SOUTH BOULDER
MINES LTD

ABN 56 097 904 302

FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2012

Corporate Information

SOUTH BOULDER MINES LTD
ABN 56 097 904 302

Directors
Terrence Ronald "Terry" Grammer (Non- Executive Chairman)
David Lawrence "Lorry" Hughes (Managing Director)
Liam Raymond Cornelius (Executive Director)
Ian Christopher Robertson "Chris" Gilchrist (Non-Executive Director)

Company Secretary
Dennis William Wilkins

Registered Office
Ground Floor, 20 Kings Park Road
WEST PERTH WA 6005

Principal Place of Business
Ground Floor, 31 Ventnor Avenue
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Telephone: +61 8 6315 1444
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Solicitors
Kings Park Corporate Lawyers
Suite 8, 8 Clive St
WEST PERTH WA 6005

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.

Contents

The directors present their report on the Consolidated Entity comprising South Boulder Mines Limited ("South Boulder" or "Company") and its controlled entities ("Consolidated Entity) for the year ended 30 June 2012.

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 Ronald "Terry" Grammer, *(Non Executive Chairman), (Age 62), appointed 16 October 2007 to date*

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.

David Lawrence "Lorry" Hughes, *BSc, MAusIMM (Managing Director), (Age 41), appointed 23 May 2008 to date*

Mr Hughes is a Geologist with 20 years industry experience and has been South Boulder Mines' Managing Director since May 2008. Mr Hughes extensive mining experience and has held management positions for Energy Metals Ltd, CSA Global and Energy Resources Australia (Rio Tinto). His early industry experience was gained from within large and small companies on various mines and exploration prospects in the NE goldfields of Western Australia while working for Barrick Gold Corporation, Aberfoyle and Mt Grace.

Mr Hughes also has significant overseas experience having worked in mines in Malaysia for Avocet Mining PLC and challenging exploration projects in Indonesia for Inco. Since 2008 Mr Hughes has been instrumental in managing all facets of the Colluli Potash Project in Eritrea.

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

Liam Raymond Cornelius, *BApp.Sc (Executive Director), (Age 44), appointed 21 August 2001 to date*

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, Asia and Africa for nearly 20 years. Whilst originally specializing in gold he has experience with a wide range of commodities including nickel, copper, platinum, uranium and potash.

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 fund raising he is also provides guidance to the board on future directions. Mr Cornelius has not held any former directorships in the last 3 years.

Ian Christopher Robertson "Chris" Gilchrist, C Eng PhD FIMMM *(Non-Executive Director), (Age 53), appointed 14 October 2011 to date*

Dr. Chris Gilchrist is presently a consultant to the Mining Industry and has a background in managing major projects, managing mining and mineral processing research, new product development and the operation of large mines. He has served on the Boards of several mining companies and his areas of speciality include potash, diamonds, mineral sands and gold.

Dr Gilchrist has delivered numerous technical papers to the mining industry in areas including project management, operations management and hydraulic transportation . Dr Gilchrist holds a Bachelor's Degree in Mineral Engineering from the University of Birmingham and a Doctorate from the School of Mechanical Engineering, University of the Witwatersrand, Johannesburg. Dr Gilchrist is a UK Chartered Engineer and a Fellow of the IMMM. Dr Gilchrist has not held any former directorships in the last 3 years.

COMPANY SECRETARY

Dennis William Wilkins, *B.Bus, MAICD, ACIS (Age 49), appointed 14 May 2004 to date*

Mr Wilkins is the founder and principal of DWCorporate Pty Ltd a leading privately held corporate advisory firm servicing the natural resources industry. Since 1994 he has been a director of, and involved in the executive management of, several publicly listed resource companies with operations in Australia, PNG, Scandinavia and Africa. From 1995 to 2001 he was the Finance Director of Lynas Corporation Ltd during the period when the Mt Weld Rare Earths project was acquired by the group. He was also founding director and advisor to Atlas Iron Limited at the time of Atlas' initial public offering in 2006.

