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SOUTH BOULDER
MINES LTD

Annual Report

FOR THE YEAR ENDED 30 JUNE 2011

ABN 56 097 904 302



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South Boulder Mines Ltd

Chairman's Letter 2011

South Boulder's eighth year as a publicly listed company has seen major change, from a pure exploration company to a development company committed to the development of a significant potash facility, including a mine and export port in Eritrea.

The change from explorer to developer has been reflected in the share price, however over the last five months global financial fear has had a greater effect. Despite this South Boulder was admitted to the S&P/ASX 300 on the 9th September 2011.

The pace of change came from the following chronology:

- The appointment of an internationally recognised potash consultant, Chris Gilchrist to manage the Engineering Scoping Study in December 2010.
- The announcement of a Maiden JORC/43-101 Potash Mineral Resource over Area A in January 2011.
- The announcement of a new potash discovery at Area B, 10 km north west of Area A in March 2011.
- The appointment of South Boulder's first Mining Engineer, Mr. Dayle Kenny in August 2011.

South Boulder Mines Ltd is continuing work to bring the Colluli Potash Project into production.

Within our Australian projects, our Duketon Nickel Joint Venture Partner, Independence Group NL, is continuing to advance the Duketon Nickel Sulphide Discovery, although not at a pace I would like. Work is continuing on South Boulder's nickel and gold prospect in the Duketon region.

I would like to take this opportunity to express my thanks to the directors of the board, Lorry Hughes and Liam Cornelius, company secretary Dennis Wilkins, and our employees for their contribution throughout the year. Of special note is the contribution from Zeray Leake Seltene, Solomon Tewelde and the Eritrean Staff and Contractors. It should be noted that South Boulder has no expatriate staff in Eritrea.

T. Grammer

TERRY GRAMMER

Chairman

INTRODUCTION

The 2011 Annual Report is South Boulder Mines Ltd (“South Boulder”) eighth annual report since listing on 17 October 2003.

This year has continued the success from 2010 with the rapid advancement of the world class Colluli Potash Project in Eritrea. The Colluli Project Definitive Feasibility Study (DFS) is well underway and potash production is expected in 2016 or sooner. The Company is working as fast as possible towards production and the ultimate payment of dividends to shareholders. In order to continue the expected transition from an exploration/development Company to a potash producer, some key corporate and technical appointments have been made. Experienced potash executive Dr. Chris Gilchrist has joined The Board and Senior Mining Engineer Dayle Kenny has joined the feasibility team. It is expected that additional key appoints to support the growth of the Company will continue in the near term (Figure 1).



Figure 1 – South Boulder Head Office Team (left to right) Terry Grammer – Chairman, Kerry Rudd – Executive Assistant, Lorry Hughes – CEO & Managing Director, Dr. Chris Gilchrist – Non Executive Director, Liam Cornelius – Executive Director, Peter Staples – Senior Geophysicist, Dayle Kenny – Manager Mining Engineering, Greg Knox – Database Manager, Trevor Saul – Exploration Manager.

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The last Greenfield potash mine to come into production was in the late 1980's. Most known deposits have extremely high start-up capital requirements, large infrastructure requirements and come with significant technical risks from the underground mining of potash salts. The Colluli Deposit is unique in that the capital requirements will be low, the infrastructure location is very attractive and the technical risks of open pit mining are simplified. These facts give the Company great confidence to proceed with development of the asset.

South Boulder has developed an outstanding relationship with the government of Eritrea and they are overwhelmingly supportive of the sustainable and environmentally sound development of the asset in rapid time.

The Duketon Nickel JV success in 2010 also continued to deliver positive exploration results from the Rosie Ni-Cu-PGE deposit in 2011. This theme of discovery is set to continue with further exploration and development activity underway. Joint Venture partner Independence Group is continuing to increase exploration budgets and a Mining Lease was granted in November 2010.

The Duketon Gold Project is also a focus of activity although it is at an earlier stage than the two headline projects. There has been significant compilation work on the Duketon Gold Project during the year and recent drilling with some encouraging results. In adjacent areas of the Duketon Greenstone Belt, production and developments at competitor projects will make it easier to commercialise any future discoveries.

Due to the increased focus on the Colluli Project, South Boulder has continued to evaluate ways to maximise value to shareholders. There is potential to undertake a demerger and create a dedicated potash company and a dedicated nickel and gold company. A decision that will best consider all shareholders is likely to be finalised in the next year. Key resource modelling and scoping study analysis needs to be completed so that South Boulder can attribute the correct valuation to this asset and make development decisions accordingly.

South Boulder is well positioned with significant exploration exposure across a number of commodities and projects. Due to the success of the abovementioned projects, a decision has been made to divest non-core fertilizer assets and a number of advanced discussions are continuing. Additionally The Company's equity holdings in ASX/TSX listed LTX, MZM, AVZ, BUX Auvex (Pte) and CNI.V (TSX) provide fund raising options to The Company through divestment.



COLLULI POTASH PROJECT

The Colluli Project in Eritrea has proven to host a world class potash deposit and during the year exploration work was focused on drilling and feasibility activities. Drilling continued to intersect significant shallow potash and has substantially grown the JORC-Compliant Mineral Resource Estimate and potential to define the Exploration Target of #1.25 – 1.75 billion tonnes @ 18-20% KCl (Table 1).

Resource Category	Tonnes (Mt)	Grade (% KCl)	Mt(Potash)
Total Measured	133.70	17.55	23.47
Total Indicated	343.33	17.38	59.68
Total Inferred	87.37	24.96	21.81
Total Resource	564.40	18.60	104.96

Table 1 - Total JORC/43-101 compliant resource by resource category.

The potential quantity and grade of the total current exploration target which includes the current JORC-Compliant Mineral Resource Estimate is conceptual in nature and there has been insufficient exploration to define a JORC-Compliant Mineral Resource other than the current JORC-Compliant Mineral Resource Estimate and it is uncertain if further exploration will result in the determination of a JORC-Compliant Mineral Resource Estimate other than the current JORC-Compliant Mineral Resource Estimate. (Note put this paragraph on bottom of previous page once fixed up table)

JORC-Compliant drilling, downhole geophysical logging and resource compilation activity will be a continuous process over the next 2-3 years where resource updates are planned to occur once or twice per year (Figure 2). Geological data will be used to determine the optimum size of the project and drive the technical parameters of the current Definitive Feasibility Study which is due for completion in early 2013. All drill results at the 30th June 2011 are available in the June Quarterly Report submitted to the ASX.

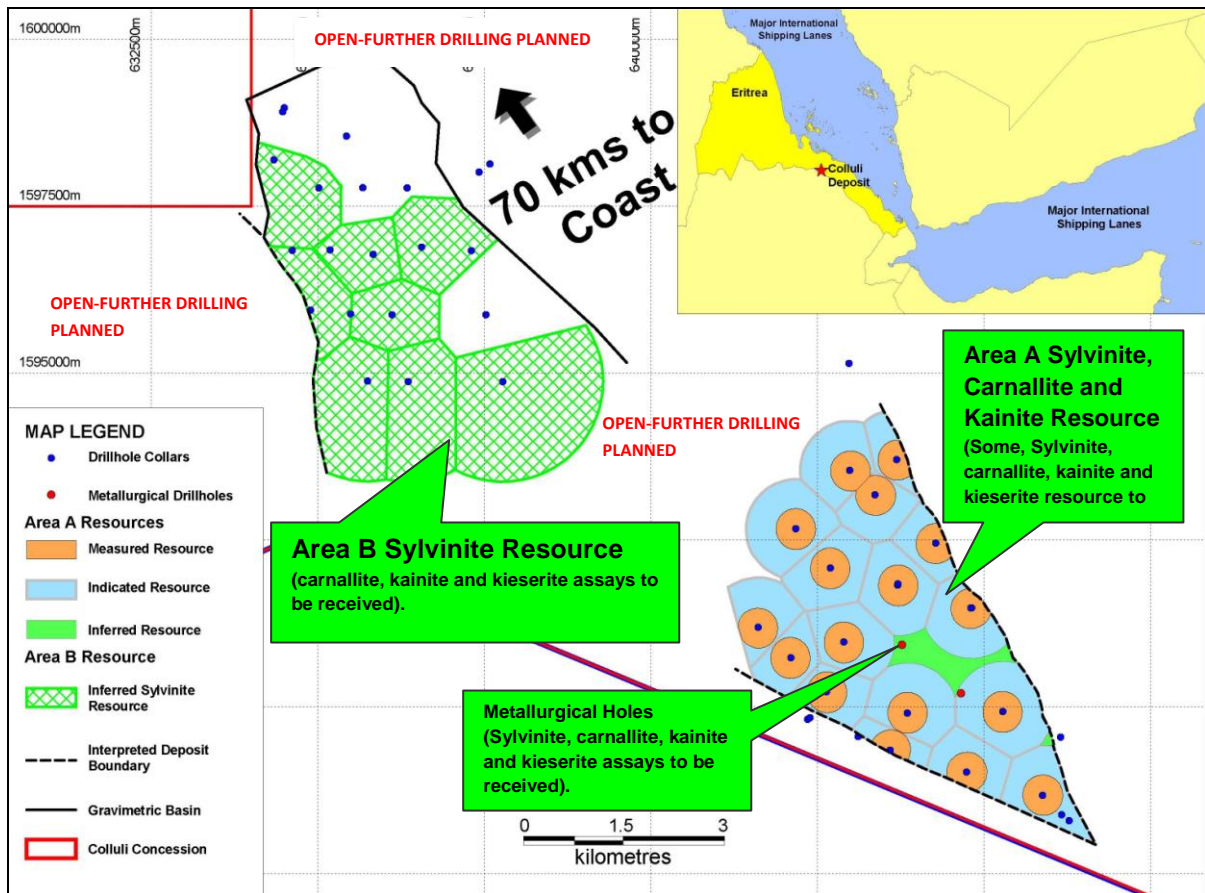


Figure 2 – Colluli Project JORC-Compliant Mineral Resource Estimate Plan.

Importantly the upper portion of the deposit and shallowest resource unit contains high grade sylvinite (KCl) of 130.39Mt @ 27.02% KCl for 35.23Mt of contained potash (*Measured, Indicated and Inferred resource at Area A and Inferred resource at Area B*). Approximately 95% of global potash production is extracted from mining sylvinite. This high grade resource is the basis of initial economic assessment.

Further near term resource expansion is expected upon compilation of outstanding drilling results completed from within the current resource areas (Figure 2). The resource is open in many directions and drilling will continue in adjacent areas to test for additional potash and resource interpretations.

A number of structures have been interpreted to constrain the shallow resource and these have been derived from gravimetric, surface mapping and drilling results. Further drilling is required on either side of these structures to determine if mineralisation continues beyond the structures. High priority targets include zones @ to the immediate west of Area B and zones between Area A and B.



Figure 3 – Colluli Project diamond hole Col-004 high grade sylvinite.

A DFS into the open pit mining and processing of 1-2mt p.a. of potash for export is well advanced and is due for completion in early 2013. Production is currently scheduled for 2016 or sooner. Key activities completed or commenced include;

- JORC-Compliant Mineral Resource Estimate (complete);
- Scope of overall project strategy (complete);
- Downhole geophysical logging of Area A drill holes (complete);
- Grouting of Area A drill holes (complete);
- Evaluation of potential ports and transport options (complete);
- Marketing study for MOP and SOP production/sales (complete).
- Determination of initial pit design parameters (complete);
- Determination of initial mining material movement, stockpiling, fleet selection and mine design (complete);
- Complete DFS metallurgical processing testwork requirements determination and water balance (complete);
- Drilling of PQ Diamond holes for Stage 2" metallurgical test program (complete);
- Design of the hydrogeological assessment program and model parameters for surface and ground water (complete);
- Scoping level economic assessment, project design and DFS (complete);
- Data collection for hydrogeological and environmental modelling for complete DFS (underway);
- Detailed environmental, social impact and archaeological survey planning and assessment for complete DFS (underway).

