam Cornelius                        | 8/09/2008  | 500,000        | 8/09/2008    | 31/07/2013  | 35                     | 3.2                                    | N/A              | 13.6              |
| Liam Cornelius                        | 29/06/2009 | 250,000        | 29/06/2009   | 30/06/2014  | 20                     | 2.3                                    | N/A              | 4.9               |
| <b>Other Key Management Personnel</b> |            |                |              |             |                        |  |                  |                   |
| Dennis Wilkins                        | 8/09/2008  | 500,000        | 8/09/2008    | 31/07/2013  | 35                     | 3.2                                    | N/A              | 29.0              |

There were no ordinary shares issued upon exercise of remuneration options to directors or other key management personnel of South Boulder Mines Limited during the year.

### E Additional information

#### *Performance income as a proportion of total compensation*

No performance based bonuses have been paid to key management personnel during the financial year.

### DIRECTORS' MEETINGS

During the year the Company held three meeting of directors. The attendance of directors at meetings of the board were:

|                | Directors Meetings |   |
|----------------|--------------------|---|
|                | A                  | B |
| Terry Grammer  | -                  | 3 |
| Lorry Hughes   | 3                  | 3 |
| Liam Cornelius | 3                  | 3 |

#### Notes

A - Number of meetings attended.

B - Number of meetings held during the time the director held office during the year.

### SHARES UNDER OPTION

At the date of this report there are 23,480,000 unissued ordinary shares in respect of which options are outstanding.

|   | Number of options |
|---|-------------------|
| Balance at the beginning of the year  | 18,605,000        |
| <b>Movements of share options during the year</b>   |                   |
| Issued, exercisable at 20 cents, on or before 30 June 2014                                | 1,350,000         |
| Issued, exercisable at 35 cents, on or before 31 July 2013                                | 2,950,000         |
| Issued, exercisable at 50 cents, on or before 13 June 2010                                | 1,075,000         |
| Expired on 30 September 2008, exercisable at 25 cents                                     | (500,000)         |
| <b>Total number of options outstanding as at 30 June 2009 and the date of this report</b> | <b>23,480,000</b> |

**SOUTH BOULDER MINES LIMITED**  
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## Directors' Report continued

The balance is comprised of the following:

| Expiry date   | Exercise price (cents) | Number of options |
|---|------------------------|-------------------|
| 29 November 2009  | 25                     | 500,000           |
| 13 June 2010  | 50                     | 3,225,000         |
| 31 August 2010  | 25                     | 1,000,000         |
| 24 March 2011   | 20                     | 3,065,000         |
| 31 March 2011   | 25                     | 3,750,000         |
| 31 March 2011   | 30                     | 3,840,000         |
| 30 November 2012  | 20                     | 3,800,000         |
| 31 July 2013  | 35                     | 2,950,000         |
| 30 June 2014  | 20                     | 1,350,000         |
| <b>Total number of options outstanding at the date of this report</b> |                        | <b>23,480,000</b> |

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

### INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Company has paid premiums insuring all the directors of South Boulder Mines Limited against costs incurred in defending proceedings for conduct involving:

- (a) a wilful breach of duty; or
- (b) a contravention of sections 182 or 183 of the *Corporations Act 2001*,

as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid is \$8,908.

### NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Rothsay Chartered Accountants or associated entities. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Rothsay Chartered Accountants received or are due to receive the following amounts for the provision of non-audit services:

|                         | 2009         | 2008  |
|-------------------------|--------------|-------|
|                         | \$           | \$    |
| Tax compliance services | <b>2,000</b> | 1,500 |

### PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to 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.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 30.

Signed in accordance with a resolution of the directors.



Lorry Hughes  
Managing Director

Perth, 2 September 2009

# *R*OTHSAY

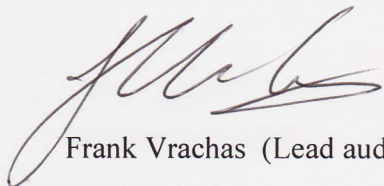
Level 18, 6 O'Connell Street, Sydney NSW 2000 G.P.O. Box 2759, Sydney NSW 2001  
Phone 8815 5400 Facsimile 8815 5401 E-mail swan2000@bigpond.com

The Directors  
South Boulder Mines Ltd  
131 Edward St  
Perth WA 6000

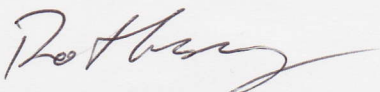
Dear Sirs

As lead auditor for the audit of South Boulder Mines Ltd for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

- i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Frank Vrachas (Lead auditor)



Rothsay Chartered Accountants

Dated 2 September 2009



Chartered Accountants

Liability limited by the Accountants Scheme, approved  
under the Professional Standards Act 1994 (NSW).

**SOUTH BOULDER MINES LIMITED**  
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## Corporate Governance Statement

### *The Board of Directors*

The Company's constitution provides that the number of directors shall not be less than three and not more than nine. There is no requirement for any share holding qualification.

As and if the Company's activities increase in size, nature and scope the size of the board will be reviewed periodically, and as circumstances demand. The optimum number of directors required to supervise adequately the Company's constitution will be determined within the limitations imposed by the constitution.

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the Company's scope of activities, intellectual ability to contribute to board's duties and physical ability to undertake board's duties and responsibilities.

Directors are initially appointed by the full board subject to election by shareholders at the next general meeting. Under the Company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the *Corporations Act 2001*, the board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

The board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees (other than an Audit Committee) at this time. The board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

### *Role of the Board*

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for oversight of management and the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

### *Appointments to Other Boards*

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

### *Independent Professional Advice*

The board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

### *Continuous Review of Corporate Governance*

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the Company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

### *ASX Principles of Good Corporate Governance*

The board has reviewed its current practices in light of the revised ASX Corporate Governance Principles and Recommendations with a view to making amendments where applicable after considering the company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the board and the implementation of any additional formal corporate governance committees will be given further consideration.

The board has adopted the revised Recommendations and the following table sets out the company's present position in relation to each of the revised Principles.

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## Corporate Governance Statement continued

|  | ASX Principle   | Status         | Reference/comment  |
|--|---|----------------|--|
| <b>Principle 1: Lay solid foundations for management and oversight</b> |   |                |  |
| 1.1  | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions  | A              | Matters reserved for the Board are included on the Company's website.  |
| 1.2  | Companies should disclose the process for evaluating the performance of senior executives   | N/A            | Acting in its ordinary capacity, the Board from time to time carries out the process of considering and determining performance issues. The remuneration of executive and non executive Directors is reviewed by the Board with the exclusion of the Director concerned. The remuneration of executive management is reviewed and approved by the Board.                             |
| 1.3  | Companies should provide the information indicated in the Guide to reporting on Principle 1   | A<br>(in part) |  |
| <b>Principle 2: Structure the board to add value</b>                   |   |                |  |
| 2.1  | A majority of the board should be independent directors   | N/A            | Given the Company's background, the nature and size of its business and the current stage of its development, the Board comprises three directors, two of whom are executive and the independent Chairman. The Board believes that this is both appropriate and acceptable at this stage of the Company's development.   |
| 2.2  | The chair should be an independent director   | A              |  |
| 2.3  | The roles of chair and chief executive officer should not be exercised by the same individual   | A              | The positions of Chairman and Managing Director are held by separate persons.  |
| 2.4  | The board should establish a nomination committee   | N/A            | The Board has no formal nomination committee. Acting in its ordinary capacity from time to time as requires, the Board carries out the process of determining the need for, screening and appointing of new directors. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to the process. |
| 2.5  | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors  | N/A            | Given the size of the Company, formal procedures for evaluating the performance of the Board, committees and individual directors have not been developed. The Company conducts these aspects on an ongoing basis and takes action to correct any abnormalities.   |
| 2.6  | Companies should provide the information indicated in the Guide to reporting on Principle 2   | A<br>(in part) | The skills and experience of Directors are set out in the Company's Annual Report and on its website.  |
| <b>Principle 3: Promote ethical and responsible decision-making</b>    |   |                |  |
| 3.1  | Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the company's integrity</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices</li> </ul> | A              | The Company has established a Code of Conduct which can be viewed on the Company's website.  |