Since July 2001 Mr Wilkins has been a running DWCorporate Pty Ltd where he advises on the formation of, and capital raising for, emerging companies in the Australian resources sector. He is currently non-executive Chairman of Australian listed company Key Petroleum Limited and non-executive director of Minemakers Ltd.

INTERESTS IN SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY

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

Director	Ordinary Shares	Options over Ordinary Shares	Performance Rights
T R Grammer	492,000	1,600,000	100,000
D L Hughes	1,409,934	2,500,000	300,000
L R Cornelius	13,148,806	-	100,000
I C R Gilchrist	30,000	-	200,000

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year consisted of exploration and evaluation of mineral resources. There was no significant change in the nature of the Consolidated Entity'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

Exploration and Evaluation

During the year, the Consolidated Entity made significant progress on the Colluli Potash Project and Duketon nickel and gold project. The key developments during the year were as follows:

Colluli Potash Project

- Completion of a detailed engineering scoping study generating a pre-tax $NPV_{12\%}$ of US$1.33 Billion and an Internal Rate of Return of 40.6%.
- Total JORC/N143-101 resource of 1.079 billion tonnes grading 18% KCl.
- Commencement of a Definitive Feasibility Study targeting an initial 1 million tonnes per annum of production.
- Commencement of negotiations with the Eritrean Government to sell 30% equity stake and complete mine approvals.

Duketon Nickel and Gold Project

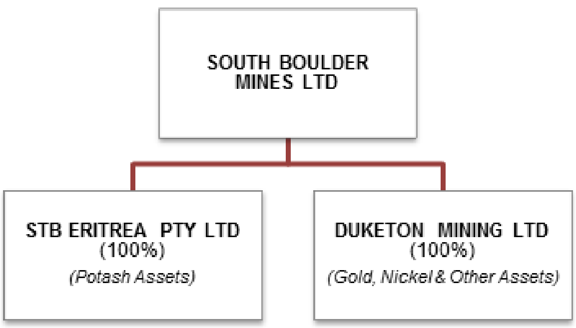
- Initial JORC mineral resource of 1.74 million tonnes grading 1.7% nickel, 0.4% copper and 1.9g/t platinum and palladium.
- High grade gold intersections of 2.36 metres grading 59.78g/t and 1.29 metres grading 11.57g/t.

Finance Review

The Consolidated Entity recorded a net loss after tax of $11.8 million for the financial year ended 30 June 2012 compared to a net loss of $4.4 million in the previous financial year. Included in the loss for the year was exploration expenditure of $9.1 million (2011: $3.8 million). In line with the Consolidated Entity's accounting policies, all exploration expenditure is written off in the year incurred. Also included in the net loss after tax was a $1.7 million negative movement in the fair value of listed investment securities.

During the year an entitlement issue to existing shareholders raised $10.6 million before costs and was based on a 1 for 5 holding. A private placement raised $9.5 million before costs with $4.5 million received during the financial year and the balance received in July 2012. Option conversions during the year raised $2.6 million. Total consolidated cash on hand at the end of the year was $21.3 million (2011: $11.0 million).

During the year, Duketon Mining Ltd was incorporated and forms part of the Consolidated Entity. The Consolidated Entity consists of the following structure:



SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed in this Report, no significant changes in the state of affairs of the Consolidated Entity occurred during the financial year.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Further information about the likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity is subject to significant environmental regulation in respect to its exploration activities. The Consolidated Entity 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 (AUDITED)

The Remuneration Report outlines the director and executive remuneration arrangement of the Company and the Consolidated Entity in accordance with the requirements of the Corporations Act 2001 (Cth) and its Regulations. For the purposes of this report, Key Management Personnel ("KMP") of the Consolidated Entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Consolidated Entity, directly or indirectly, including any director (whether executive or otherwise) of the Company. For the purposes of this report, the term 'Executive' includes the Managing Director and senior executives of the Company and the Consolidated Entity.