The DFS is being completed by a multi-disciplinary team that is highly experienced in potash mining processing, open pit mining, shipping, ports, marketing, environmental, hydrogeology and social impact assessment. Key members of the DFS team include;

- ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH – Potash geology, mining, processing and geotechnical;
- Knight Piesold – Environmental, social impact and hydrogeological;
- Dr. Chris Gilchrist – Processing, mining and construction;
- Dayle Kenny – Open cut mining;
- Zeray Leake – Eritrea Country Manager;
- Ashmead Maritime LLP – Shipping and Ports;
- CRU Strategies – Marketing;
- GED Pty Ltd – Potash drilling and water monitoring assessment.

Subsequent to the end of the period engineering scoping study results have confirmed the viability of the Colluli Potash Project. An eleven year initial mining and processing period was determined to represent a suitably conservative approach to the technical assessment of the project in order to ensure low risk, economic evaluation. Given that only a small portion of the potash contained within the current JORC Compliant Mineral Resource Estimate is planned to be mined as part of the current study the Company considers the mine life upside of the project to be immense and likely to be in excess of 50 years.

A high grade sylvinitic resource of 130.39Mt @ 27.02% KCl was selected to be the focus of the engineering scoping study for a number of reasons;

- Sylvinitic is located shallowest in the stratigraphic sequence;
- Processing methods are relatively simple to produce MOP;
- Open pit mining methods are simple;
- MOP will be easily consumed by the existing market;
- Start-up capex is minimised to ensure simplified project financing.

Mining will be conducted with a flexible standard fleet of 90-100 tonne dump trucks with backhoe loading. In addition the use of in-pit crushing, conveying and continuous mining will be investigated. Groundwater will be controlled by a combination of dewatering drill holes, intercept trenching, evaporation, batter toe drainage and geopolymers which are all standard mine dewatering methods.

The processing facility will be located at the Colluli site and will consist of an industry-standard milling and flotation plant. The metallurgical amenability of froth flotation has been demonstrated and early recovery results have been highly encouraging at >80% KCl which is considered to be near industry averages. Further process optimisation work is planned as part of the Definitive Feasibility Study and it is expected that the metallurgical recovery will further increase. Residue disposal from the processing facility is planned to be deposited with pit wastes at the mine site. These consist of Halite (NaCl) and sulphate minerals, the environmental impact of which will be minimal.

A small diameter pipeline from the coastal town of Mersa Fatma has been scoped to bring sea water to the processing site if insufficient volumes of groundwater are identified. An alternative location for seawater if required is in the Anfile Bay area (Figure 4) along the proposed haulage route. Up to 120 kilolitres per hour of water will be required consisting of 75% seawater/brackish water and 25% freshwater. Brackish water is present in the ground above and in adjacent areas to the resource however it is currently thought that the volumes are smaller than requirements. A substantial brackish and fresh water exploration drilling program has commenced as part of site hydrogeological investigations and will assess ground within a 50 kms radius of the Colluli site. Water sourced from mine dewatering activities will be used to supplement the total site brackish water requirements.

Road train or truck transport to a port, storage and loading facility at the Anfile Bay Area is planned pending environmental, social impact and Government approvals. Anfile Bay contains deep water close to the coast and has sufficient options for offshore trans-shipment barges. Self-powered, self-discharging “shuttle barges” with 5,000 metric tonne capacity have been planned to access deeper water and load ships at a rate of 20,000 metric tonnes per day.

Numerous opportunities have been identified to improve the current project plan in terms of rates of production, fertilizer products and resource utilisation and these will be defined throughout the completion of the Definitive Feasibility Study.

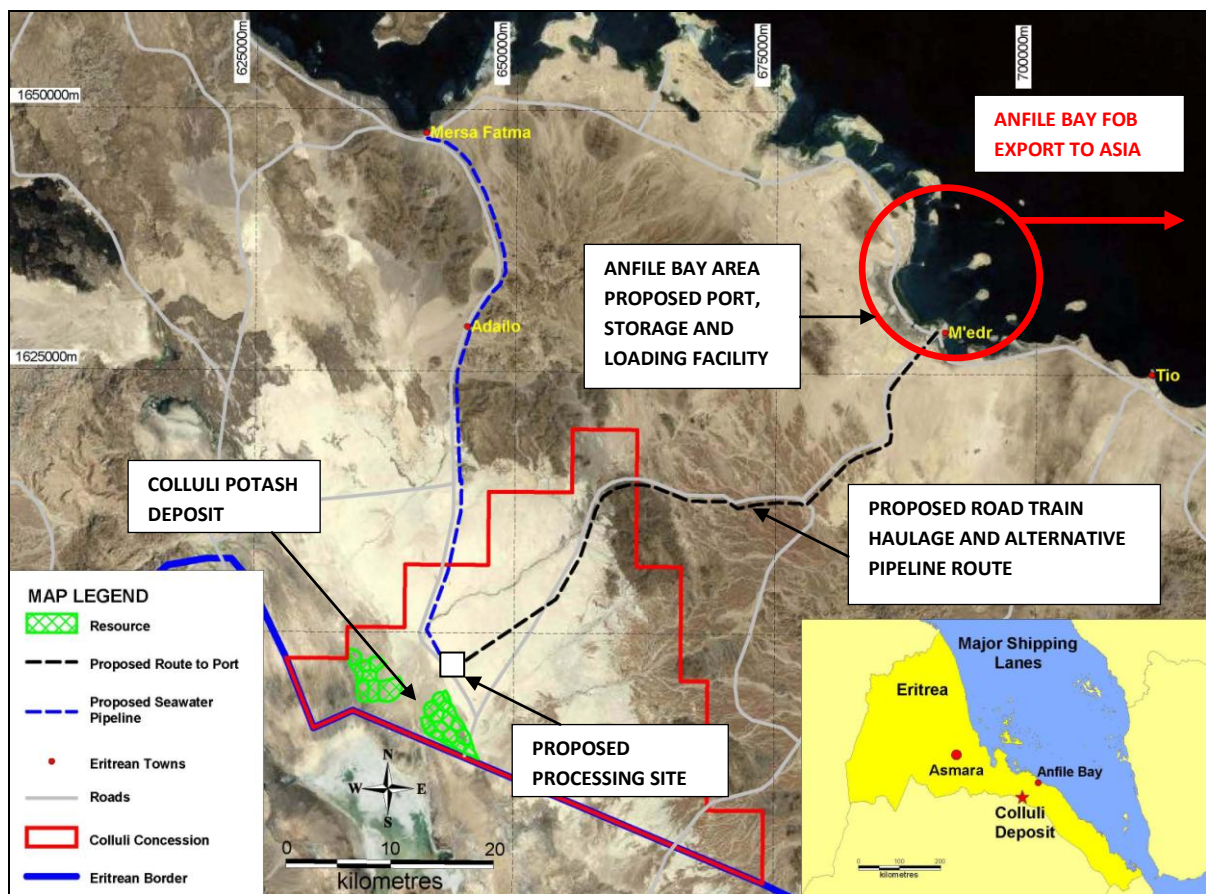


Figure 4 – Colluli Project Site Plan.

COLLULI POTASH PROJECT BACKGROUND

The 906km² Colluli Potash Project licence was granted on the 23rd of July 2009 by the Minister for Mines and Energy Eritrea. The Project is located in the sparsely populated Danakil region of Eritrea, approximately 200kms south east of the capital Asmara (Figure 5).

Potash has been known to occur in the evaporite basin known as the Danakil Depression since the early 1900's and there was a ten year period from 1958-68 where intensive exploration and mining was undertaken by American Companies. One historic exploration drilling program comprising 17 holes was conducted in 1968 a small part of which was over what is now the Colluli Project. Only in 2009 was on-ground exploration activity re-commenced by South Boulder for the first time in ~42 years.

Since 2009 South Boulder has maintained an aggressive exploration and development program which has resulted in substantial resources of sylvite (KCl), carnallite (KMgCl₃.6H₂O), kainite (MgSO₄KCl.3H₂O) and kieserite (MgSO₄.H₂O) mineralisation being defined. Potash production is now planned from the deposit in 2016 or sooner.

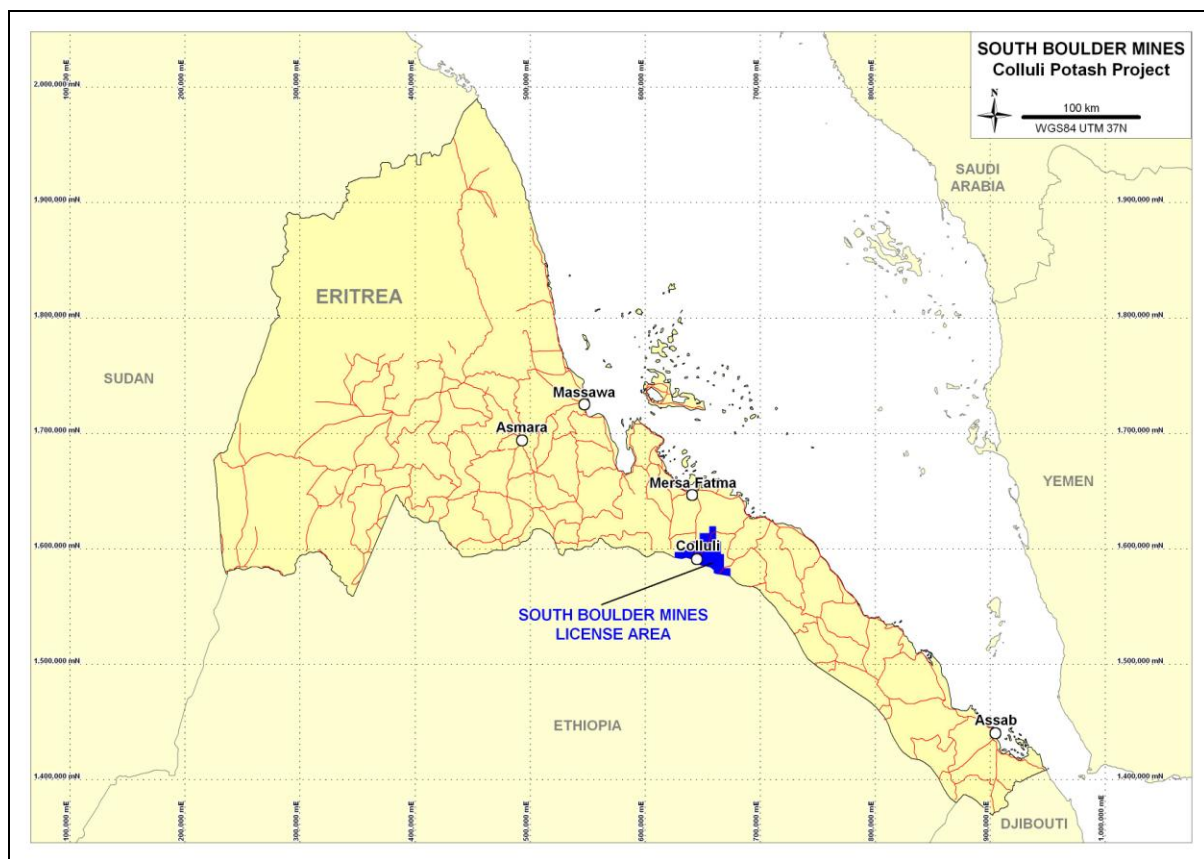


Figure 5 – Location of the Colluli Potash Project Eritrea.