A = Adopted

N/A = Not adopted

**SOUTH BOULDER MINES LIMITED**  
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## Corporate Governance Statement continued

|  | ASX Principle   | Status         | Reference/comment  |
|--|---|----------------|--|
| 3.2  | Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy   | A              | The Company has formulated a securities trading policy which can be viewed on the Company's website.   |
| 3.3  | Companies should provide the information indicated in the Guide to reporting on Principle 3   | A              |  |
| <b>Principle 4: Safeguard integrity in financial reporting</b> |   |                |  |
| 4.1  | The board should establish an audit committee   | A              | The Company has established an audit committee which comprises two directors and the company secretary. The charter for this committee is disclosed on the Company's website. Sourcing alternative or additional directors to comply with this principle is considered expensive with costs outweighing the potential benefits. In addition the whole Board addresses the governance aspects of the full scope of the Company's activities to ensure that it adheres to appropriate ethical standards. All matters that might properly be dealt with by special committees are subject to regular scrutiny at full Board meetings. |
| 4.2  | The audit committee should be structured so that it:  | A              |  |
|  | • consists only of non-executive directors  | (in part)<br>X |  |
|  | • consists of a majority of independent directors   | X              |  |
|  | • is chaired by an independent chair, who is not chair of the board   | X              |  |
|  | • has at least three members  | ✓              | Two directors and the company secretary.   |
| 4.3  | The audit committee should have a formal charter  | A              |  |
| 4.4  | Companies should provide the information indicated in the Guide to reporting on Principle 4   | A              |  |
| <b>Principle 5: Make timely and balanced disclosure</b>        |   |                |  |
| 5.1  | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies | A              | The Company has instigated internal procedures designed to provide reasonable assurance to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The Board is acutely aware of the continuous disclosure regime and there are strong informational systems in place to ensure compliance, underpinned by experience.   |
| 5.2  | Companies should provide the information indicated in the Guide to reporting on Principle 5   | A              | The Board receive monthly reports on the status of the Company's activities and any new proposed activities. Disclosure is reviewed as a routine agenda item at each Board meeting.  |
| <b>Principle 6: Respect the rights of shareholders</b>         |   |                |  |
| 6.1  | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy   | A              | In line with adherence to continuous disclosure requirements of ASX all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including the Annual Report, Quarterly Reports, the Company website and the distributions of specific releases covering major transactions and events or other price sensitive information.  |
| A = Adopted<br>N/A = Not adopted                               |   |                |  |

**SOUTH BOULDER MINES LIMITED**  
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## Corporate Governance Statement continued

|                     | ASX Principle  | Status | Reference/comment  |
|---------------------|--|--------|--|
| 6.2                 | Companies should provide the information indicated in the Guide to reporting on Principle 6  | A      | The Company has formulated a Communication Policy which can be viewed on the Company's website as a part of the Corporate Governance Statement.  |
| <b>Principle 7:</b> | <b>Recognise and manage risk</b>   |        |  |
| 7.1                 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies   | A      | While the Company does not have formalised policies on risk management the Board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at Board meetings and risk management culture is encouraged amongst employees and contractors.                     |
|                     |  |        | Determined areas of risk which are regularly considered include: <ul style="list-style-type: none"> <li>• performance and funding of exploration activities</li> <li>• budget control and asset protection</li> <li>• status of mineral tenements</li> <li>• compliance with government laws and regulations</li> <li>• safety and the environment</li> <li>• continuous disclosure obligations</li> </ul> |
| 7.2                 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks   | N/A    | While the Company does not have formalised risk management policies it recognises its responsibility for identifying areas of significant business risk and ensuring that arrangements are in place to adequately manage these risks. This issue is regularly reviewed at Board meetings and a risk management culture is encouraged amongst employees and contractors.                                    |
| 7.3                 | The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks | A      |  |
| 7.4                 | Companies should provide the information indicated in the Guide to reporting on Principle 7  | N/A    |  |
| <b>Principle 8:</b> | <b>Remunerate fairly and responsibly</b>   |        |  |
| 8.1                 | The board should establish a remuneration committee  | N/A    | The Company does not consider it appropriate to have a sub-committee of the Board to consider remuneration matters.  |
| 8.2                 | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives   | A      |  |
| 8.3                 | Companies should provide the information indicated in the Guide to reporting on Principle 8  | A      | Refer to the Corporate Governance section of the Company's website.  |
|                     |  |        | A = Adopted<br>N/A = Not adopted   |

**SOUTH BOULDER MINES LIMITED**  
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## Income Statement

| YEAR ENDED 30 JUNE 2009  | Notes | Consolidated       |             | Parent Entity      |             |
|--|-------|--------------------|-------------|--------------------|-------------|
|  |       | 2009               | 2008        | 2009               | 2008        |
|  |       | \$                 | \$          | \$                 | \$          |
| REVENUE FROM CONTINUING OPERATIONS   | 4     | <b>129,325</b>     | 82,942      | <b>129,325</b>     | 82,942      |
| Other income   | 5     | <b>72,599</b>      | 318,466     | <b>72,599</b>      | 318,466     |
| <b>EXPENDITURE</b>   |       |                    |             |                    |             |
| Depreciation expense   |       | <b>(10,830)</b>    | (11,026)    | <b>(10,830)</b>    | (11,026)    |
| Salaries and employee benefits expense   |       | <b>(30,464)</b>    | (65,621)    | <b>(30,464)</b>    | (65,621)    |
| Exploration expenditure  |       | <b>(824,039)</b>   | (1,111,608) | <b>(824,039)</b>   | (1,111,608) |
| Corporate expenses   |       | <b>(81,189)</b>    | (69,018)    | <b>(81,189)</b>    | (69,018)    |
| Consulting expenses  |       | <b>(66,109)</b>    | (127,442)   | <b>(66,109)</b>    | (127,442)   |
| Administration expenses  |       | <b>(86,524)</b>    | (68,105)    | <b>(86,524)</b>    | (68,105)    |
| Share based payment expense  | 26    | <b>(124,000)</b>   | (409,870)   | <b>(124,000)</b>   | (409,870)   |
| Other expenses   |       | <b>(572,044)</b>   | (724,047)   | <b>(572,044)</b>   | (724,047)   |
| PROFIT / (LOSS) BEFORE INCOME TAX  |       | <b>(1,593,275)</b> | (2,185,329) | <b>(1,593,275)</b> | (2,185,329) |
| INCOME TAX   | 7     | -                  | -           | -                  | -           |
| NET PROFIT / (LOSS) ATTRIBUTABLE TO EQUITY<br>HOLDERS OF SOUTH BOULDER MINES LIMITED                             |       | <b>(1,593,275)</b> | (2,185,329) | <b>(1,593,275)</b> | (2,185,329) |
| <b>EARNINGS PER SHARE FOR PROFIT OR LOSS<br/>ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS<br/>OF THE COMPANY:</b> |       |                    |             |                    |             |
| Basic and diluted loss per share (cents per share)   | 25    | <b>(2.9)</b>       | (4.9)       |                    |             |

The above Income Statement should be read in conjunction with the Notes to the Financial Statements.