The Key Management Personnel of South Boulder Mines Ltd and the Consolidated Entity during the year included:

- **Directors**

T R Grammer	Chairman (Non-Executive)
D L Hughes	Managing Director
L R Cornelius	Executive Director
I C R Gilchrist	Non-Executive Director

- **Named Executives**

F L Garofalo	Chief Financial Officer
D W Wilkins	Company Secretary

All of the above persons were also key management personnel during the year. Mr Garofalo was appointed on 13 February 2012. The information provided in this remuneration report has been audited as required by section 308 (3C) of the Corporations Act 2001.

Key Elements of Key Management Personnel/Executive Remuneration Strategy

The remuneration strategy for South Boulder Ltd is designed to provide rewards that achieve the following:

- attract, retain, motivate and reward executives
- reward executives for Company and individual performance against targets set by reference to appropriate benchmarks
- link reward with the strategic goals and performance of the Company
- provide remuneration that is competitive by market standards
- align executive interests with those of Company's shareholders
- comply with applicable legal requirements and appropriate standards of governance

Key Developments on Remuneration Strategy for Executives

The Company undertook a review of its remuneration strategy during the year to ensure its remuneration framework reflected current business needs, shareholder views and contemporary market practice and where appropriate to attract, motivate, retain and reward employees. A summary of the key elements of the current remuneration incentive scheme are as follows:

Remuneration Component	Item	Purpose	Link to Performance
Fixed Remuneration	• Base salary • Superannuation contributions • Other benefits	Provide competitive remuneration with reference to the role and responsibilities, market and experience, to attract high calibre people	Executive performance and remuneration packages are reviewed at least annually by the Board and Remuneration Committee. The review process includes consideration of the individual performance in addition to the overall performance of the Consolidated Entity
Performance Based Short Term Incentive (STI)	• Cash bonus	Provide reward to executives for the achievement of individual and group performance targets linked to the Company's strategic objectives	Award of STI linked directly to achievement of KPI's and performance targets
Performance Based: Long Term Incentive (LTI)	• Performance Rights Plan	Provide reward to executives for their continued service and their contribution to achieving corporate objective set by the Board to ensure the long term growth of the Company	Award of LTI linked directly to achievement of strategic Company objectives

The Remuneration Report has been set out under the following headings:

a) Decision Making Authority for Remuneration
b) Principles Used to Determine the Nature and Amount of Remuneration
c) Details of Remuneration
d) Service Agreements
e) Share-based Compensation
f) Additional Information

a) Decision Making Authority for Remuneration

The Company's remuneration policy and strategies are overseen by the Remuneration Committee on behalf of the Board. The Remuneration Committee is responsible for making recommendations to the Board on all aspects of remuneration arrangements for key management personnel including:

- the Company's remuneration policy and framework
- the remuneration arrangements for the Managing Director and other senior executives
- the terms and conditions of long term incentives and short term incentives for th Managing Director and other senior executives
- the terms and conditions of employee incentive schemes
- the appropriate remuneration to be paid to non-executive Directors

The Remuneration Committee Charter is approved by the Board and is published on the Company's website. Remuneration levels of the Directors and Key Management Personnel are set by reference to other similar sized mining and exploration companies with similar risk profiles and are set to attract and retain executives capable of managing the Consolidated Entity's operations in Australia and overseas.

Remuneration levels for the Managing Director and key management personnel are determined by the Board based upon recommendations from the Remuneration Committee. Remuneration of non-executive directors is determined by the Board within the maximum approved by the shareholders from time to time. The Board undertakes an annual review of its performance against goals set at the start of the year. No bonuses are paid to non-executive directors.

b) Principles Used to Determine the Nature and Amount of Remuneration

The Company's remuneration practices are designed to attract, retain, motivate and reward high calibre people capable of delivering the strategic objectives of the Company. The Company's Key Management Personnel remuneration framework aligns their remuneration with the achievement of strategic objectives and the creation of value for shareholders, and confirms with market best practice for delivery of reward.