The project is located approximately 70kms south of the shallow water port of Mersa Fatma and 65-75kms southwest of the Anfile Bay area where deep water is located. A derelict abandoned train line built by Italian colonialists in the early 1900's traverses the project to the coast at Mersa Fatma.

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 on negotiated terms an additional 30% equity participation interest in any mining project and a 3.5% royalty on potash salts.

ERITREA COUNTRY PROFILE

Eritrea joined the world community of independent states in May 1993 following a thirty year war for liberation ending in May 1991. A UN supervised referendum held in April 1993 enabled the Eritrean people to express unequivocally to the world their desire for freedom and independence.

Soon after independence, the government of Eritrea has been engaged in rehabilitating the war-torn economy and improving the standard of living of the people. It created a conducive environment for the active participation of local and foreign private investors.

Eritrea is located in the north-eastern part of Africa with the Red Sea on its east coast, Sudan to the west and north, and Ethiopia and Djibouti to the south. Eritrea with a land surface area of about 125,000 sq kms including hundreds of coral islands in the Red Sea and has a population of about four million people. The country is home to nine ethnic groups, all with a strong sense of Eritrean national unity. Tigrinya and Tigre are the most widely spoken languages with English and Arabic commonly used.

DUKETON PROJECT

The Duketon Project comprises ~1,500km² of the Achaean Duketon Greenstone Belt and is located ~ 80kms to 120kms north of Laverton in Western Australia. South Boulder owns 100% of the gold and base metal rights and Independence Group NL (Independence; ASX: IGO) is earning 70% of the nickel rights to selected tenure held by South Boulder as part of the Duketon Nickel Joint Venture (Figure 6).

The Duketon Project is highly prospective for gold, nickel sulphide and base metals. The Achaean Duketon Greenstone Belt is dominated by a broad, complex north-northwest trending fold structure known as the Eristoun Syncline. 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 Eristoun Syncline is formed by a sequence of mafic and ultramafic volcanic and intrusive, 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 Eristoun 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.

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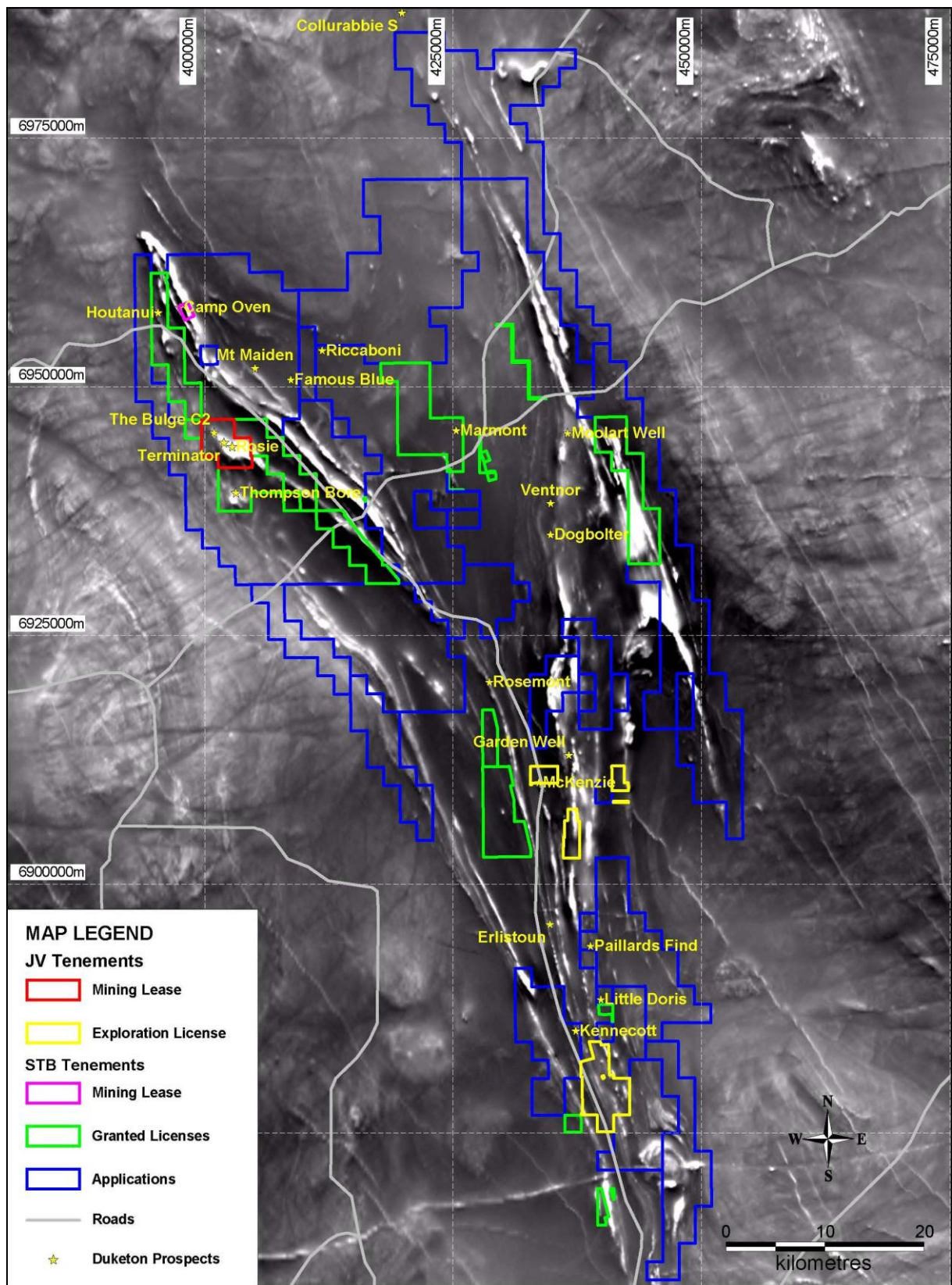


Figure 6 – Duketon Gold and Duketon Nickel JV tenements and applications shown over a magnetic image.

DUKETON NICKEL JOINT VENTURE

In April 2004 South Boulder signed a farm-out Joint Venture Agreement with Independence Group NL (ASX: IGO). 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 within 5 years from the grant of the relevant tenement.

The Duketon Nickel Joint Venture (DNJV) covers some of the ultramafic rich stratigraphy in the Duketon Greenstone Belt which is considered highly prospective for Ni-Cu-PGE (Platinum group element) disseminated and massive sulphide mineralisation. The tenure held within the DNJV is shown in Figure 6.

Two key prospects have been defined to date: Rosie and C2. Other than these prospects much of the highly prospective ultramafic units have yet to be effectively tested for nickel-copper-PGE sulphide mineralisation at depth.

Additional nickel sulphide mineralisation within the Duketon Greenstone Belt is highlighted by the Collurabbie discovery by Falcon Minerals Ltd (ASX: FCN) and BHP Billiton Ltd to the north of the Duketon Project; and by the recently revived Windarra nickel mine to the south held by Poseidon Nickel Limited (ASX: POS).

Note: Most tables, figures and text relating to the DNJV have been provided courtesy of Independence.

THE BULGE ROSIE AND C2 PROSPECTS

During the period exploration/resource drilling and scoping study work continued as planned to evaluate the potential for an open pit mine at the C2 and an underground mine at the Rosie Ni-Cu-PGE Prospects. The drilling has continued to intersect highly encouraging massive sulphides as well as significant zones of brecciated, stringer and disseminated sulphides.

An intensive period of drilling occurred in the June and September quarters with numerous resource definition RC and diamond holes were drilled at the Rosie deposit on a nominal 80m X 80m grid with selected 40m X 80m infill holes. Full drill hole details are contained within the June quarterly report. The targets were typically extensions to known mineralisation such as that identified in Figure 7 below. It was anticipated that a maiden JORC-Compliant Mineral Resource Estimate with additional drilling results would be available in the June quarter however delays have been experienced with the transfer of data to South Boulder from Independence who are the Project Managers. It is expected that further information will be available in the December quarter.

Drilling results from recent programs include diamond hole TBDD112 which intersected downhole intervals of;

- - 5.24m @ 3.6% Ni, 0.4% Cu and 49.5g/t 6PGE's from 135 .07m including;
- - 1.50m @ 7.6% Ni, 0.6% Cu and 15.1g/t 6PGE's.

The results further confirm the overall continuity of significant mineralisation at the high-grade Rosie Prospect which has mineralisation defined over a strike length of 950m (open) and down dip extent of 600m (open). Results have confirmed a laterally extensive zone of predominantly disseminated and breccia style mineralisation with discrete zones of massive mineralisation. This style of mineralisation is suggestive of remobilised sulphides possibly flanking a massive sulphide mineralised “channel” or footwall embayment position Figure 8, 9 and 10.



Figure 7 – Duketon Nickel JV Rosie Prospect - TBDD098 Massive sulphide intercept - 5.20m @ 9.13% Ni, 1.09% Cu, 0.21% Co and 7.09g/t PGEs (PGEs include 2.22g/t Pt, 1.74g/t Pd, 0.82g/t Rh, 1.79g/t Ru).

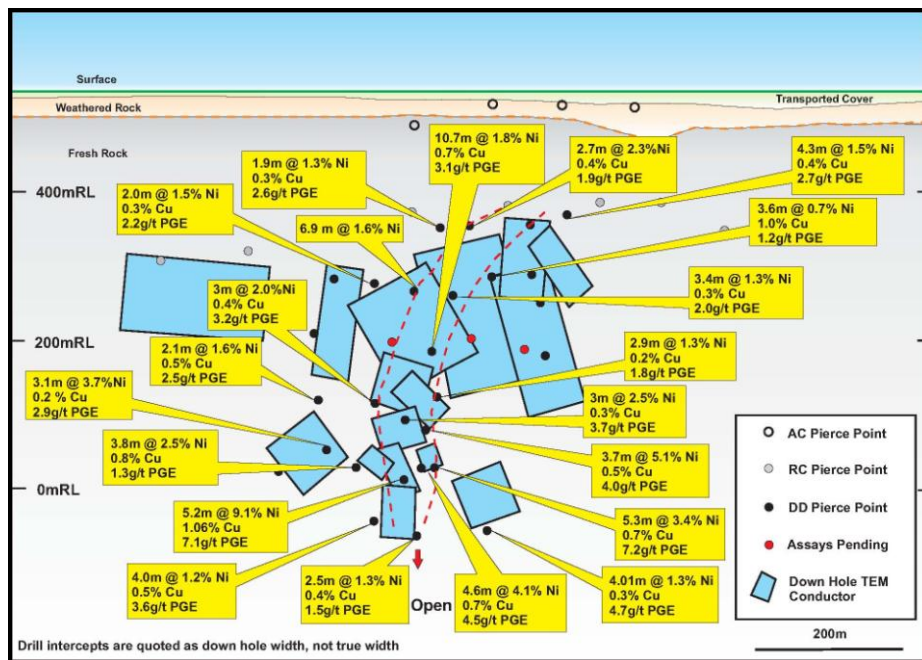


Figure 8 - Duketon JV Rosie Ni-Cu-PGE Prospect Longitudinal Projection showing significant drill intercept, down-hole TEM conductors and interpreted lava channel.