**SOUTH BOULDER MINES LIMITED**  
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## Balance Sheet

| AT 30 JUNE 2009                                       | Notes | Consolidated       |             | Parent Entity      |             |
|---|-------|--------------------|-------------|--------------------|-------------|
|   |       | 2009               | 2008        | 2009               | 2008        |
|   |       | \$                 | \$          | \$                 | \$          |
| <b>CURRENT ASSETS</b>                                 |       |                    |             |                    |             |
| Cash and cash equivalents                             | 8     | <b>2,509,126</b>   | 2,813,003   | <b>2,509,116</b>   | 2,813,003   |
| Trade and other receivables                           | 9     | <b>33,708</b>      | 58,571      | <b>33,708</b>      | 58,571      |
| Financial assets at fair value through profit or loss | 10    | <b>1,316,413</b>   | 1,843,277   | <b>1,316,413</b>   | 1,843,277   |
| <b>TOTAL CURRENT ASSETS</b>                           |       | <b>3,859,247</b>   | 4,714,851   | <b>3,859,237</b>   | 4,714,851   |
| <b>NON-CURRENT ASSETS</b>                             |       |                    |             |                    |             |
| Other financial assets                                | 11    | -                  | -           | <b>10</b>          | -           |
| Plant and equipment                                   | 12    | <b>39,155</b>      | 37,624      | <b>39,155</b>      | 37,624      |
| <b>TOTAL NON-CURRENT ASSETS</b>                       |       | <b>39,155</b>      | 37,624      | <b>39,165</b>      | 37,624      |
| <b>TOTAL ASSETS</b>                                   |       | <b>3,898,402</b>   | 4,752,475   | <b>3,898,402</b>   | 4,752,475   |
| <b>CURRENT LIABILITIES</b>                            |       |                    |             |                    |             |
| Trade and other payables                              | 13    | <b>98,967</b>      | 190,246     | <b>98,967</b>      | 190,246     |
| <b>TOTAL CURRENT LIABILITIES</b>                      |       | <b>98,967</b>      | 190,246     | <b>98,967</b>      | 190,246     |
| <b>TOTAL LIABILITIES</b>                              |       | <b>98,967</b>      | 190,246     | <b>98,967</b>      | 190,246     |
| <b>NET ASSETS</b>                                     |       | <b>3,799,435</b>   | 4,562,229   | <b>3,799,435</b>   | 4,562,229   |
| <b>EQUITY</b>   |       |                    |             |                    |             |
| Issued capital  | 14    | <b>8,762,171</b>   | 8,055,690   | <b>8,762,171</b>   | 8,055,690   |
| Reserves  | 15(a) | <b>1,177,990</b>   | 1,053,990   | <b>1,177,990</b>   | 1,053,990   |
| Accumulated losses                                    | 15(b) | <b>(6,140,726)</b> | (4,547,451) | <b>(6,140,726)</b> | (4,547,451) |
| <b>TOTAL EQUITY</b>                                   |       | <b>3,799,435</b>   | 4,562,229   | <b>3,799,435</b>   | 4,562,229   |

The above Balance Sheet should be read in conjunction with the Notes to the Financial Statements.

**SOUTH BOULDER MINES LIMITED**  
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## Statement of Changes in Equity

| YEAR ENDED 30 JUNE 2009   | Notes | Consolidated       |             | Parent Entity      |             |
|---|-------|--------------------|-------------|--------------------|-------------|
|   |       | 2009               | 2008        | 2009               | 2008        |
|   |       | \$                 | \$          | \$                 | \$          |
| TOTAL EQUITY AT THE BEGINNING OF THE FINANCIAL YEAR   |       | <b>4,562,229</b>   | 4,062,687   | <b>4,562,229</b>   | 4,062,687   |
| PROFIT / (LOSS) FOR THE YEAR  |       | <b>(1,593,275)</b> | (2,185,329) | <b>(1,593,275)</b> | (2,185,329) |
| TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF SOUTH BOULDER MINES LIMITED |       | <b>(1,593,275)</b> | (2,185,329) | <b>(1,593,275)</b> | (2,185,329) |
| Transactions with equity holders in their capacity as equity holders:                                   |       |                    |             |                    |             |
| Shares issued during the year   | 14    | <b>706,481</b>     | 2,354,981   | <b>706,481</b>     | 2,354,981   |
| Transaction costs   | 14    | -                  | (79,980)    | -                  | (79,980)    |
| Employee share options  | 15    | <b>124,000</b>     | 409,870     | <b>124,000</b>     | 409,870     |
|   |       | <b>830,481</b>     | 2,684,871   | <b>830,481</b>     | 2,684,871   |
| TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR   |       | <b>3,799,435</b>   | 4,562,229   | <b>3,799,435</b>   | 4,562,229   |

The above Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

**SOUTH BOULDER MINES LIMITED**  
**2009 ANNUAL REPORT**

## Statement of Cash Flows

| YEAR ENDED 30 JUNE 2009   | Notes | Consolidated     |             | Parent Entity    |             |
|---|-------|------------------|-------------|------------------|-------------|
|   |       | 2009             | 2008        | 2009             | 2008        |
|   |       | \$               | \$          | \$               | \$          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                       |       |                  |             |                  |             |
| Payments to suppliers and employees                               |       | <b>(300,059)</b> | (451,876)   | <b>(300,059)</b> | (451,876)   |
| Interest received   |       | <b>135,279</b>   | 82,942      | <b>135,279</b>   | 82,942      |
| Proceeds from sale of tenement rights                             |       | <b>40,000</b>    | 6,835       | <b>40,000</b>    | 6,835       |
| Expenditure on mining interests                                   |       | <b>(763,072)</b> | (1,097,489) | <b>(763,072)</b> | (1,097,489) |
| <b>NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES</b>               | 24    | <b>(887,852)</b> | (1,459,588) | <b>(887,852)</b> | (1,459,588) |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                       |       |                  |             |                  |             |
| Payments for plant and equipment                                  |       | <b>(12,361)</b>  | (25,164)    | <b>(12,361)</b>  | (25,164)    |
| Proceeds on disposal of plant and equipment                       |       | -                | 118         | -                | 118         |
| Payment for subsidiary  |       | -                | -           | <b>(10)</b>      | -           |
| Proceeds on sale of financial assets                              |       | <b>9,835</b>     | 394,881     | <b>9,835</b>     | 394,881     |
| Payments for other financial assets                               |       | -                | (429,650)   | -                | (429,650)   |
| <b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>        |       | <b>(2,526)</b>   | (59,815)    | <b>(2,536)</b>   | (59,815)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                       |       |                  |             |                  |             |
| Proceeds from issues of ordinary shares                           |       | <b>666,481</b>   | 2,354,981   | <b>666,481</b>   | 2,354,981   |
| Payment of share issue costs                                      |       | <b>(79,980)</b>  | -           | <b>(79,980)</b>  | -           |
| <b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>                  |       | <b>586,501</b>   | 2,354,981   | <b>586,501</b>   | 2,354,981   |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>       |       |                  |             |                  |             |
| Cash and cash equivalents at the beginning of the financial year  |       | <b>2,813,003</b> | 1,977,425   | <b>2,813,003</b> | 1,977,425   |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b> | 8     | <b>2,509,126</b> | 2,813,003   | <b>2,509,116</b> | 2,813,003   |

The above Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

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## Notes to the Financial Statements

30 JUNE 2009

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes the financial statements for South Boulder Mines Limited as an individual entity. The financial report is presented in the Australian currency. South Boulder Mines Limited is a company limited by shares, domiciled and incorporated in Australia. The financial report was authorised for issue by the directors on 2 September 2009. The directors have the power to amend and reissue the financial report.

#### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

##### *Compliance with IFRS*

The financial report of South Boulder Mines Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

##### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

#### (b) Principles of consolidation

##### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of South Boulder Mines Limited ("Company" or "parent entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. South Boulder Mines Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all of those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of South Boulder Mines Limited.

#### (c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

#### (d) Revenue recognition

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

#### (e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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## Notes to the Financial Statements continued

30 JUNE 2009

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### **(f) Leases**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

#### **(g) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **(h) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

#### **(i) Trade and other receivables**

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

#### **(j) Investments and other financial assets**

##### ***Classification***

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

##### ***(i) Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

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## Notes to the Financial Statements continued

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

#### *(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

#### *(iv) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

#### **Financial assets - reclassification**

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

#### **Recognition and derecognition**

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

#### **Subsequent measurement**

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within revenue from continuing operations or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial investments is determined are disclosed in note 2.

#### **Impairment**

The Group assesses at each balance date whether there is objective evidence that a financial asset or Group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

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## Notes to the Financial Statements continued

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement.

#### **(k) Plant and equipment**

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 20% and 40% per annum.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

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

#### **(l) Exploration and evaluation costs**

Exploration and evaluation costs are written off in the year they are incurred.

#### **(m) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

#### **(n) Employee benefits**

##### *(i) Wages and salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

##### *(ii) Share-based payments*

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 23.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

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## Notes to the Financial Statements continued

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (o) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. 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.

#### (p) Earnings per share

##### (i) Basic earnings per share

Basic earnings per share is 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.

##### (ii) 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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

#### (r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

##### (i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8 (effective from 1 January 2009)*

AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group will adopt AASB 8 from 1 July 2009. Adoption of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

##### (ii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)*

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

##### (iii) AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009)*

AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that the other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

##### (iv) Revised AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (effective from 1 January 2009)*

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed.

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## Notes to the Financial Statements continued

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses, see note 1(b). The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. This is consistent with the Group's current accounting policy if significant influence is not retained.

The Group will apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 July 2009.

(v) *AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 July 2009)*

In July 2008, the AASB approved amendments to AASB 1 *First-time Adoption of International Financial Reporting Standards* and AASB 127 *Consolidated and Separate Financial Statements*. The Group will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Under the entity's current policy, these dividends are deducted from the cost of the investment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

(vi) *AASB 2008-8 Amendment to IAS 39 Financial Instruments: Recognition and Measurement (effective 1 July 2009)*

AASB 2008-8 amends AASB 139 *Financial Instruments: Recognition and Measurement* and must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Group will apply the amended standard from 1 July 2009. It is not expected to have a material impact on the Group's financial statements.

### (s) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

#### *Share based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 26.

## 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full Board of Directors as the Group believes that it is crucial for all board members to be involved in this process. The Managing Director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the board on risk management.

### (a) Market risk

#### (i) *Foreign exchange risk*

As all operations are currently within Australia the Group is not exposed to foreign exchange risk.

#### (ii) *Price risk*

Given the current level of operations the Group is not exposed to price risk.

#### (iii) *Interest rate risk*

The Group and the parent entity are exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group \$2,509,126 (2008: \$2,813,003) and the parent entity \$2,509,116 (2008: \$2,813,003) are subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group and the parent entity was 4.6% (2008: 6.6%).

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## Notes to the Financial Statements continued

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### 2. FINANCIAL RISK MANAGEMENT (cont'd)

#### *Sensitivity analysis*

At 30 June 2009, if interest rates had changed by +/- 80 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for both the Group and the parent entity would have been \$22,500 lower/higher (2008: \$10,000 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

#### (b) Credit risk

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount (net of provision for impairment) of those assets as disclosed in the balance sheet and notes to the financial statements.

As the Group does not presently have any debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

#### (c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the Balance Sheet. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

#### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the balance date are recorded at amounts approximating their carrying amount.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

### 3. SEGMENT INFORMATION

#### Description of segments

The Group's operations are in the mining industry in Australia.

|   | Consolidated   |         | Parent Entity |         |
|---|----------------|---------|---------------|---------|
|   | 2009           | 2008    | 2009          | 2008    |
|   | \$             | \$      | \$            | \$      |
| <b>4. REVENUE</b>   |                |         |               |         |
| <b>From continuing operations</b>   |                |         |               |         |
| Interest  | <b>129,325</b> | 82,942  | <b>19,325</b> | 82,942  |
| <b>5. OTHER INCOME</b>  |                |         |               |         |
| Net gain on sale of financial assets at fair value through profit or loss | -              | 235,631 | -             | 235,631 |
| Net gain on sale or sub-let of tenement                                   | <b>72,599</b>  | 82,835  | <b>72,599</b> | 82,835  |
|   | <b>72,599</b>  | 318,466 | <b>72,599</b> | 318,466 |

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## Notes to the Financial Statements continued

30 JUNE 2009

|   | Consolidated       |             | Parent Entity      |             |
|---|--------------------|-------------|--------------------|-------------|
|   | 2009               | 2008        | 2009               | 2008        |
|   | \$                 | \$          | \$                 | \$          |
| <b>6. EXPENSES</b>  |                    |             |                    |             |
| <b>Profit / (loss) before income tax includes the following specific expenses:</b>        |                    |             |                    |             |
| Loss on disposal of fixed assets  | -                  | 137         | -                  | 137         |
| Net loss on sale of financial assets at fair value through profit or loss                 | <b>70,165</b>      | -           | <b>70,165</b>      | -           |
| Fair value losses on financial assets at fair value through profit or loss                | <b>479,463</b>     | 617,573     | <b>479,463</b>     | 617,573     |
| Minimum lease payments relating to operating leases                                       | <b>38,748</b>      | 19,500      | <b>38,748</b>      | 19,500      |
| Defined contribution superannuation expense   | <b>41,016</b>      | 35,868      | <b>41,016</b>      | 35,868      |
| <b>7. INCOME TAX</b>  |                    |             |                    |             |
| <b>(a) Income tax expense/(benefit)</b>   |                    |             |                    |             |
| Current tax   | -                  | -           | -                  | -           |
| Deferred tax  | -                  | -           | -                  | -           |
| <b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>      |                    |             |                    |             |
| Profit / (loss) from continuing operations before income tax expense                      | <b>(1,593,275)</b> | (2,185,329) | <b>(1,593,275)</b> | (2,185,329) |
| Prima facie tax benefit at the Australian tax rate of 30% (2008: 30%)                     | <b>(477,982)</b>   | (655,599)   | <b>(477,982)</b>   | (655,599)   |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income:   |                    |             |                    |             |
| Other   | <b>439</b>         | 606         | <b>439</b>         | 606         |
|   | <b>(477,543)</b>   | (654,993)   | <b>(477,543)</b>   | (654,993)   |
| Movements in unrecognised temporary differences   | <b>161,838</b>     | 183,676     | <b>161,838</b>     | 183,676     |
| Tax effect of current year tax losses for which no deferred tax asset has been recognised | <b>315,705</b>     | 471,317     | <b>315,705</b>     | 471,317     |
| Income tax expense/(benefit)  | -                  | -           | -                  | -           |
| <b>(c) Unrecognised temporary differences</b>   |                    |             |                    |             |
| <b>Deferred Tax Assets (at 30%)</b>   |                    |             |                    |             |
| <i>On Income Tax Account</i>  |                    |             |                    |             |
| Financial assets at fair value through profit or loss                                     | <b>47,406</b>      | -           | <b>47,406</b>      | -           |
| Carry forward tax losses  | <b>1,746,911</b>   | 1,431,206   | <b>1,746,911</b>   | 1,431,206   |
|   | <b>1,794,317</b>   | 1,431,206   | <b>1,794,317</b>   | 1,431,206   |
| <b>Deferred Tax Liabilities (at 30%)</b>  |                    |             |                    |             |
| Financial assets at fair value through profit or loss                                     | -                  | 174,683     | -                  | 174,683     |