The Remuneration Committee ensures that the remuneration of Key Management Personnel is competitive and reasonable, acceptable to shareholders and aligns remuneration with performance. The structure and level of remuneration for key management personnel is conducted annually by the Remuneration Committee relative to the Company's circumstances, size, nature of business and performance.

Remuneration of Non-Executive Directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of the directors. Non-executive directors' fees and payment are reviewed annually by the Board. The Board receives advice from independent remuneration consultants to ensure non-executive directors fees and payments are appropriate and in line with the market. No advice was received during the year. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any of the discussions relating to the determination of his own remuneration. In order to maintain their independence impartiality, the fees paid to non-executive directors are not linked to the performance of the Company.

Fees for the Chairman and non-executive directors' are determined within an aggregate directors' fee pool limit of $200,000. The Chairman and non-executive directors' fees are inclusive of committee fees. There are no retirement allowances for non-executive directors.

Remuneration of Key Management Personnel

The Company's pay and reward framework is designed to ensure reward structures are aligned with shareholders' interest by:

- being market competitive to attract and retain high calibre individuals
- rewarding high individual performance
- recognising the contribution of each key management personnel to the contributed growth and success of the Company
- ensuring that long term incentives are linked to shareholder value

To achieve these objectives, the remuneration of key management personnel comprise a fixed salary component and an 'at risk' variable component linked to performance of the individual and the Company as a whole. Fixed remuneration comprises base salary, superannuation contributions and other defined benefits. 'At risk' variable remuneration comprises both short term and long term incentives.

The pay and reward framework for key management personnel consists of the following areas:

i) Fixed Remuneration – base salary
ii) Variable Short Term Performance Incentives
iii) Variable Long Term Incentives

The combination of these comprises the key management personnel's total remuneration.

i) Fixed Remuneration – Base Salary

The fixed remuneration for each senior executive is influenced by the nature and responsibilities of each role and knowledge, skills and experience required for each position. Fixed remuneration provides a base level of remuneration which is market competitive and comprises a base salary inclusive of statutory superannuation. It is structured as a total employment cost package, which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Key management personnel are offered a competitive base salary that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base salary for key management personnel is reviewed annually to ensure the executives' pay is competitive with the market. The pay of key management personnel is also reviewed on promotion. There is no guarantee pay increase included in any key management personnel's contract.

ii) Variable Remuneration – Short Term Incentives (STI)

The South Boulder Mines Ltd Short Term Incentive Scheme applies to executives in the Company is designed to link any STI payment with the achievement by each Key Management Personnel of specified key performance indicators ('KPI's') which are in tern linked to the Company's strategic objectives and targets.

The KPI's are established at the start of each financial year and any STI is paid at the end of the financial year and will be determined by the extent to which KPI's have been achieved. A maximum of up to 50% of the fixed remuneration can be payable under the STI and the Board has the discretion to reduce or suspend any bonus payments where Company circumstances render it appropriate.

iii) Variable Remuneration – Long Term Incentives (LTI)

Long term incentives have been previously provided to employees through the issue of options. At the 2011 annual general meeting of the Company, the South Boulder Mines Ltd Performance Rights Plan ('PRP') was approved by shareholders. The PRP provides incentives for employees which promote both the long term performance, growth and support of the Company.

The PRP is designed to increase the range of potential incentives available to Directors and employees and to recognise their contribution to the Company's success.

The PRP is designed to increase the range of potential incentives available to Directors and employees and to recognise their contribution to the Company's success.