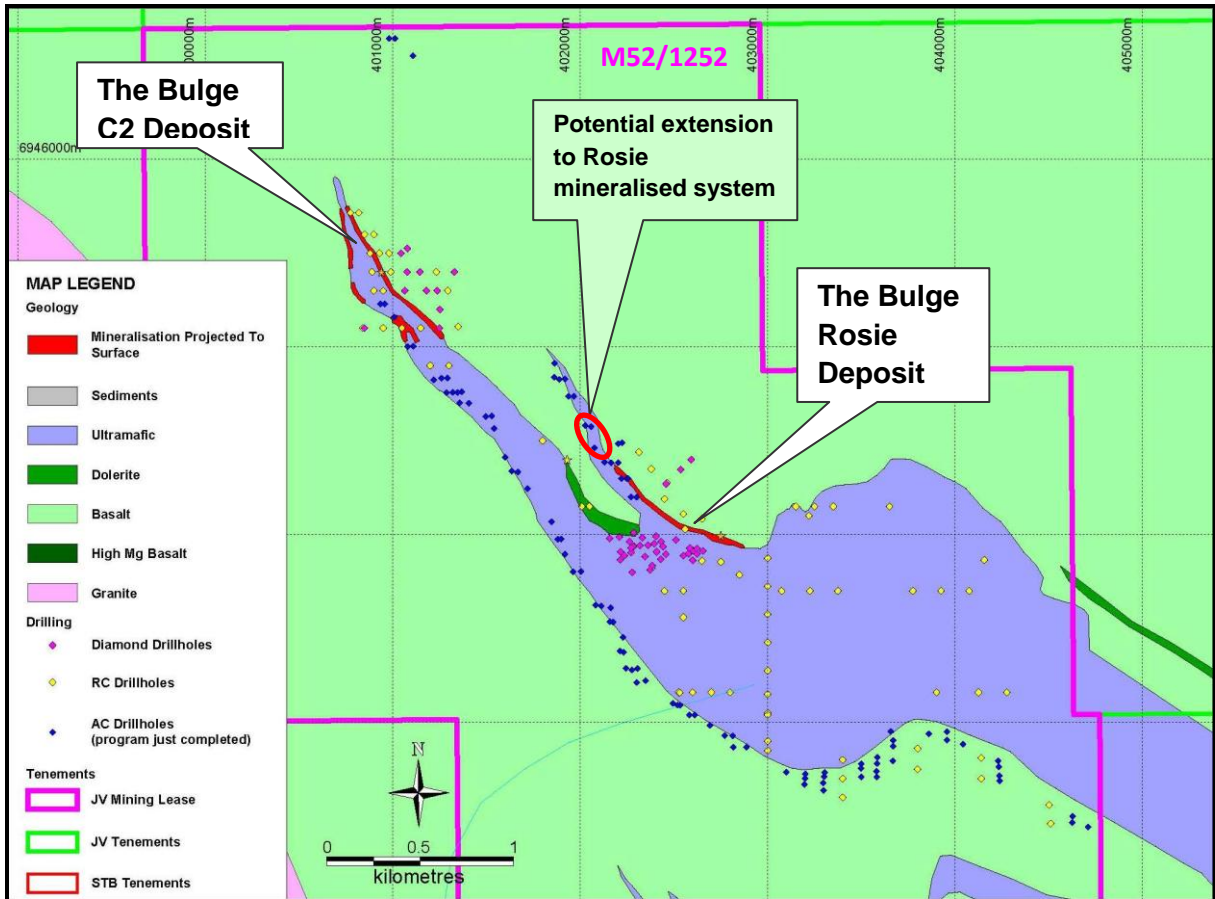


Figure 9 - Rosie and C2 Ni-Cu-PGE Deposits drilling plan, interpreted geology map and Mining Lease (M52/1252).

In addition a program of aircore drilling comprising 102 holes for 6,500m was completed along the ultramafic contact from Rosie and along the Bulge western contact. The program was designed to delineate the ultramafic contact with more accuracy in areas where its location was interpreted from aeromagnetic data to identify geochemical “hotspots” possibly representing new nickel sulphide systems. The hole collar locations are shown in Figure 9.

A number of anomalous responses were returned from 4m composite sampling including an intercept of 32m @ 0.9% Ni, 0.1% Cu and 0.48g/t Pt+Pd from 36m in hole TBAC201. Hole TBAC206 returned 8m @ 0.5% Ni, 0.3% Cu and 0.44g/t Pt+Pd from 32m which extends the Rosie mineralisation system along strike for ~240m. Further exploration is planned for next year upon receipt of all data.

The current drilling program is part of continued work programs and studies into the economic parameters of a mining project comprising an underground mine at Rosie and an adjacent open pit mine at C2. The entire work program on M52/1252 is managed by Independence Group.

Key engineering scoping study activities commenced or completed to date include;

- Grant of Mining Lease (22nd of November 2010);
- Flora survey as part of an Environmental Baseline Study (complete);
- Initial resource drilling at Rosie and C2 (complete);
- Compilation of initial JORC-Compliant Mineral Resource Estimate (underway);
- Exploration base camp approvals (complete);
- Water extraction license (complete);
- Engagement of Aboriginal heritage consultants (complete).

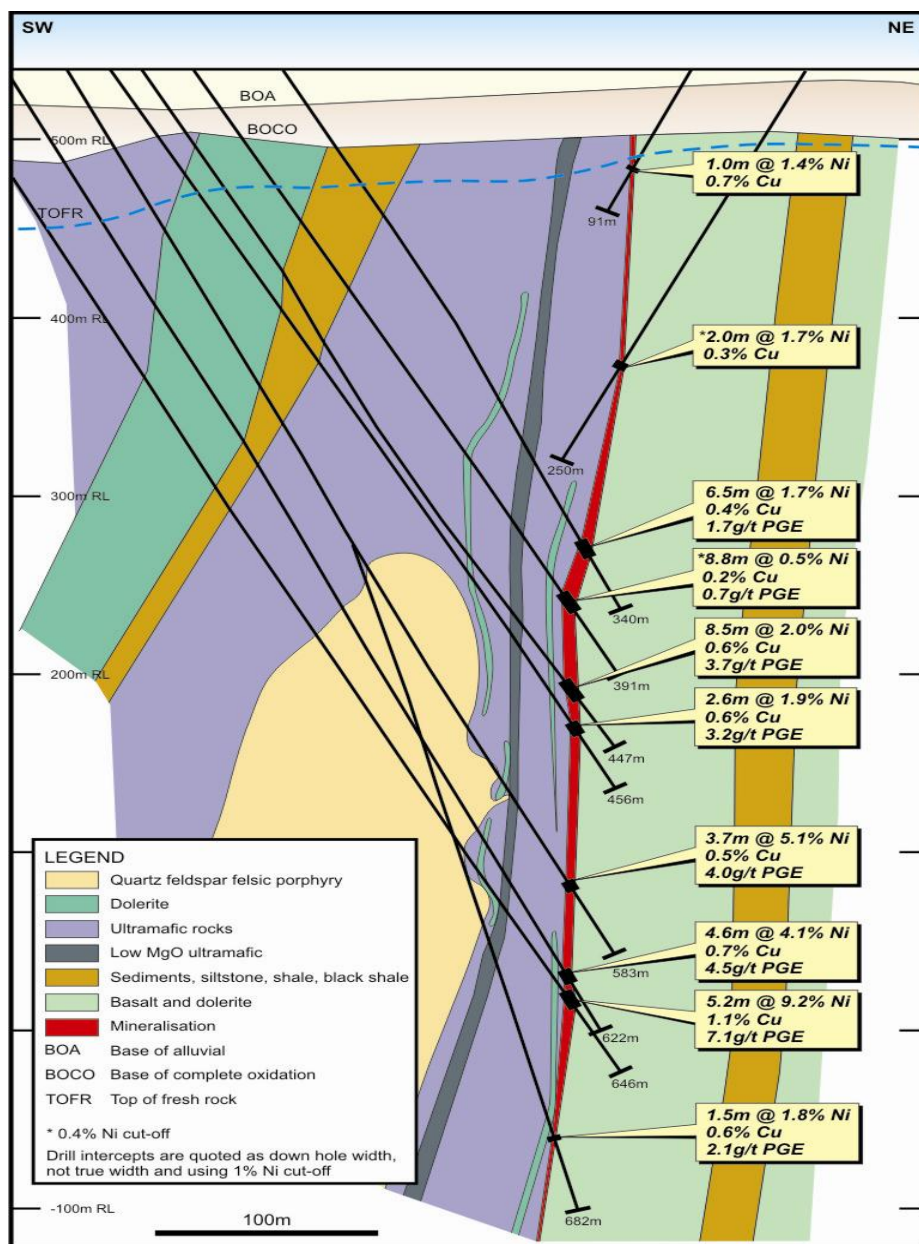


Figure 10 – Duketon Nickel JV Rosie Prospect – cross section showing geology, drillhole traces and Ni-Cu-PGE intercepts.

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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 Figure 6.

The Duketon Greenstone 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 +5M ounces of unmined gold resources currently defined to date within the belt. The +1.5M ounce Moolart Well Gold Project was constructed by Regis Resources NL "Regis" (ASX: RRL) in 2010. This mine is currently the only mining operation in the Duketon Belt. Other recent developments in the belt announced by Regis include the +2.1M ounce Garden Well Deposit which is planned to be another stand alone development. These developments will likely have a very positive impact on the future of the Duketon Belt in terms of infrastructure.

REGIONAL PROSPECTS

During the period a low level airborne geophysical survey was flown over three areas at the Duketon Gold Project Table 2. The survey was flown by UTS Aeroquest Airborne and recorded magnetics, radiometrics and digital terrain data.

Lease ID	Line Spacing	Line Direction	Tie Line Spacing	Tie Line Direction	Sensor Height	Total Line Km
E38/1511	50m	045-225	500m	135-315	50m	986
E38/1836	50m	090-270	500m	000-180	50m	3,000
E38/1535	50m	090-270	500m	000-180	50m	141
Total						4,127

Table 2 – Duketon Gold Project regional geophysical survey details.

The final data is currently being re-processed to South Boulder's standard formats. The re-processed data will be used to assist the design and planning of a 1st pass air-core drilling programs to be conducted in the coming year to test high priority targets.

A key regolith interpretation project compiled by South Boulder is nearing completion (Figure 11). This will be combined with the new magnetic survey and historic data to assist with fine tuning proposed air-core drilling programs in the coming period. It has been South Boulder's view that much of the Duketon Belt has been ineffectively explored due to lack of understanding about the regolith and the application of ineffective exploration techniques.