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

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|---|-------------------------|-----------|-------------------------|-----------|
|   | 2009                    | 2008      | 2009                    | 2008      |
|   | \$                      | \$        | \$                      | \$        |
| <b>8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS</b>                                    |                         |           |                         |           |
| Cash at bank and in hand  | 22,665                  | 1,053,040 | 22,655                  | 1,053,040 |
| Short-term deposits   | <u>2,486,461</u>        | 1,759,963 | <u>2,486,461</u>        | 1,759,963 |
| Cash and cash equivalents as shown in the balance sheet and the statement of cash flows | <u><b>2,509,126</b></u> | 2,813,003 | <u><b>2,509,116</b></u> | 2,813,003 |

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

### 9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

|                             |                      |        |                      |        |
|-----------------------------|----------------------|--------|----------------------|--------|
| Trade and other receivables | <u><b>33,708</b></u> | 58,571 | <u><b>33,708</b></u> | 58,571 |
|-----------------------------|----------------------|--------|----------------------|--------|

### 10. CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

|                                     |                         |           |                         |           |
|-------------------------------------|-------------------------|-----------|-------------------------|-----------|
| Australian listed equity securities | <u><b>1,316,413</b></u> | 1,843,277 | <u><b>1,316,413</b></u> | 1,843,277 |
|-------------------------------------|-------------------------|-----------|-------------------------|-----------|

Changes in fair values of financial assets at fair value through profit or loss are recorded in other income or other expenses in the income statement (notes 5 and 6 respectively).

### 11. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

|                                |   |   |                  |   |
|--------------------------------|---|---|------------------|---|
| Shares in subsidiary – at cost | - | - | <u><b>10</b></u> | - |
|--------------------------------|---|---|------------------|---|

### 12. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

#### Plant and equipment

|                          |                      |          |                      |          |
|--------------------------|----------------------|----------|----------------------|----------|
| Cost                     | <b>84,342</b>        | 71,981   | <b>84,342</b>        | 71,981   |
| Accumulated depreciation | <b>(45,187)</b>      | (34,357) | <b>(45,187)</b>      | (34,357) |
| Net book amount          | <u><b>39,155</b></u> | 37,624   | <u><b>39,155</b></u> | 37,624   |

#### Plant and equipment

|                         |                      |          |                      |          |
|-------------------------|----------------------|----------|----------------------|----------|
| Opening net book amount | <b>37,624</b>        | 23,741   | <b>37,624</b>        | 23,741   |
| Additions               | <b>12,361</b>        | 25,164   | <b>12,361</b>        | 25,164   |
| Disposals               | -                    | (255)    | -                    | (255)    |
| Depreciation charge     | <b>(10,830)</b>      | (11,026) | <b>(10,830)</b>      | (11,026) |
| Closing net book amount | <u><b>39,155</b></u> | 37,624   | <u><b>39,155</b></u> | 37,624   |

### 13. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

|                             |                      |         |                      |         |
|-----------------------------|----------------------|---------|----------------------|---------|
| Trade payables              | <b>47,767</b>        | 74,420  | <b>47,767</b>        | 74,420  |
| Other payables and accruals | <u><b>51,200</b></u> | 115,826 | <u><b>51,200</b></u> | 115,826 |
|                             | <u><b>98,967</b></u> | 190,246 | <u><b>98,967</b></u> | 190,246 |

### 14. ISSUED CAPITAL

#### (a) Share capital

|                            | Notes        | 2009                     |                         | 2008             |           |
|----------------------------|--------------|--------------------------|-------------------------|------------------|-----------|
|                            |              | Number of shares         | \$                      | Number of shares | \$        |
| Ordinary shares fully paid | 14(b), 14(d) | <u><b>55,707,943</b></u> | <u><b>8,762,171</b></u> | 53,157,943       | 8,055,690 |
| Total issued capital       |              | <u><b>55,707,943</b></u> | <u><b>8,762,171</b></u> | 53,157,943       | 8,055,690 |

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|   | 2009              |                  | 2008             |           |
|---|-------------------|------------------|------------------|-----------|
|   | Number of shares  | \$               | Number of shares | \$        |
| <b>14. ISSUED CAPITAL (cont'd)</b>                  |                   |                  |                  |           |
| <b>(b) Movements in ordinary share capital</b>      |                   |                  |                  |           |
| Beginning of the financial year                     | 53,157,943        | 8,055,690        | 44,122,943       | 5,780,689 |
| Issued during the year:                             |                   |                  |                  |           |
| – Issued for cash at 31 cents per share             | 2,150,000         | 666,481          | 4,300,000        | 1,332,981 |
| – Issued on exercise of options (25 cents)          | -                 | -                | 1,500,000        | 375,000   |
| – Issued on exercise of options (20 cents)          | -                 | -                | 3,235,000        | 647,000   |
| – Issued as consideration for tenement acquisitions | 400,000           | 40,000           | -                | -         |
| Less: Transaction costs                             | -                 | -                | -                | (79,980)  |
| End of the financial year                           | <b>55,707,943</b> | <b>8,762,171</b> | 53,157,943       | 8,055,690 |

**(c) Movements in options on issue**

|   |             | Number of options |             |
|---|-------------|-------------------|-------------|
|   |             | 2009              | 2008        |
| Beginning of the financial year                           |             | 18,605,000        | 17,340,000  |
| Issued during the year:                                   |             |                   |             |
| – Exercisable at 20 cents, on or before 30 November 2012  | Exercisable | -                 | 4,200,000   |
| – Exercisable at 20 cents, on or before 30 June 2014      | Exercisable | 1,350,000         | -           |
| – Exercisable at 35 cents, on or before 31 July 2013      | Exercisable | 2,950,000         | -           |
| – Exercisable at 50 cents, on or before 13 June 2010      | Exercisable | 1,075,000         | 2,150,000   |
| Converted, cancelled or expired during the year:          |             |                   |             |
| – Exercisable at 20 cents, on or before 24 March 2008     | Exercisable | -                 | (1,000,000) |
| – Exercisable at 20 cents, on or before 24 March 2011     | Exercisable | -                 | (1,835,000) |
| – Exercisable at 20 cents, on or before 30 November 2012  | Exercisable | -                 | (400,000)   |
| – Exercisable at 25 cents, on or before 30 September 2008 | Exercisable | (500,000)         | (1,500,000) |
| – Exercisable at 25 cents, on or before 31 March 2011     | Exercisable | -                 | (50,000)    |
| – Exercisable at 30 cents, on or before 24 March 2008     | Exercisable | -                 | (300,000)   |
| End of the financial year                                 |             | <b>23,480,000</b> | 18,605,000  |

**(d) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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|  | Consolidated |      | Parent Entity |      |
|--|--------------|------|---------------|------|
|  | 2009         | 2008 | 2009          | 2008 |
|  | \$           | \$   | \$            | \$   |

### 14. ISSUED CAPITAL (cont'd)

#### (e) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group and the parent entity at 30 June 2009 and 30 June 2008 are as follows:

|   |                  |           |                  |           |
|---|------------------|-----------|------------------|-----------|
| Cash and cash equivalents                             | 2,509,126        | 2,813,003 | 2,509,116        | 2,813,003 |
| Trade and other receivables                           | 33,708           | 58,571    | 33,708           | 58,571    |
| Financial assets at fair value through profit or loss | 1,316,413        | 1,843,277 | 1,316,413        | 1,843,277 |
| Trade and other payables                              | (98,967)         | (190,246) | (98,967)         | (190,246) |
| Working capital position                              | <b>3,760,280</b> | 4,524,605 | <b>3,760,270</b> | 4,524,605 |