Under the PRP, performance rights are granted over ordinary shares in the Company on an annual basis. The performance rights will be granted subject to the following vesting conditions:

- 50% upon completion of a Feasibility Study
- 50% upon the completion of securing finance for the development of the Colluli Potash Project

All performance rights will automatically expire on the earlier of the expiry date or the date their holder ceases to be an employee of the Company, unless the Board determines to vary the expiry date in the event the holder ceased to be an employee because of retirement, redundancy, death or total and permanent disability and such other cases the Board may determine. Performance rights granted under the PRP will carry no dividend or voting rights. When exercised, each performance right will be converted into one ordinary share.

c) 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.

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 for 2012

2012	**Short-Term**			**Post Employment**		**LTI (c)**	**Total**
	Salary & Fees	STI/Bonus Payments	Non-Monetary	Superannuation	Retirement benefits	Share Based Payments	
	$	$	$	$	$	$	$
Non-Executive Directors							
T R Grammer	**52,386**	**-**	**-**	**4,715**	**-**	**3,113**	**60,214**
I C R Gilchrist (a)	**165,774**	**-**	**-**	**-**	**-**	**3,113**	**168,887**
Executive Directors							
D L Hughes	**217,827**		**-**	**21,813**	**-**	**3,113**	**242,753**
L R Cornelius	**86,505**	**-**	**-**	**7,785**	**-**	**3,113**	**97,403**
Other Key Management Personnel							
D W Wilkins	**93,876**	**-**	**-**	**-**	**-**	**-**	**93,876**
F L Garofalo (b)	**134,615**	**-**	**-**	**12,115**	**-**	**-**	**146,730**
TOTAL	**750,983**	**-**	**-**	**46,428**	**-**	**12,452**	**809,863**

a) Mr Gilchrist was appointed on 14 October 2011 and received $125,774 in arms-length consultancy fees for services performed as part of the Colluli Potash Project Definitive Feasibility Study.

b) Mr Garofalo was appointed on 13 February 2012 as Chief Financial Officer.

c) The fair value of options and performance rights is calculated at the date of grant using a Black-Scholes Option Pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options or rights allocated to this reporting period. IN valuing the options and performance rights market conditions have been taken into account.

2011	*Short-Term*			*Post Employment*		*LTI*	*Total*
	Salary & Fees	*STI/Bonus Payments*	*Non-Monetary*	*Superannuation*	*Retirement benefits*	*Share Based Payments*	
	$	*$*	*$*	*$*	*$*	*$*	*$*
Non-Executive Directors							
T Grammer	*45,815*	*-*	*5,658*	*4,123*	*-*	*-*	*55,596*
I Gilchrist	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Executive Directors							
L Hughes	*188,989*	*-*	*5,658*	*17,009*	*-*	*-*	*211,656*
L Cornelius	*80,176*	*-*	*5,658*	*7,216*	*-*	*-*	*93,050*
Other Key Management Personnel							
D Wilkins	*62,297*	*-*	*-*	*-*	*-*	*-*	*62.297*
F Garofalo	*-*	*-*	*-*	*-*	*-*	*-*	*-*
TOTAL	*377,277*	*-*	*16,974*	*28,348*	*-*	*-*	*422,599*

d) Service Agreements

Remuneration and other terms of employment for the Managing Director and other Key Management Personnel are formalised in employment contracts. Other major provisions of the agreements relating to remuneration are set out below.

D L Hughes, Managing Director:

- No set term of agreement
- Base salary, exclusive of superannuation, for the year ended 30 June 2012 of $220,000.
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, equal to twelve months of the base salary.
- Notice period required to be given by the Employee for termination of three months.
- Provision of a fully maintained Company motor vehicle.

L R Cornelius, Executive Director:

- No set term of agreement.
- Base salary, exclusive of superannuation, for the year ended 30 June 2012 of $83,398.
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, of one month's base salary.
- Notice period required to be given by the Employee for termination of one month.