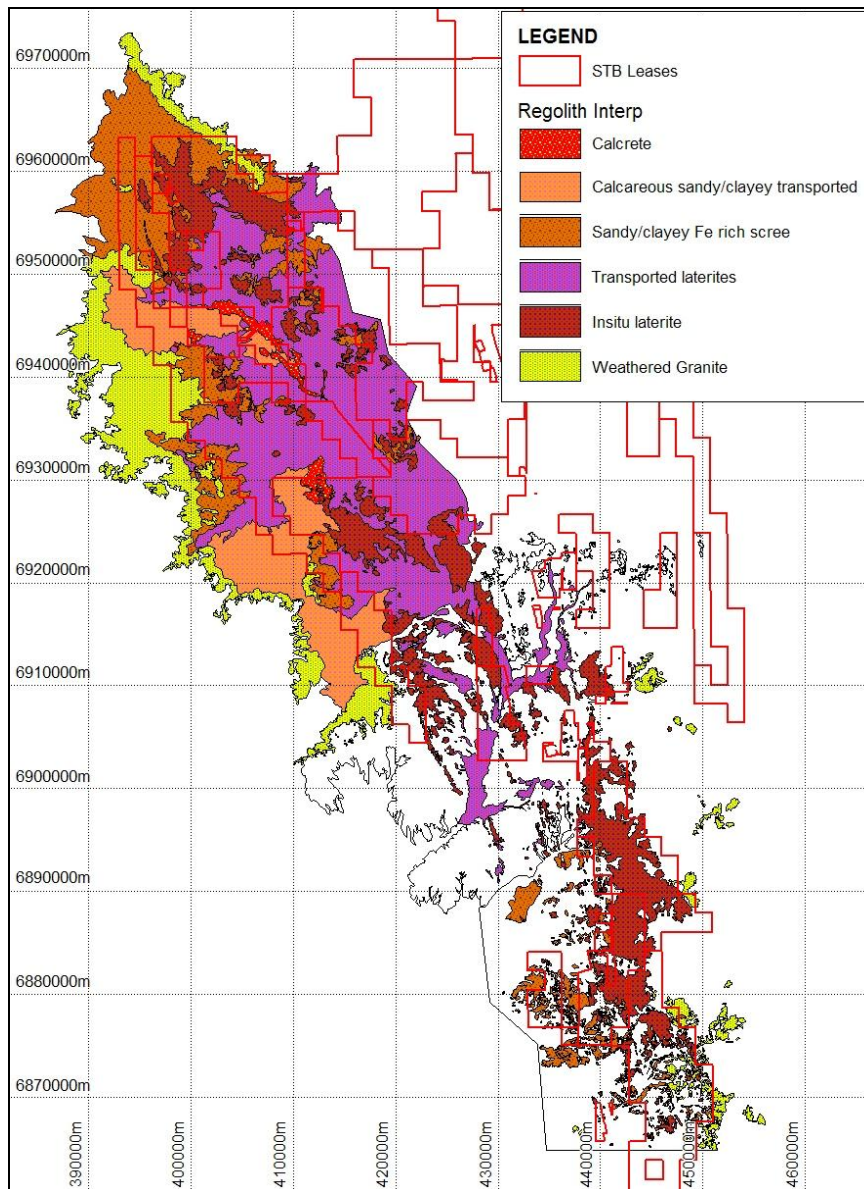


Figure 11 – Duketon Regolith Map

TERMINATOR PROSPECT

The Terminator Gold Prospect was discovered during a geochemical aircore drilling program on E38/1537 (now M52/1252) during September 2009. The Prospect is located approximately 1.4km south along strike of the Bulge C2 Nickel Prospect Figure 6.

RC drilling completed in 2010 intersected high grades up to 28.60 g/t Au over 1m as well as broad intercepts of highly anomalous mineralisation. It is intended to conduct further RC drilling at Terminator and regional targets in a combined Duketon Regional Gold exploration program.

During the period, work was focused on targeting extensions to known mineralisation and gaining a better understanding of the structural complexities of the deposit.

THOMPSONS BORE PROSPECT

The Thompson's Bore Gold Prospect is located within E38/1537, 5km due south of the Bulge Nickel Sulphide discovery. Previous aircore intercepts include values up to 75.30g/t over 1m from 14m and 8.70g/t over 11m from 35m. The mineralisation at Thompsons 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 - northwest striking gold zones exist within the project. During the period, work was focused on targeting extensions to known mineralisation and gaining a better understanding of the structural complexities of the deposit.

PORTFOLIO DEVELOPMENT

South Boulder has a policy of regularly reviewing its project and equity portfolios with a view to adding or realising value. Due to prevailing global financial conditions over the last 3 years rationalisation of the project portfolio has been important to ensure the company focuses on core projects and is well funded to add value.

The board had previously resolved to divest the non-core phosphate exploration portfolio comprising the Cardabia and the Georgina Basin phosphate projects. Options are being reviewed on how to create value from the projects considering the Georgina Basin Project is funded by Auvex Resources Ltd. Discussions are ongoing. 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\$2.0m. 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. Investor appetite and overall market conditions appear to be generally improving and there is likely to be further opportunities to realise better value for South Boulder shareholders.

South Boulder holds a number of shares and options in ASX and TSX listed companies currently valued at ~ AUD \$2.0m (Table 3).

Company Name	Stock Exchange	No of fully paid Shares	20c/25c Options	Option Expiry Date
Montezuma Mining Company Ltd	ASX	5,382,000		
Buxton Resources Ltd	ASX	1,610,000	750,000	30/06/2012
Avonlea Minerals Ltd	ASX	400,000		
Lithex Resources Ltd	ASX	1,016,000		
Continental Nickel Ltd	TSX	121,200		
Auvex Resources Ltd	Private	500,000		

Table 3 – Current equities owned by South Boulder Mines Limited.

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 ~1,642km² of exploration applications and is highly prospective for nodular phosphate. Historic drilling by CRAE Pty Ltd, intersected widespread nodular phosphate and conducted early stage metallurgical test work. Over the period numerous advanced discussions were held with South Boulder senior management and with fertilizer industry participants. Discussions are continuing.

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). Auvex Resources Limited (Auvex) purchased 90% of the manganese and base metal rights and 10% of the phosphate rights on the project.

Under the terms of the agreement South Boulder has a free carried 10% interest in the manganese and base metal rights up until the delivery of a Feasibility Study (FS). At that point South Boulder can elect to contribute or dilute to a \$2 per dry metric tonne (DMT) sold royalty for manganese or a 1.5% N.S.R. royalty in the case of base metals. Under the same terms, Auvex has a 10% free carry to a FS and then can either contribute or dilute to a \$2 per DMT sold royalty for phosphate sold.

Auvex is pursuing plans to list on the ASX in the future.

CORPORATE

During the period numerous advanced discussions were held with interested parties in order to identify and evaluate suitable potential business partners to assist with the growth of the fertilizer business. There has been a high level of interest from industry groups looking to participate in the rapid growth of the Company.

In order to assist with the growth on the fertilizer business there is potential to undertake a demerger and create a dedicated potash company and a dedicated nickel and gold company. A potential in specie distribution of shares to all shareholders and the listing of a dedicated potash development company on an international exchange is a priority option under review. A decision that will best consider all shareholders is likely to be determined in the next year. Key resource modelling and scoping study analysis for both assets needs to be completed so that South Boulder can attribute suitable valuations to the respective asset and make development decisions accordingly.

South Boulder is listed on the Australian, Frankfurt, Munich and Berlin Stock Exchanges. The relevant codes are ASX: STB, SO3.F, SO3.MU and SO3.BE respectively, and can be accessed via Yahoo Finance. During this period South Boulder established a Sponsored American Depository Receipt (ADR) Program. The establishment of a sponsored ADR program is to create a broader secondary market for South Boulder particularly in the United States and Canada, thereby providing better access for North American investors to trade in STB securities.

The ADR's will be tradeable via licensed U.S. brokers in the ordinary course of trading in the Over-The-Counter (OTC) Market in the U.S. STB has appointed The Bank of New York Mellon (BNYM) as its authorised U.S. representative, Principal American Liaison (PAL) and Depository Bank to establish the ADR facility. Particulars for the U.S. sponsored ADR program is as follows;

U.S. Exchange;	OTC
Ticker Symbol;	SBMSY
CUSIP Number;	836709105
DR ISIN Number;	US8367091050
ADR to Ordinary Share Ratio;	1:1

The establishment of the ADR program is the first step in listing STB on the OTCQX Exchange in the U.S. which is expected to follow. Participation in the ADR program is to increase STB's exposure and visibility in key markets that have a strong understanding of the potash industry.

Competent Persons and Responsibility Statement Potash

The Colluli Potash Project has a current JORC/43-101 Compliant Measured, Indicated and Inferred Mineral Resource Estimate of 564.40Mt @ 18.60% KCl (total contained potash of 104.96Mt); Includes **130.39Mt @ 27.02% KCl**. The resource contains 133.70Mt @ 17.55% KCl in the Measured Category, 343.33Mt @ 17.38% KCl in the Indicated Category and 87.37Mt @ 24.96% KCl in the Inferred Category. The current Mineral Resource Estimate is included in the current exploration target of 1.25 – 1.75 billion tonnes @ 18-20% KCl. The potential quantity and grade of the total current exploration target which includes the current Mineral Resource Estimate is conceptual in nature and there has been insufficient exploration to define a Mineral Resource other than the current Mineral Resource Estimate and it is uncertain if further exploration will result in the determination of a Mineral Resource Estimate other than the current Mineral Resource Estimate.

This ASX release has been compiled by Lorry Hughes using information on exploration results and Mineral Resource estimates supplied by South Boulder Mines Ltd under supervision by Ercosplan. Dr Henry Rauche and Dr Sebastiaan van der Klauw are co-authors of the JORC and 43-101 compliant resource report. Lorry Hughes is a member in good standing of the Australian Institute of Mining and Metallurgy and Dr.s' Rauche and van der Klauw are members in good standing of the European Federation of Geologists (EurGeol) which is a "Recognised Overseas Professional Organisation" (ROPO). A ROPO is an accredited organization to which Competent Persons must belong for the purpose of preparing reports on Exploration Results, Mineral Resources and Ore Reserves for submission to the ASX.

Mr Hughes, Mr Rauche and Mr van der Klauw are geologists and they have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they have undertaken 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". Mr Hughes, Mr Rauche and Mr van der Klauw consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Quality Control and Quality Assurance

South Boulder Exploration programs follow standard operating and quality assurance procedures to ensure that all sampling techniques and sample results meet international reporting standards. Drill holes are located using GPS coordinates using WGS84 Datum, all mineralisation intervals are downhole and are true width intervals. Assay values are shown above a cut-off of 6% K₂O. The samples are derived from HQ diamond drill core which in the case of carnallite ores are sealed in heat sealed plastic tubing immediately as it is drilled to preserve the sample. Significant sample intervals are dry quarter cut using a diamond saw and then resealed and double bagged for transport to the laboratory. Halite blanks and duplicate samples are submitted with each hole.

Chemical analyses were conducted by Kali-Umwelttechnik GmbH Sondershausen, Germany utilising flame emission spectrometry, atomic absorption spectroscopy and ionchromatography. Kali-Umwelttechnik (KUTEC) Sondershausen1 have extensive experience in analysis of salt rock and brine samples and is certified according by DIN EN ISO/IEC 17025 by the Deutsche Akkreditierungssystem Prüfwesen GmbH (DAR). The laboratory follow standard procedures for the analysis of potash salt rocks • chemical analysis (K+, Na+, Mg2+, Ca2+, Cl-, SO42-, H2O) and • X-ray diffraction (XRD) analysis of the same samples as for chemical analysis to determine a qualitative mineral composition, which combined with the chemical analysis gives a quantitative mineral composition.

Duketon Gold and Duketon Nickel JV

This information on the Duketon Gold and Duketon Nickel JV 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

ABN 56 097 904 302

Annual Report

for the year ended 30 June 2011

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Corporate Information

ABN 56 097 904 302

Directors

Terrence Grammer (Non Executive Chairman)
Lorry Hughes (Managing Director)
Liam Cornelius (Executive Director)

Company Secretary

Dennis Wilkins

Registered Office

Ground Floor, 20 Kings Park Road
WEST PERTH WA 6005

Principal Place of Business

31 Ventnor Avenue
WEST PERTH WA 6005
Telephone: +61 8 6315 1444
Facsimile: +61 8 9486 7093

Solicitors

Babington Lawyers
229 Stirling Highway
CLAREMONT WA 6010

Bankers

National Australia Bank Limited
1232 Hay Street
WEST PERTH WA 6005

Share Register

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

Auditors

Rothsay Chartered Accountants
Level 18, Central Park Building
152-158 St Georges Terrace
PERTH WA 6000

Internet Address

www.southbouldermines.com.au

Stock Exchange Listing

South Boulder Mines Limited shares (Code: STB) are listed on the Australian Stock Exchange.