### 15. RESERVES AND ACCUMULATED LOSSES

#### (a) Reserves

##### *Share-based payments reserve*

|   |                  |           |                  |           |
|---|------------------|-----------|------------------|-----------|
| Balance at beginning of year            | 1,053,990        | 644,120   | 1,053,990        | 644,120   |
| Employees and contractors share options | 124,000          | 409,870   | 124,000          | 409,870   |
| Balance at end of year                  | <b>1,177,990</b> | 1,053,990 | <b>1,177,990</b> | 1,053,990 |

#### (b) Accumulated losses

|                                |                    |             |                    |             |
|--------------------------------|--------------------|-------------|--------------------|-------------|
| Balance at beginning of year   | (4,547,451)        | (2,362,122) | (4,547,451)        | (2,362,122) |
| Net profit/(loss) for the year | (1,593,275)        | (2,185,329) | (1,593,275)        | (2,185,329) |
| Balance at end of year         | <b>(6,140,726)</b> | (4,547,451) | <b>(6,140,726)</b> | (4,547,451) |

#### (c) Nature and purpose of reserves

##### *Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of options issued.

### 16. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

### 17. KEY MANAGEMENT PERSONNEL DISCLOSURES

#### (a) Key management personnel compensation

|                          | Consolidated   |         | Parent Entity  |         |
|--------------------------|----------------|---------|----------------|---------|
|                          | 2009           | 2008    | 2009           | 2008    |
|                          | \$             | \$      | \$             | \$      |
| Short-term benefits      | 370,181        | 366,310 | 370,181        | 366,310 |
| Post employment benefits | 29,164         | 24,989  | 29,164         | 24,989  |
| Other long-term benefits | -              | -       | -              | -       |
| Termination benefits     | -              | -       | -              | -       |
| Share-based payments     | 109,780        | 205,840 | 109,780        | 205,840 |
|                          | <b>509,125</b> | 597,139 | <b>509,125</b> | 597,139 |

Detailed remuneration disclosures are provided in sections A-C of the remuneration report on pages 26 to 28.

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### 17. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

#### (b) Equity instrument disclosures relating to key management personnel

##### (i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on page 28.

##### (ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of South Boulder Mines Limited and other key management personnel of the Group, including their personally related parties, are set out below:

| 2009   | Balance at start of the year | Granted as compensation | Exercised | Other changes | Balance at end of the year | Vested and exercisable | Unvested |
|--|------------------------------|-------------------------|-----------|---------------|----------------------------|------------------------|----------|
| <i>Directors of South Boulder Mines Limited</i>    |                              |                         |           |               |                            |                        |          |
| Terry Grammer                                      | 1,100,000                    | 600,000                 | -         | -             | 1,700,000                  | 1,700,000              | -        |
| Lorry Hughes                                       | 400,000                      | 2,000,000               | -         | -             | 2,400,000                  | 2,400,000              | -        |
| Liam Cornelius                                     | 4,500,000                    | 750,000                 | -         | -             | 5,250,000                  | 5,250,000              | -        |
| <i>Other key management personnel of the Group</i> |                              |                         |           |               |                            |                        |          |
| Dennis Wilkins                                     | -                            | 500,000                 | -         | -             | 500,000                    | 500,000                | -        |

All vested options are exercisable at the end of the year.

| 2008   | Balance at start of the year | Granted as compensation | Exercised   | Other changes | Balance at end of the year | Vested and exercisable | Unvested |
|--|------------------------------|-------------------------|-------------|---------------|----------------------------|------------------------|----------|
| <i>Directors of South Boulder Mines Limited</i>    |                              |                         |             |               |                            |                        |          |
| Terry Grammer                                      | -                            | 1,000,000               | -           | 100,000       | 1,100,000                  | 1,100,000              | -        |
| Lorry Hughes                                       | -                            | -                       | -           | 400,000       | 400,000                    | 400,000                | -        |
| Liam Cornelius                                     | 5,000,000                    | 1,000,000               | (1,500,000) | -             | 4,500,000                  | 4,500,000              | -        |
| Brian Rear   | 250,000                      | -                       | -           | (250,000)     | -                          | -                      | -        |
| <i>Other key management personnel of the Group</i> |                              |                         |             |               |                            |                        |          |
| Sharon Bell  | 425,000                      | -                       | -           | (425,000)     | -                          | -                      | -        |

##### (iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of South Boulder Mines Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

| 2009   | Balance at start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at end of the year |
|--|------------------------------|---|-------------------------------|----------------------------|
| <b>Ordinary shares</b>                             |                              |   |                               |                            |
| <i>Directors of South Boulder Mines Limited</i>    |                              |   |                               |                            |
| Terry Grammer                                      | 100,000                      | -   | -                             | 100,000                    |
| Lorry Hughes                                       | -                            | -   | 100,000                       | 100,000                    |
| Liam Cornelius                                     | 2,452,125                    | -   | -                             | 2,452,125                  |
| <i>Other key management personnel of the Group</i> |                              |   |                               |                            |
| Dennis Wilkins                                     | 126,000                      | -   | -                             | 126,000                    |

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### 17. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

2008

| <b>Ordinary shares</b>                             | <b>Balance at start of the year</b> | <b>Received during the year on the exercise of options</b> | <b>Other changes during the year</b> | <b>Balance at end of the year</b> |
|--|-------------------------------------|--|--------------------------------------|-----------------------------------|
| <i>Directors of South Boulder Mines Limited</i>    |                                     |  |                                      |                                   |
| Terry Grammer                                      | -                                   | -  | 100,000                              | 100,000                           |
| Liam Cornelius                                     | 2,452,125                           | 1,500,000  | (1,500,000)                          | 2,452,125                         |
| Brian Rear   | 300,000                             | -  | (300,000)                            | -                                 |
| <i>Other key management personnel of the Group</i> |                                     |  |                                      |                                   |
| Dennis Wilkins                                     | 126,000                             | -  | -                                    | 126,000                           |

#### (c) Loans to key management personnel

There were no loans to key management personnel during the year.

#### (d) Other transactions with key management personnel

DWCorporate Pty Ltd, a business of which Mr Wilkins is principal, provided company secretarial and other corporate services to South Boulder Mines Limited during the year. The amounts paid were at arms length and are included as part of Mr Wilkins' compensation.

### 18. REMUNERATION OF AUDITORS

|   | Consolidated  |        | Parent Entity |        |
|---|---------------|--------|---------------|--------|
|   | 2009          | 2008   | 2009          | 2008   |
|   | \$            | \$     | \$            | \$     |
| During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms: |               |        |               |        |
| <b>(a) Audit services</b>   |               |        |               |        |
| Rothsay Chartered Accountants - audit and review of financial reports   | <b>32,800</b> | 24,500 | <b>32,800</b> | 24,500 |
| <b>(b) Non-audit services</b>   |               |        |               |        |
| Rothsay Chartered Accountants – tax compliance services   | <b>2,000</b>  | 1,500  | <b>2,000</b>  | 1,500  |

### 19. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Group at balance date.

### 20. COMMITMENTS

#### (a) Exploration commitments

The Group has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:

|   |                  |           |                  |           |
|---|------------------|-----------|------------------|-----------|
| within one year                                   | <b>1,272,360</b> | 525,360   | <b>1,272,360</b> | 525,360   |
| later than one year but not later than five years | <b>6,089,440</b> | 2,101,440 | <b>6,089,440</b> | 2,101,440 |
|   | <b>7,361,800</b> | 2,626,800 | <b>7,361,800</b> | 2,626,800 |

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|  | Consolidated  |         | Parent Entity |         |
|--|---------------|---------|---------------|---------|
|  | 2009          | 2008    | 2009          | 2008    |
|  | \$            | \$      | \$            | \$      |
| <b>20. COMMITMENTS (cont'd)</b>  |               |         |               |         |
| <b>(b) Lease commitments: Group as lessee</b>  |               |         |               |         |
| <i>Operating leases (non-cancellable):</i>   |               |         |               |         |
| Minimum lease payments   |               |         |               |         |
| within one year  | 35,713        | 35,713  | 35,713        | 35,713  |
| later than one year but not later than five years  | 35,712        | 71,425  | 35,712        | 71,425  |
| Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities | <b>71,425</b> | 107,138 | <b>71,425</b> | 107,138 |

The property lease is a non-cancellable lease with a three year term, with rent payable monthly in advance. The rental agreement provides for an annual rent increase of the greater of market or CPI. An option exists to renew the lease at the end of the three year term for an additional term of three years. The lease allows for subletting of all lease areas.