F L Garofalo, Chief Financial Officer:

- No set term of agreement.
- Base salary, exclusive of superannuation, for the year ended 30 June 2012 of $350,000.
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, of two month's base salary.
- Notice period required to be given by the Employee for termination of two months.

D W Wilkins, Company Secretary:

- No set term of agreement.
- Mr Wilkins provides Company Secretarial services though his firm, DW Corporate Pty Ltd. Fees are charged on an hourly basis with a minimum monthly retainer charge of $1,750.
- The engagement is subject to three months notification of termination.

e) Share Based Compensation

Options

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 Consolidated Entity are set out below.

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

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 Consolidated Entity, including their personally related parties, are set out below.

2012	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of South Boulder Mines Limited							
T Grammer	1,600,000	-	-	-	1,600,000	1,600,000	-
D Hughes	3,000,000	-	(500,000)	-	2,500,000	2,500,000	-
L Cornelius	4,650,000	-	(4,650,000)	-	-	-	-
I Gilchrist	-	-	-	-	-	-	-
Other Key Management Personnel of the Consolidated Entity							
D Wilkins	-	-	-	-	-	-	-
F Garofalo	-	-	-	-	-	-	-

2011	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of South Boulder Mines Limited							
T Grammer	*1,700,000*	-	*(100,000)*	-	*1,600,000*	*1,600,000*	-
L Hughes	*3,400,000*	-	*(400,000)*	-	*3,000,000*	*3,000,000*	-
L Cornelius	*8,250,000*	-	*(3,600,000)*	-	*4,650,000*	*4,650,000*	-
Other Key Management Personnel of the Consolidated Entity							
D Wilkins	*500,000*	-	*(500,000)*	-	-	-	-

Performance Rights held by Key Management Personnel

The Performance Rights Plan and issue of rights during the year was approved by shareholders at the 2011 Annual General Meeting of the Company.

2012 Performance Rights	**Balance at start of the year**	**Granted as Remuneration**	**Other changes during the year**	**Balance at end of the year**	**Performance Rights Vested**
Directors of South Boulder Mines Limited					
T Grammer	-	**100,000**	-	**100,000**	-
L Hughes	-	**300,000**	-	**300,000**	-
L Cornelius	-	**100,000**	-	**100,000**	-
C Gilchrist	-	**200,000**	-	**200,000**	-
Other Key Management Personnel of the Consolidated Entity					
D Wilkins	-	-	-	-	-
F Garofalo	-	-	-	-	-

f) Additional Information

The remuneration structure has been set up with the objective of attracting and retaining the highest calibre staff who contribute to the success of the Company performance and individual rewards. The remuneration policies seek a balance between the interests of stakeholders and competitive market remuneration levels. The overall level of key management personnel's compensation takes into account the performance of the Consolidated Entity over a number of years and the stage of activities the Company is engaged in.

During the year, there was an increased level of development activity following the completion of a positive scoping study and the commencement of a Definitive Feasibility Study on the Colluli Potash Project. Given the remuneration paid during the year is commercially reasonable, the link between remuneration, Company performance and shareholder wealth generation is tenuous, particularly in the exploration and development stage of a mining company.

DIRECTORS' MEETINGS

The number of meetings of the Company's board of Directors held during the year ended 30 June 2012 and the number of meetings attended by each Director were:

	Total Directors Meetings Available	**Directors Meetings Attended**	**Total Audit Committee Meetings Available**	**Total Audit Committee Meetings Attended**
T Grammer	5	5	1	1
L Hughes	5	5	-	-
L Cornelius	5	5	1	1
C Gilchrist	3	2	-	-

There were no remuneration committee meetings held during the year.