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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 2011.

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 35 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 is a former director of Hannans Reward Limited and Montezuma Mining Company Limited within the last 3 years.

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

Mr Hughes is a Geologist with nearly 20 years industry experience and has been South Boulder Mines' Managing Director since May 2010. He formally the Exploration Manager.

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. Since 2008 Mr Hughes has been actively involved in setting up the Colluli Potash Project in Eritrea.

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 nearly 20 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 Key Petroleum Limited, Enterprise Metals Limited and Minemakers Limited. Mr Wilkins has not held any former directorships in the last 3 years.

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 Shares	Options over Ordinary Shares
Terry Grammer	410,000	1,600,000
Lorry Hughes	1,174,975	2,500,000
Liam Cornelius	8,207,338	2,750,000

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 \$3,853,118. During December 2010 the Group completed a placement of 3,500,000 ordinary shares to raise \$7,000,000, and a total of 18,071,950 options were exercised during the year, raising a total of \$4,739,475.

During the year total tenement acquisition and exploration expenditure incurred by the Group amounted to \$3,801,818 (2010: \$1,405,030). In line with the Group's accounting policies, all exploration expenditure was written off at year end. Net administration expenditure incurred amounted to \$633,912 (2010: \$2,933,378). This has resulted in an operating loss after income tax for the year ended 30 June 2011 of \$4,435,730 (2010: \$4,338,408).

At 30 June 2011 surplus funds available totalled \$10,970,886.

Operating Results for the Year

Summarised operating results are as follows:

	2011	
	Revenues	Results
	\$	\$
Consolidated entity revenues and loss from ordinary activities before income tax expense	1,556,815	(4,435,730)

Shareholder Returns

	2011	2010
Basic earnings per share (cents)	(5.9)	(7.4)

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.

Directors' Report continued

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 22, 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 information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

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.

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 16 of the financial statements.

Directors' Report continued

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	
	\$	\$	\$	\$	\$	\$
Directors						
Terry Grammer						
2011	45,815	5,658	4,123	-	-	55,596
2010	40,000	2,750	3,600	-	-	46,350
Lorry Hughes						
2011	188,989	5,658	17,009	-	-	211,656
2010	150,096	2,750	13,509	-	106,400	272,755
Liam Cornelius						
2011	80,176	5,658	7,216	-	-	93,050
2010	70,000	2,750	6,300	-	1,803,000	1,882,050
Other key management personnel						
Dennis Wilkins						
2011	62,297	-	-	-	-	62,297
2010	68,826	-	-	-	-	68,826
Total key management personnel compensation						
2011	377,277	16,974	28,348	-	-	422,599
2010	328,922	8,250	23,409	-	1,909,400	2,269,981

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 - Commencing 23 May 2008 until terminated by either party with a minimum of one months written notice.
- Base salary, exclusive of superannuation, of \$189,750 to be reviewed annually by the Board.
- Payment of termination benefit by the employer, other than for gross misconduct, of one months salary following one months written notice of termination.

Liam Cornelius, Executive Director:

- Term of agreement - until terminated by either party with a minimum of one months written notice.
- Base salary, exclusive of superannuation, of \$80,500 to be reviewed annually by the Board.
- Payment of termination benefit by the employer, other than for gross misconduct, of one months salary following one months written notice of termination.

Directors' Report continued

Share-based compensation

There were no options granted to or vesting with key management personnel during the year.

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of South Boulder Mines Limited and other key management personnel of the Group are set out below:

	Number of ordinary shares issued on exercise of options during the year		Amount paid per ordinary share (cents)	
	2011	2010	2011	2010
Directors				
Terry Grammer	100,000	-	20.0	-
Lorry Hughes	400,000	-	20.0	-
Liam Cornelius	3,600,000	-	22.1	-
Other Key Management Personnel				
Dennis Wilkins	500,000	-	35.0	-

No amounts are unpaid on any shares issued on the exercise of options.

DIRECTORS' MEETINGS

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

	Directors Meetings	
	A	B
Terry Grammer	-	1
Lorry Hughes	1	1
Liam Cornelius	1	1

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 18,690,000 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	31,965,000
Movements of share options during the year	
Issued, exercisable at 75 cents, on or before 30 June 2015	5,000,000
Exercised at 20 cents (24 March 2011)	(2,490,000)
Exercised at 20 cents (30 November 2012)	(1,550,000)
Exercised at 20 cents (30 June 2014)	(3,750,000)
Exercised at 20 cents (31 March 2015)	(500,000)
Exercised at 25 cents (31 August 2010)	(450,000)
Exercised at 25 cents (31 March 2011)	(3,260,000)
Exercised at 30 cents (31 March 2011)	(3,440,000)
Exercised at 35 cents (31 July 2013)	(1,460,000)
Exercised at 50 cents (19 August 2010)	(1,071,950)
Exercised at 75 cents (30 June 2015)	(100,000)
Expired on 19 August 2010, exercisable at 50 cents	(3,050)
Expired on 31 March 2011, exercisable at 30 cents	(200,000)
Total number of options outstanding as at 30 June 2011 and the date of this report	18,690,000

Directors' Report continued

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
30 November 2012	20	2,100,000
31 July 2013	35	2,540,000
30 June 2014	20	5,650,000
31 March 2015	20	3,500,000
30 June 2015	75	4,900,000
Total number of options outstanding at the date of this report		18,690,000

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 \$13,120.

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:

	2011	2010
	\$	\$
Tax compliance services	2,000	3,500

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 9.

Signed in accordance with a resolution of the directors.



Lorry Hughes
Managing Director

Perth, 29 September 2011



The Directors
South Boulder Mines Ltd
PO Box 970
West Perth WA 6872

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit review of the 30 June 2011 financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Graham Swan (Lead auditor)

Rothsay Chartered Accountants

Dated 29 September 2011

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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.

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 1: Lay solid foundations for management and oversight			
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 (in part)	
Principle 2: Structure the board to add value			
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 (in part)	The skills and experience of Directors are set out in the Company's Annual Report and on its website.
Principle 3: Promote ethical and responsible decision-making			
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"> the practices necessary to maintain confidence in the company's integrity the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders the responsibility and accountability of individuals for reporting and investigating reports of unethical practices 	A	The Company has established a Code of Conduct which can be viewed on the Company's website.

A = Adopted

N/A = Not adopted

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	
	Principle 4: Safeguard integrity in financial reporting		
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) N/A	
	• consists of a majority of independent directors	N/A	
	• is chaired by an independent chair, who is not chair of the board	N/A	
	• has at least three members	A	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	
	Principle 5: Make timely and balanced disclosure		
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.
	Principle 6: Respect the rights of shareholders		
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

N/A = Not adopted

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.
Principle 7:	Recognise and manage risk		
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"> • performance and funding of exploration activities • budget control and asset protection • status of mineral tenements • compliance with government laws and regulations • safety and the environment • continuous disclosure obligations
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	
Principle 8:	Remunerate fairly and responsibly		
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

N/A = Not adopted

Consolidated Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2011

	Notes	Consolidated	
		2011 \$	2010 \$
REVENUE	4	344,376	94,863
Other income	5	1,212,439	1,177,018
EXPENDITURE			
Depreciation expense		(62,883)	(28,917)
Salaries and employee benefits expense		(53,171)	(44,260)
Exploration expenditure		(3,801,818)	(1,405,030)
Corporate expenses		(186,079)	(105,698)
Consulting expenses		(65,971)	(71,549)
Administration expenses		(213,102)	(123,363)
Share based payment expense	25	(1,479,500)	(3,810,835)
Other expenses		(130,021)	(20,637)
LOSS BEFORE INCOME TAX		(4,435,730)	(4,338,408)
INCOME TAX	7	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF SOUTH BOULDER MINES LIMITED		(4,435,730)	(4,338,408)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share)	24	(5.9)	(7.4)

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

Consolidated Statement of Financial Position

AT 30 JUNE 2011

	Notes	Consolidated	
		2011 \$	2010 \$
CURRENT ASSETS			
Cash and cash equivalents	8	10,970,886	3,853,118
Trade and other receivables	9	130,276	41,938
Financial assets at fair value through profit or loss	10	3,565,785	2,061,032
TOTAL CURRENT ASSETS		14,666,947	5,956,088
NON-CURRENT ASSETS			
Plant and equipment	11	231,820	139,469
TOTAL NON-CURRENT ASSETS		231,820	139,469
TOTAL ASSETS		14,898,767	6,095,557
CURRENT LIABILITIES			
Trade and other payables	12	159,501	139,536
TOTAL CURRENT LIABILITIES		159,501	139,536
TOTAL LIABILITIES		159,501	139,536
NET ASSETS		14,739,266	5,956,021
EQUITY			
Issued capital	13	23,185,805	11,446,330
Reserves	14(a)	6,468,325	4,988,825
Accumulated losses	14(b)	(14,914,864)	(10,479,134)
TOTAL EQUITY		14,739,266	5,956,021

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

Consolidated Statement of Changes in Equity

YEAR ENDED 30 JUNE 2011

	Notes	Contributed Equity \$	Options Reserve \$	Accumulated Losses \$	Total \$
Consolidated					
BALANCE AT 1 JULY 2009		8,762,171	1,177,990	(6,140,726)	3,799,435
Loss for the year	14(b)	-	-	(4,338,408)	(4,338,408)
TOTAL COMPREHENSIVE LOSS		-	-	(4,338,408)	(4,338,408)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	13	2,684,159	-	-	2,684,159
Employee and contractor options	14(a)	-	3,810,835	-	3,810,835
BALANCE AT 30 JUNE 2010		11,446,330	4,988,825	(10,479,134)	5,956,021
Loss for the year	14(b)	-	-	(4,435,730)	(4,435,730)
TOTAL COMPREHENSIVE LOSS		-	-	(4,435,730)	(4,435,730)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	13	11,739,475	-	-	11,739,475
Employee and contractor options	14(a)	-	1,479,500	-	1,479,500
BALANCE AT 30 JUNE 2011		23,185,805	6,468,325	(14,914,864)	14,739,266

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

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2011

	Notes	Consolidated	
		2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		231,788	87,425
Payments to suppliers and employees		(588,182)	(347,600)
Proceeds from sale of tenement rights		-	50,000
Expenditure on mining interests		(3,810,721)	(1,383,150)
Proceeds on sale of financial assets at fair value through profit or loss		324,214	501,399
Payments for other financial assets at fair value through profit or loss		(616,528)	(119,000)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	23	(4,459,429)	(1,210,926)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(162,278)	(129,231)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(162,278)	(129,231)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		11,739,475	2,684,159
NET CASH INFLOW FROM FINANCING ACTIVITIES		11,739,475	2,684,159
NET INCREASE IN CASH AND CASH EQUIVALENTS		7,117,768	1,344,002
Cash and cash equivalents at the beginning of the financial year		3,853,118	2,509,126
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	8	10,970,886	3,853,118

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

Notes to the Consolidated Financial Statements

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of South Boulder Mines Limited and its subsidiaries. The financial statements are presented in the Australian currency. South Boulder Mines Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 29 September 2011. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial statements of the South Boulder Mines Limited Group comply 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

(i) 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 2011 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 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 acquisition method of accounting is used to account for business combinations by the Group.