**(c) Remuneration commitments**

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in section C of the remuneration report on pages 6 and 7 that are not recognised as liabilities and are not included in the key management personnel compensation.

|   |                |         |                |         |
|---|----------------|---------|----------------|---------|
| within one year                                   | 240,625        | 262,500 | 240,625        | 262,500 |
| later than one year but not later than five years | -              | 240,625 | -              | 240,625 |
|   | <b>240,625</b> | 503,125 | <b>240,625</b> | 503,125 |

## 21. RELATED PARTY TRANSACTIONS

**(a) Parent entity**

The ultimate parent entity within the Group is South Boulder Mines Limited.

**(b) Subsidiaries**

Interests in subsidiaries are set out in note 22.

**(c) Key management personnel**

Disclosures relating to key management personnel are set out in note 17.

## 22. SUBSIDIARY

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

| Name                               | Country of Incorporation | Class of Shares | Equity Holding <sup>(1)</sup> |      |
|------------------------------------|--------------------------|-----------------|-------------------------------|------|
|                                    |                          |                 | 2009                          | 2008 |
|                                    |                          |                 | %                             | %    |
| STB Eritrea Pty Ltd <sup>(2)</sup> | Australia                | Ordinary        | 100                           | -    |

(1) The proportion of ownership interest is equal to the proportion of voting power held.

(2) STB Eritrea Pty Ltd was incorporated on 12 June 2009 with South Boulder Mines Limited being the sole shareholder. The company has been dormant since its incorporation.

## 23. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No matter or circumstance has arisen since 30 June 2009, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

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|   | Consolidated     |                    | Parent Entity    |                    |
|---|------------------|--------------------|------------------|--------------------|
|   | 2009             | 2008               | 2009             | 2008               |
|   | \$               | \$                 | \$               | \$                 |
| <b>24. CASH FLOW STATEMENT</b>  |                  |                    |                  |                    |
| <b>Reconciliation of net profit/(loss) after income tax to net cash outflow from operating activities</b> |                  |                    |                  |                    |
| Net profit/(loss) for the year  | (1,593,275)      | (2,185,329)        | (1,593,275)      | (2,185,329)        |
| <b>Non-Cash Items</b>   |                  |                    |                  |                    |
| Depreciation of plant and equipment   | 10,830           | 11,026             | 10,830           | 11,026             |
| Loss on disposal of plant and equipment   | -                | 137                | -                | 137                |
| Option expense  | 124,000          | 409,870            | 124,000          | 409,870            |
| Net (gain)/loss on sale of financial assets at fair value through profit or loss                          | 70,165           | (235,631)          | 70,165           | (235,631)          |
| Equity securities received on sale of tenements   | (32,599)         | (76,000)           | (32,599)         | (76,000)           |
| Shares issued as consideration for exploration expenses   | 40,000           | -                  | 40,000           | -                  |
| Fair value losses on financial assets at fair value through profit or loss                                | 479,463          | 617,573            | 479,463          | 617,573            |
| <b>Change in operating assets and liabilities</b>   |                  |                    |                  |                    |
| (Increase)/decrease in trade and other receivables  | 24,863           | (30,975)           | 24,863           | (30,975)           |
| Increase/(decrease) in trade and other payables   | (11,299)         | 29,741             | (11,299)         | 29,741             |
| Net cash outflow from operating activities  | <u>(887,852)</u> | <u>(1,459,588)</u> | <u>(887,852)</u> | <u>(1,459,588)</u> |

### 25. LOSS PER SHARE

|   | Consolidated       |                    |
|---|--------------------|--------------------|
|   | 2009               | 2008               |
|   | \$                 | \$                 |
| <b>(a) Reconciliation of earnings used in calculating earnings per share</b>  |                    |                    |
| Profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share | <u>(1,593,275)</u> | <u>(2,185,329)</u> |
| <b>(b) Weighted average number of shares used as the denominator</b>  |                    |                    |
|   | Number of shares   | Number of shares   |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share                | <u>55,399,861</u>  | <u>44,933,595</u>  |

### (c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2009, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

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## Notes to the Financial Statements continued

30 JUNE 2009

### 26. SHARE-BASED PAYMENTS

#### Employees and Contractors Option Plan

The Group provides benefits to employees (including directors) and contractors of the Group in the form of share-based payment transactions, whereby employees and contractors render services in exchange for options to acquire ordinary shares. All options issued under the scheme have exercise prices ranging from 20 to 35 cents and expiry dates ranging from 29 November 2009 to 30 June 2014.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the options granted:

|  | Consolidated and Parent Entity |                                       |                   |                                       |
|--|--------------------------------|---------------------------------------|-------------------|---------------------------------------|
|  | 2009                           |                                       | 2008              |                                       |
|  | Number of options              | Weighted average exercise price cents | Number of options | Weighted average exercise price cents |
| Outstanding at the beginning of the year | 11,615,000                     | 22.0                                  | 11,000,000        | 22.5                                  |
| Granted                                  | 4,300,000                      | 30.3                                  | 4,200,000         | 20.0                                  |
| Forfeited                                | -                              | -                                     | (50,000)          | 25.0                                  |
| Exercised                                | -                              | -                                     | (3,235,000)       | 20.0                                  |
| Expired                                  | (500,000)                      | 25.0                                  | (300,000)         | 30.0                                  |
| Outstanding at year-end                  | <b>14,065,000</b>              | <b>28.8</b>                           | 11,615,000        | 22.0                                  |
| Exercisable at year-end                  | <b>14,065,000</b>              | <b>28.8</b>                           | 11,615,000        | 22.0                                  |

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 2.3 years (2008: 2.9 years), with exercise prices ranging from 20 to 35 cents.

The weighted average fair value of the options granted during the year was 2.9 cents (2008: 9.8 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

|   | 2009  | 2008  |
|---|-------|-------|
| Weighted average exercise price (cents)         | 30.3  | 20.0  |
| Weighted average life of the option (years)     | 4.95  | 4.84  |
| Weighted average underlying share price (cents) | 11.8  | 19.2  |
| Expected share price volatility                 | 50%   | 50%   |
| Risk free interest rate                         | 5.74% | 6.88% |

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate. The life of the options is based on historical exercise patterns, which may not eventuate in the future.

#### Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

|   | Consolidated   |         | Parent Entity  |         |
|---|----------------|---------|----------------|---------|
|   | 2009           | 2008    | 2009           | 2008    |
|   | \$             | \$      | \$             | \$      |
| Options issued to employees and contractors | <b>124,000</b> | 409,870 | <b>124,000</b> | 409,870 |

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## Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 35 to 54 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Lorry Hughes  
Managing Director  
Perth, 2 September 2009

# ROTHSAY

Level 18, 6 O'Connell Street, Sydney NSW 2000 G.P.O. Box 2759, Sydney NSW 2001  
Phone 8815 5400 Facsimile 8815 5401 E-mail swan2000@bigpond.com

## **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SOUTH BOULDER MINES LIMITED**

We have audited the accompanying financial report of South Boulder Mines Limited (the Company") which comprises the balance sheet as at 30 June 2009 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 year.