OPTIONS

At the date of this report unissued ordinary shares in respect of which options are outstanding are as follows:

	Number of options
Balance at the beginning of the year	18,690,000
Movements of share options during the year	
Issued, exercisable at $2.00, on or before 31 March 2015	1,250,000
Exercised at $0.20 (30 November 2012)	(1,100,000)
Exercised at $0.20 (30 June 2014)	(3,900,000)
Exercised at $0.20 (31 March 2015)	(3,000,000)
Exercised at $0.35 (31 July 2013)	(520,000)
Exercised at $0.75 (30 June 2015)	(1,100,000)
Total number of options outstanding as at 30 June 2012 and the date of this report	**10,320,000**

The balance is comprised of the following:

Expiry date	Exercise price	Number of options
30 November 2012	$0.20	1,000,000
31 July 2013	$0.35	2,020,000
30 June 2014	$0.20	1,750,000
31 March 2015	$0.20	500,000
31 March 2015	$2.00	1,250,000
30 June 2015	$0.75	3,800,000
Total number of options outstanding at the date of this report		**10,320,000**

No option holder has any right under the option to participate in any share issue of the Company or any other entity.

PERFORMANCE RIGHTS

Details of performance rights over unissued shares in South Boulder Mines Ltd as at the date of this report are set out below:

	Number of rights
Balance at the beginning of the year	Nil
Movements of performance rights during the year	
Issued	1,472,000
Exercised	-
Total number of performance rights as at 30 June 2012 and the date of this report	**1,472,000**

No performance rights holder has any right to participate in any other share issue of the company or any other entity.

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*.

INSURANCE OF DIRECTORS AND OFFICERS

During the year, the Company has paid a premium in respect of Directors' and Executive Officers' insurance. The contract contains a prohibition on disclosure of the amount of the premium and the nature of the liabilities under the policy.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company and any other payments arising from liabilities incurred by the officers in connection with such proceedings.

This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Consolidated Entity are important.

During the year, 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:

	2012 $	2011 $
Tax compliance services	-	2,000

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

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 separately in this report.

Signed in accordance with a resolution of the directors.

Lorry Hughes
Managing Director

Perth, 28 September 2012

ROTHSAY

Level 1, 12 O'Connell Street, Sydney NSW 2000 G.P.O. Box 2759, Sydney NSW 2001
Phone 8815 5400 Facsimile 8815 5401 E-mail swan2000@bigpond.com

The Directors
South Boulder Mines Ltd
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 2012 financial statements; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Frank Vrachas (Lead auditor)

Rothsay Chartered Accountants

Dated 28 September 2012

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 shareholding qualification.

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.

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.

	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	**A**	Acting in its ordinary capacity, the board from time to time carries out the process of considering and determining performance issues. The performance of executive and non-executive Directors is reviewed by the board with the exclusion of the Director concerned. The performance 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**	The Company's board Charter is available on the Company website.
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 four directors, of which two are independent. The board believes that this is both appropriate and acceptable.
2.2	The chair should be an independent director	**A**	The chair is an independent director.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	**A**	The positions of chair and managing director are held by separate persons.
2.4	The board should establish a nomination committee	**A**	The nomination committee is comprised of the full board. A copy of the nomination committee charter is available on the Company's website. The nomination committee has not met during the reporting period, however all matters that might properly be dealt with by the nomination committee are subject to regular scrutiny at full board meetings.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	**A**	The Board may undergo periodic formal assessment processes, including assessment of the Board's committees, where applicable. An independent third party consultant may be used to facilitate the assessment. An informal process of Board review which may be used by the Board requires each director to complete a questionnaire relating to the role, composition, procedures, practices and behaviour of the Board and its members. Senior executives having most direct contact with the Board may also be invited to complete similar questionnaires. Responses to the questionnaires are confidential and provided direct to the Chair. The Board as a whole then hold a facilitated discussion during which each Board member has the opportunity to raise any matter, suggestion for improvement or criticism with the Board as a whole. The Chair of the Board may also meet individually with each Board member to discuss their performance. Non-executive directors may also meet to discuss the performance of the Chair or the Managing Director.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	**A**	The skills, experience and period of office of Directors are set out in the Company's Annual Report (Directors' Report) and on its website. A statement as to the Company's materiality thresholds can be found in the Company's Board Charter on the Company website.
Principle 3:	**Promote ethical and responsible decision-making**		
3.1	Companies should establish a code of conduct and disclose the code	**A**	The Company has established a Code of Conduct which can be viewed on its website.