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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

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

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of South Boulder Mines Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Notes to the Financial Statements continued

30 JUNE 2011

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is South Boulder Mines Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

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

(f) 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associated operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Notes to the Financial Statements continued

30 JUNE 2011

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

(g) 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 profit or loss 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 profit or loss on a straight-line basis over the period of the lease.

(h) 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.

(i) Cash and cash equivalents

For statement of cash flows 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.

(j) 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.

(k) 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.

(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 statement of financial position.

(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.

Notes to the Financial Statements continued

30 JUNE 2011

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

(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 statement of comprehensive income. 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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statement of comprehensive income.

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 statement of comprehensive income.

(l) 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.

Notes to the Financial Statements continued

30 JUNE 2011

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

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 statement of comprehensive income 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(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. 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.

(m) Exploration and evaluation costs

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

(n) 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.

(o) 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 25.

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.

(p) 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.

Notes to the Financial Statements continued

30 JUNE 2011

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

(q) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners 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.

(r) 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 statement of financial position.

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.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013)

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

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

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a "related party" to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Group.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013)

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

Notes to the Financial Statements continued

30 JUNE 2011

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

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2010–2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific “RDR” disclosures.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

AASB 2009–14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Group.

AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB’s annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity’s first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity’s exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011)

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

AASB 2010–6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011)

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

Notes to the Financial Statements continued

30 JUNE 2011

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

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

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

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

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

AASB 2010-9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applies to periods beginning on or after 1 July 2011)

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this Standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Group.

AASB 2010-10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7] (applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009-11 will only affect early adopters of AASB 2009-11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010-7.]

This Standard is not expected to impact the Group.

(t) 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 25.

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

During the 2011 financial year the Group has commenced operations internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar.

Notes to the Financial Statements continued

30 JUNE 2011

2. FINANCIAL RISK MANAGEMENT (cont'd)

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements. The international operations are presently at the start-up stage and there is only limited exposure at the reporting date to assets and liabilities denominated in foreign currencies. Hence the Group's current exposure to foreign currency risk is immaterial.

(ii) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the statement of financial position at fair value through profit or loss. The Group is not exposed to commodity price risk. At the reporting date the Group has investments in ASX listed equity securities, refer note 10.

Sensitivity analysis

The Group's equity investments are listed on Australian Securities Exchange (ASX) and all are classified at fair value through profit or loss. At 30 June 2011, if the value of the equity instruments held had increased/decreased by 15% with all other variables held constant, post-tax loss for the Group would have been \$535,000 lower/higher (2010: \$309,000 lower/higher) as a result of gains/losses on the fair value of the financial assets.

(iii) Interest rate risk

The Group is 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 \$10,970,886 (2010: \$3,853,118) is 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 was 4.7% (2010: 3.6%).

Sensitivity analysis

At 30 June 2011, 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 the Group would have been \$58,000 lower/higher (2010: \$21,000 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 statement of financial position 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 Statement of financial position. 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.

Notes to the Financial Statements continued

30 JUNE 2011

3. SEGMENT INFORMATION

Identification of reportable segments

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

The Group is managed primarily on the basis of geographic location of assets given that the type of work done in each location is of a similar nature. Operating segments are therefore determined on this basis.

Types of activities by segment

Australia

The Australia segment is engaged in mineral exploration in the company's interests in Australia.

Eritrea

The Eritrea segment is engaged in mineral exploration in the company's interests in Eritrea.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is re-set quarterly and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Group's financial statements.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Notes to the Financial Statements continued

30 JUNE 2011

3. SEGMENT INFORMATION (cont'd)

	Australia		Eritrea		Total	
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$
Segment revenue						
Other income	3,330	358,000	-	-	3,330	358,000
Total segment revenue					3,330	358,000
<i>Reconciliation of segment revenue to Group revenue</i>						
Interest revenue					344,376	94,863
Fair value gains on financial assets					1,209,109	819,018
Total Group revenue					1,556,815	1,271,881
Segment result						
Segment result before income tax	(1,457,119)	(624,966)	(2,341,369)	(422,292)	(3,798,488)	(1,047,258)
<i>Reconciliation of segment result to Group loss before tax</i>						
Amounts not included in the segment result but reviewed by the Board:						
Depreciation					(62,883)	(28,917)
Interest revenue					344,376	94,863
Fair value gains on financial assets					1,209,109	819,018
Administration and corporate charges					(648,344)	(365,279)
Share-based payment expenses					(1,479,500)	(3,810,835)
Loss for the year					(4,435,730)	(4,338,408)
Segment assets	25,008	28,203	157,635	54,183	182,643	82,386
<i>Reconciliation of segment assets to Group assets</i>						
Corporate assets					14,716,124	6,013,171
Total Group assets from continuing operations					14,898,767	6,095,557
Segment liabilities	54,701	59,402	-	-	54,701	59,402
<i>Reconciliation of segment liabilities to Group liabilities</i>						
Corporate liabilities					104,800	80,134
Total Group assets from continuing operations					159,501	139,536

Consolidated

2011
\$

2010
\$

4. REVENUE

From continuing operations

Interest

344,376

94,863

Notes to the Financial Statements continued

30 JUNE 2011

Consolidated

	2011 \$	2010 \$
5. OTHER INCOME		
Fair value gains on financial assets at fair value through profit or loss	1,209,109	819,018
Net gain on sale or sub-let of tenement	3,330	358,000
	<u>1,212,439</u>	<u>1,177,018</u>
6. EXPENSES		
Profit / (loss) before income tax includes the following specific expenses:		
Foreign exchange losses	93,873	-
Minimum lease payments relating to operating leases	84,852	42,559
Defined contribution superannuation expense	50,140	37,601
Loss on disposal of plant and equipment	7,044	-
7. INCOME TAX		
(a) Income tax expense/(benefit)		
Current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(4,435,730)	(4,338,408)
Prima facie tax benefit at the Australian tax rate of 30% (2010: 30%)	(1,330,719)	(1,301,522)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	443,850	1,143,251
	<u>(886,869)</u>	<u>(158,271)</u>
Movements in unrecognised temporary differences	(394,648)	(208,463)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	1,281,517	366,734
Income tax expense/(benefit)	<u>-</u>	<u>-</u>
(c) Unrecognised temporary differences		
Deferred Tax Assets (at 30%)		
<i>On Income Tax Account</i>		
Carry forward tax losses	<u>3,282,719</u>	<u>2,131,645</u>
Deferred Tax Liabilities (at 30%)		
Financial assets at fair value through profit or loss	<u>555,704</u>	<u>161,056</u>

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.

Notes to the Financial Statements continued

30 JUNE 2011

Consolidated

	2011	2010
	\$	\$
8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	1,938,425	728,395
Short-term deposits	9,032,461	3,124,723
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	<u>10,970,886</u>	<u>3,853,118</u>

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>130,276</u>	<u>41,938</u>
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10. CURRENT ASSETS - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Australian listed equity securities	<u>3,565,785</u>	<u>2,061,032</u>
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Changes in fair values of financial assets at fair value through profit or loss are recorded in other income or other expenses in the statement of comprehensive income (notes 5 and 6 respectively).

11. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

Plant and equipment

Cost	345,629	213,573
Accumulated depreciation	(113,809)	(74,104)
Net book amount	<u>231,820</u>	<u>139,469</u>

Plant and equipment

Opening net book amount	139,469	39,155
Additions	162,278	129,231
Disposals	(7,044)	-
Depreciation charge	(62,883)	(28,917)
Closing net book amount	<u>231,820</u>	<u>139,469</u>

12. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

Trade payables	65,082	74,434
Other payables and accruals	94,419	65,102
	<u>159,501</u>	<u>139,536</u>

13. ISSUED CAPITAL

(a) Share capital

	Notes	2011		2010	
		Number of shares	\$	Number of shares	\$
Ordinary shares fully paid	13(b), 13(d)	87,115,688	23,185,805	65,543,738	11,446,330
Total issued capital		<u>87,115,688</u>	<u>23,185,805</u>	65,543,738	11,446,330

Notes to the Financial Statements continued

30 JUNE 2011

	2011		2010	
	Number of shares	\$	Number of shares	\$
13. ISSUED CAPITAL (cont'd)				
(b) Movements in ordinary share capital				
Beginning of the financial year	65,543,738	11,446,330	55,707,943	8,762,171
Issued during the year:				
– Issued for cash at 20 cents per share	-	-	5,570,795	1,114,159
– Issued for cash at \$2.00 per share	3,500,000	7,000,000	-	-
– Issued on exercise of options (20 cents)	8,290,000	1,658,000	875,000	175,000
– Issued on exercise of options (25 cents)	3,710,000	927,500	1,040,000	260,000
– Issued on exercise of options (30 cents)	3,440,000	1,032,000	200,000	60,000
– Issued on exercise of options (35 cents)	1,460,000	511,000	-	-
– Issued on exercise of options (50 cents)	1,071,950	535,975	2,150,000	1,075,000
– Issued on exercise of options (75 cents)	100,000	75,000	-	-
End of the financial year	87,115,688	23,185,805	65,543,738	11,446,330

(c) Movements in options on issue

	Number of options	
	2011	2010
Beginning of the financial year	31,965,000	23,480,000
Issued during the year:		
– Exercisable at 20 cents, on or before 30 June 2014	-	8,200,000
– Exercisable at 20 cents, on or before 30 March 2015	-	4,000,000
– Exercisable at 35 cents, on or before 31 July 2013	-	1,050,000
– Exercisable at 75 cents, on or before 30 June 2015	5,000,000	-
Exercised, cancelled or expired during the year:		
– Exercisable at 20 cents, on or before 24 March 2011	(2,490,000)	(575,000)
– Exercisable at 20 cents, on or before 30 November 2012	(1,550,000)	(150,000)
– Exercisable at 20 cents, on or before 30 June 2014	(3,750,000)	(150,000)
– Exercisable at 20 cents, on or before 31 March 2015	(500,000)	-
– Exercisable at 25 cents, on or before 29 November 2009	-	(500,000)
– Exercisable at 25 cents, on or before 31 August 2010	(450,000)	(550,000)
– Exercisable at 25 cents, on or before 31 March 2011	(3,260,000)	(490,000)
– Exercisable at 30 cents, on or before 31 March 2011	(3,640,000)	(200,000)
– Exercisable at 35 cents, on or before 31 July 2013	(1,460,000)	-
– Exercisable at 50 cents, on or before 13 June 2010	-	(2,150,000)
– Exercisable at 50 cents, on or before 19 August 2010	(1,075,000)	-
– Exercisable at 75 cents, on or before 30 June 2015	(100,000)	-
End of the financial year	18,690,000	31,965,000

(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.

Notes to the Financial Statements continued

30 JUNE 2011

Consolidated

2011
2010
\$ \$

13. ISSUED CAPITAL (cont'd)

(e) Capital risk management

The Group'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 at 30 June 2011 and 30 June 2010 are as follows:

Cash and cash equivalents	10,970,886	3,853,118
Trade and other receivables	130,276	41,938
Financial assets at fair value through profit or loss	3,565,785	2,061,032
Trade and other payables	(159,501)	(139,536)
Working capital position	14,507,446	5,816,552

14. RESERVES AND ACCUMULATED LOSSES

(a) Reserves

Share-based payments reserve

Balance at beginning of year	4,988,825	1,177,990
Employees and contractors share options	1,479,500	3,810,835
Balance at end of year	6,468,325	4,988,825

(b) Accumulated losses

Balance at beginning of year	(10,479,134)	(6,140,726)
Net loss for the year	(4,435,730)	(4,338,408)
Balance at end of year	(14,914,864)	(10,479,134)

(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.