The Company has disclosed information as required by Australian Accounting Standard AASB 124 *Related Party Disclosures* ("remuneration disclosures") under the heading "Remuneration Report" in the directors' report as permitted by the Corporations Regulations 2001.

### **Directors Responsibility for the Financial Report**

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

### **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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures in the Directors' report comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

### **Independence**

We are independent of the Company, and have met the independence requirements of Australian professional ethical requirements and the Corporations Act 2001.



Chartered Accountants

Liability limited by the Accountants Scheme, approved  
under the Professional Standards Act 1994 (NSW).



**Audit opinion**

In our opinion the financial report of South Boulder Mines Limited is in accordance with the Corporations Act 2001, including:

- a) (i) giving a true and fair view of the Company's and the group's financial position as at 30 June 2009 and of their 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.
- c) the remuneration disclosures in the Directors' report comply with AASB 124

Rothsay

Frank Vrachas  
Partner

Dated 2 September 2009

**SOUTH BOULDER MINES LIMITED**  
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**ASX ADDITIONAL INFORMATION**

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 30 September 2009.

**(a) Distribution of equity securities**

Analysis of numbers of equity security holders by size of holding:

|   |           | Ordinary shares   |                   |
|---|-----------|-------------------|-------------------|
|   |           | Number of holders | Number of shares  |
| 1   | - 1,000   | 15                | 8,027             |
| 1,001   | - 5,000   | 260               | 873,014           |
| 5,001   | - 10,000  | 288               | 2,478,261         |
| 10,001  | - 100,000 | 449               | 15,568,318        |
| 100,001   | and over  | 68                | 36,780,323        |
|   |           | <u>1,080</u>      | <u>55,707,943</u> |
| The number of shareholders holding less than a marketable parcel of shares are: |           | <u>137</u>        | <u>283,459</u>    |

**(b) Twenty largest shareholders**

The names of the twenty largest holders of quoted ordinary shares are:

|    |   | Listed ordinary shares |                               |
|----|---|------------------------|-------------------------------|
|    |   | Number of shares       | Percentage of ordinary shares |
| 1  | ANZ Nominees Ltd <Cash Income A/C>            | 5,961,255              | 10.70                         |
| 2  | HSBC Custody Nominees Australia Ltd           | 4,020,700              | 7.22                          |
| 3  | Cornelius Liam Raymond                        | 2,452,125              | 4.40                          |
| 4  | National Nominees Ltd                         | 2,001,457              | 3.59                          |
| 5  | Cheung Shun Resources Ltd                     | 1,839,082              | 3.30                          |
| 6  | Kongming Investments Ltd                      | 1,600,000              | 2.87                          |
| 7  | Pacifique Asset Management Ltd                | 1,479,650              | 2.66                          |
| 8  | Arotinco Resources Pty Ltd                    | 1,300,000              | 2.33                          |
| 9  | Stroeve Hans                                  | 1,000,000              | 1.80                          |
| 10 | UBS Nominees Pty Ltd                          | 629,657                | 1.13                          |
| 11 | Langsford Peter Cecil                         | 600,000                | 1.08                          |
| 12 | Mineral Administration SV <Mas S/F Colless>   | 559,722                | 1.00                          |
| 13 | Zeleny Peter <Estate of Victor Zeleny>        | 510,000                | 0.92                          |
| 14 | Tao Yuan Ltd <No 3 A/C>                       | 510,000                | 0.92                          |
| 15 | Bam NR 1 Pty Ltd <Moran S/F A/C>              | 508,500                | 0.91                          |
| 16 | Maslin Anthony & Norris M <Maslin Fam A/C>    | 503,467                | 0.90                          |
| 17 | Upora Pty Ltd <Looten S/F A/C>                | 500,000                | 0.90                          |
| 18 | Aradia Ventures Pty Ltd <J & A Brown Fam A/C> | 500,000                | 0.90                          |
| 19 | Citicorp Nominees Pty Ltd                     | 479,000                | 0.86                          |
| 20 | Driwash'N Guard Australia Pty Ltd             | 450,000                | 0.81                          |
|    |   | <u>27,404,615</u>      | <u>49.20</u>                  |

**(c) Substantial shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

|   | Number of Shares |
|---|------------------|
| ANZ Nominees Limited <Cash Income A/C>  | 5,961,255        |
| HSBC Custody Nominees Australia Pty Ltd | 4,020,700        |

**(d) Voting rights**

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

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**ASX ADDITIONAL INFORMATION**

**(e) Schedule of interests in mining tenements**

| <b>Location</b>     | <b>Tenement</b> | <b>Percentage held / earning</b> |
|---------------------|-----------------|----------------------------------|
| Duketon             | E38/1499        | 100                              |
| Duketon             | E38/1511        | 100                              |
| Duketon             | E38/1522        | 100                              |
| Duketon             | E38/1535        | 100                              |
| Duketon             | E38/1537        | 100                              |
| Duketon             | E38/1548        | 100                              |
| Duketon             | E38/1549 (A)    | 100                              |
| Duketon             | E38/1602        | 100                              |
| Duketon             | E38/1793        | 100                              |
| Duketon             | E38/1800        | 100                              |
| Duketon             | E38/1825        | 100                              |
| Duketon             | E38/1836        | 100                              |
| Duketon             | L38/33          | 100                              |
| Duketon             | M38/330         | 100                              |
| Duketon             | E38/1979        | 100                              |
| Duketon             | E38/1980        | 100                              |
| Duketon             | E38/2226 (A)    | 100                              |
| Duketon             | E38/2231 (A)    | 100                              |
| Duketon             | E38/2244 (A)    | 100                              |
| Duketon             | E38/2248 (A)    | 100                              |
| Duketon             | E38/2254 (A)    | 100                              |
| Duketon             | E38/2255 (A)    | 100                              |
| Duketon             | P38/3160        | 100                              |
| Duketon             | P38/3282        | 100                              |
| Duketon             | P38/3162        | 100                              |
| Duketon             | P38/3163        | 100                              |
| Duketon             | P38/3308        | 100                              |
| Duketon             | P38/3385        | 100                              |
| Lake Disappointment | E45/3122        | 100                              |
| Lake Disappointment | E45/3259 (A)    | 100                              |
| Lake Disappointment | E45/3262 (A)    | 100                              |
| Lake Disappointment | E45/3263 (A)    | 100                              |
| Lake Disappointment | E69/2580 (A)    | 100                              |
| Lake Burnside       | E69/2558 (A)    | 100                              |
| Dandaragan          | E70/3566        | 100                              |
| Lake Lefroy         | E15/1121 (A)    | 100                              |
| Cutters Luck        | E26/132 (A)     | 100                              |
| Cutters Luck        | E26/136 (A)     | 100                              |
| Pilgangoora         | E45/2375        | 10                               |
| Cardabia            | E08/1941 (A)    | 100                              |
| Cardabia            | E08/1945 (A)    | 100                              |
| Cardabia            | E08/1955 (A)    | 100                              |
| Cardabia            | E08/2005 (A)    | 100                              |
| Tombermorey         | EL25982         | 100                              |
| Mt Guide            | EL25983         | 100                              |
| Algamba             | EL26380         | 100                              |
| NT Phos             | EL26763         | 100                              |
| NT Phos             | EL26766         | 100                              |
| Duketon             | E38/1499        | 100                              |