15. DIVIDENDS

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

16. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated	
	2011	2010
	\$	\$
Short-term benefits	394,251	337,172
Post employment benefits	28,348	23,409
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	1,909,400
	422,599	2,269,981

Detailed remuneration disclosures are provided in the remuneration report on pages 5 and 6.

Notes to the Financial Statements continued

30 JUNE 2011

16. 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 the remuneration report on page 6.

(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:

2011	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	1,700,000	-	(100,000)	-	1,600,000	1,600,000	-
Lorry Hughes	3,400,000	-	(400,000)	-	3,000,000	3,000,000	-
Liam Cornelius	8,250,000	-	(3,600,000)	-	4,650,000	4,650,000	-
<i>Other key management personnel of the Group</i>							
Dennis Wilkins	500,000	-	(500,000)	-	-	-	-

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

2010	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	1,700,000	-	-	-	1,700,000	1,700,000	-
Lorry Hughes	2,400,000	1,000,000	-	-	3,400,000	3,400,000	-
Liam Cornelius	5,250,000	3,000,000	-	-	8,250,000	8,250,000	-
<i>Other key management personnel of the Group</i>							
Dennis Wilkins	500,000	-	-	-	500,000	500,000	-

(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.

2011	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
Ordinary shares				
<i>Directors of South Boulder Mines Limited</i>				
Terry Grammer	310,000	100,000	-	410,000
Lorry Hughes	237,000	400,000	37,945	674,945
Liam Cornelius	2,897,338	3,600,000	(190,000)	6,307,338
<i>Other key management personnel of the Group</i>				
Dennis Wilkins	-	500,000	(335,000)	165,000

Notes to the Financial Statements continued

30 JUNE 2011

16. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

2010

Ordinary shares	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
<i>Directors of South Boulder Mines Limited</i>				
Terry Grammer	100,000	-	210,000	310,000
Lorry Hughes	100,000	-	137,000	237,000
Liam Cornelius	2,452,125	-	445,213	2,897,338
<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.

17. REMUNERATION OF AUDITORS

	Consolidated	
	2011	2010
	\$	\$
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:		
(a) Audit services		
Rothsay Chartered Accountants - audit and review of financial reports	44,000	36,500
(b) Non-audit services		
Rothsay Chartered Accountants – tax compliance services	2,000	3,500

18. CONTINGENCIES

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

19. 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	4,015,720	373,040
later than one year but not later than five years	-	1,492,160
	4,015,720	1,865,200

Notes to the Financial Statements continued

30 JUNE 2011

	Consolidated	
	2011	2010
	\$	\$
19. COMMITMENTS (cont'd)		
(b) Lease commitments: Group as lessee		
<i>Operating leases (non-cancellable):</i>		
Minimum lease payments		
within one year	-	35,712
later than one year but not later than five years	-	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	-	35,712
(c) Remuneration commitments		
Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in the remuneration report on pages 5 and 6 that are not recognised as liabilities and are not included in the key management personnel compensation.		
within one year	24,548	19,583
later than one year but not later than five years	-	-
	24,548	19,583

20. 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 21.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 16.

21. 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 ⁽¹⁾	
			2011	2010
			%	%
S ^T B Eritrea Pty Ltd	Australia	Ordinary	100	100

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

22. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

No matter or circumstance has arisen since 30 June 2011, 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.

Notes to the Financial Statements continued

30 JUNE 2011

	Consolidated	
	2011	2010
	\$	\$
23. STATEMENT OF CASH FLOWS		
Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	(4,435,730)	(4,338,408)
Non-Cash Items		
Depreciation of plant and equipment	62,883	28,917
Share-based payment expense	1,479,500	3,810,835
Fair value (gains)/losses on financial assets at fair value through profit and loss	(1,209,109)	(819,018)
Equity securities received on sale of tenements	(3,330)	(308,000)
Loss on disposal of plant and equipment	7,044	-
Change in operating assets and liabilities		
(Increase) in trade and other receivables	(88,338)	(8,220)
(Increase)/decrease in financial assets at fair value through profit or loss	(292,314)	382,399
Increase in trade and other payables	19,965	40,569
Net cash outflow from operating activities	<u>(4,459,429)</u>	<u>(1,210,926)</u>

24. LOSS PER SHARE

	Consolidated	
	2011	2010
	\$	\$
(a) Reconciliation of earnings used in calculating earnings per share		
Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	<u>(4,435,730)</u>	<u>(4,338,408)</u>
(b) Weighted average number of shares used as the denominator		
	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>75,581,120</u>	<u>58,918,024</u>

(c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2011, 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.

Notes to the Financial Statements continued

30 JUNE 2011

25. 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 75 cents and expiry dates ranging from 30 November 2012 to 30 June 2015.

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:

	2011		Consolidated 2010	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	25,950,000	22.9	14,065,000	28.8
Granted	5,000,000	75.0	13,250,000	21.2
Forfeited	-	-	-	-
Exercised	(12,260,000)	23.6	(1,365,000)	21.8
Expired	-	-	-	-
Outstanding at year-end	18,690,000	36.5	25,950,000	22.9
Exercisable at year-end	18,690,000	36.5	25,950,000	22.9

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 3.1 years (2010: 3.14 years), with exercise prices ranging from 20 to 75 cents.

The weighted average fair value of the options granted during the year was 29.6 cents (2010: 28.8 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2011	2010
Weighted average exercise price (cents)	75.0	21.2
Weighted average life of the option (years)	5.0	4.67
Weighted average underlying share price (cents)	66.0	41.1
Expected share price volatility	50%	50%
Risk free interest rate	4.50%	3.57%

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	
	2011	2010
	\$	\$
Options issued to employees and contractors	1,479,500	3,810,835

Notes to the Financial Statements continued

30 JUNE 2011

2011

2010

\$

\$

26. PARENT ENTITY INFORMATION

The following information relates to the parent entity, South Boulder Mines Limited, at 30 June 2011. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

Current assets	14,587,169	5,780,482
Non-current assets	3,097,528	749,655
Total assets	17,684,697	6,530,137
Current liabilities	159,501	139,536
Total liabilities	159,501	139,536
Issued capital	23,185,805	11,446,330
Share-based payments reserve	6,468,325	4,988,825
Accumulated losses	(12,128,934)	(10,044,554)
Total equity	17,525,196	6,390,601
Loss for the year	(2,084,380)	(3,903,828)
Total comprehensive loss for the year	(2,084,380)	(3,903,828)

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 14 to 38 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 2011 and of their performance for the financial year ended on that date;
- (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; and
- (c) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

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, 29 September 2011



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Phone (08) 6364 5076 www.rothsay.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SOUTH BOULDER MINES LTD

Report on the financial report

We have audited the accompanying financial report of South Boulder Mines Ltd (the Company) which comprises the balance sheet as at 30 June 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

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.

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.

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).

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ROTHSAY

96 Parry Street, Perth WA 6000 P.O. Box 8716, Perth Business Centre WA 6849
Phone (08) 9227 0552 www.rothsay.com.au

Audit opinion

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

- a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Audit opinion

In our opinion the remuneration report of South Boulder Mines Ltd for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.



Rothsay



Graham R Swan
Partner

Dated 29 September 2011



Chartered Accountants

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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 22 September 2011.

(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	1,204	715,250
1,001	- 5,000	1,612	4,316,199
5,001	- 10,000	491	3,974,492
10,001	- 100,000	497	13,852,291
100,001	and over	91	69,407,456
		3,895	92,265,688
The number of shareholders holding less than a marketable parcel of shares are:		153	15,699

(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	HSBC Custody Nominees Australia Ltd	10,566,291	11.45
2	National Nominees Ltd	7,097,021	7.69
3	Cornelius, Liam Raymond	7,007,338	7.59
4	JP Morgan Nominees Australia Ltd <Cash Income A/C>	5,151,652	5.58
5	Alpha Boxer Ltd	4,312,967	4.67
6	Kongming Investments Ltd	2,300,000	2.49
7	Dragon Gas Ltd <No 2 A/C>	1,901,500	2.06
8	RBC Dexia Investor Services <Bkcust A/C>	1,826,933	1.98
9	Grandor Pty Ltd <Mark Scott Fam P/F>	1,538,397	1.67
10	Ranguta Ltd	1,500,000	1.63
11	Aradia Ventures Pty Ltd <J & A Brown Fam A/C>	1,250,000	1.35
12	Arotinco Resources Pty Ltd	1,200,000	1.30
13	Giles, Michael Ashley	1,180,000	1.28
14	Maslin, Anthony + Norris <Maslin Fam A/C>	1,122,512	1.22
15	Panagakis, Anastasia <A Panagakis Fam S/F>	1,050,000	1.14
16	Cornelius, Liam	1,000,000	1.08
17	Sino West Assets Ltd	977,000	1.06
18	Ranguta Ltd	800,000	0.87
19	J P Morgan Nominees Australia Ltd	674,665	0.73
20	Lewis, Kathryn	546,000	0.59
		53,002,276	57.43

(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
HSBC Custody Nominees Australia Ltd	10,566,291
National Nominees Ltd	7,097,021
Cornelius, Liam Raymond	7,007,338

(d) Voting rights

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

ASX Additional Information continued

(e) Schedule of interests in mining tenements

Location	Tenement	Percentage held / earning
Duketon	E38/1499	100
Duketon	E38/1511	100
Duketon	E38/1522	100
Duketon	E38/1535	100
Duketon	E38/1537	100
Duketon	E38/1793	100
Duketon	E38/1800	100
Duketon	E38/1825	100
Duketon	E38/1836	100
Duketon	L38/33	100
Duketon	L38/174	100
Duketon	M38/330	100
Duketon	M38/1252	100
Duketon	E38/1979	100
Duketon	E38/1980	100
Duketon	E38/2177	100
Duketon	E38/2206	100
Duketon	E38/2231	100
Duketon	E38/2255	100
Duketon	E38/2393 (A)	100
Duketon	E38/2396 (A)	100
Duketon	E38/2397 (A)	100
Duketon	E38/2398 (A)	100
Duketon	E38/2399 (A)	100
Duketon	E38/2400 (A)	100
Duketon	E38/2403 (A)	100
Duketon	E38/2406 (A)	100
Duketon	E38/2413 (A)	100
Duketon	E38/2425 (A)	100
Duketon	E38/2426 (A)	100
Duketon	E38/2438 (A)	100
Duketon	E38/2448 (A)	100
Duketon	E38/2464 (A)	100
Duketon	E38/2465 (A)	100
Duketon	P38/3160	100
Duketon	P38/3282	100
Duketon	P38/3283	100
Duketon	P38/3162	100
Duketon	P38/3163	100
Duketon	P38/3308	100
Duketon	P38/3385	100
Duketon	P38/3893 (A)	100
Duketon	P38/3897 (A)	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
Lake Lefroy	E15/1188 (A)	100
Lake Lefroy	E15/1210 (A)	100
Cutters Luck	E26/132 (A)	100
Cutters Luck	E26/136	100
Pilgangoora	E45/2375	10
Cardabia	E08/2005 (A)	100
Cardabia	E08/2121 (A)	100
Cardabia	E08/2151 (A)	100
Tombermorey	EL25982	100
Mt Guide	EL25983	100
Algamba	EL26380	100
NT Phos	EL26761	100
NT Phos	EL26763	100
NT Phos	EL26766	100
Colluli, Eritrea	Colluli	100