A = Adopted
N/A = Not adopted

ASX PRINCIPLE		STATUS	REFERENCE / COMMENT
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them	**N/A**	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. However, the policy does not include requirements for the board to establish measurable objectives for achieving gender diversity. Given the Company's size and stage of development as an exploration company, the board does not think it is yet appropriate to include measurable objectives in relation to gender. As the Company grows and requires more employees, the Company will review this policy and amend as appropriate.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them	**N/A**	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. However, the policy does not include requirements for the board to establish measurable objectives for achieving gender diversity. Given the Company's size and stage of development as an exploration company, the board does not think it is yet appropriate to include measurable objectives in relation to gender. As the Company grows and requires more employees, the Company will review this policy and amend as appropriate.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	**A**	The proportion of women employees in the whole organisation is 20%. There are currently no women in senior executive positions. There are currently no women on the board.
3.5	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 (T R Grammer and I C R Gilchrist) and the company secretary (D W Wilkins). The charter for this committee is disclosed on the Company's website. The audit committee has met once during the reporting period. All matters that might properly be dealt with by the audit committee are subject to regular scrutiny at full board meetings.
4.2	The audit committee should be structured so that it:		
	• consists only of non-executive directors	**A**	The audit committee is comprised of two directors and the company secretary. Only two of the directors on this committee are non-executive (T R Grammer and I C R Gilchrist). The board believes that this is both appropriate and acceptable at this stage of the Company's development. Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits.
	• consists of a majority of independent directors	**N/A**	There are two independent directors on the board. Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits.
	• is chaired by an independent chair, who is not chair of the board	**A**	The committee is chaired by I C R Gilchrist, who is a non-executive director of the Company.
	• has at least 3 members	**A**	

A = Adopted
N/A = Not adopted

ASX PRINCIPLE		STATUS	REFERENCE / COMMENT
4.3	The audit committee should have a formal charter	**A**	A copy of the audit committee charter is available on the Company's website.
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	**A**	The audit committee is to meet at least annually and otherwise as required.
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**	A copy of the Continuous Disclosure Policy is available on the Company's website. The board receives 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.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	**A**	
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.
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.
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**	The Company has formulated a Risk Management Policy which can be viewed on the Company website.
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	**A**	The board has established a Risk Committee and the Company's Risk Management Policy can be viewed on the Company website. The board 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.

A = Adopted
N/A = Not adopted

ASX PRINCIPLE		STATUS	REFERENCE / COMMENT
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**	Assurance received.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	**A**	
Principle 8:	**Remunerate fairly and responsibly**		
8.1	The board should establish a remuneration committee	**A**	A Remuneration Committee has been formed with the Charter available on the Company's website. The Remuneration Committee is comprised of the full board. The remuneration committee has not met during the reporting period, however all matters that might properly be dealt with by the remuneration committee are subject to regular scrutiny at full board meetings.
8.2	The remuneration committee should be structured so that it:		
	• consists of a majority of independent directors	**N/A**	Only two of the directors of the Company are classed as independent. Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits.
	• is chaired by an independent chair	**N/A**	Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits.
	• has at least three members.	**A**	
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	**A**	Refer to the Remuneration Report in the Company's Annual Report.
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8	**A**	The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9.25%, and do not receive any other retirement benefits.

A = Adopted
NA – Not adopted

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Consolidated 2012 $	Consolidated 2011 $
REVENUE			
Interest	4	**691,872**	344,376
Other income	5	**210,400**	1,212,439
EXPENDITURE			
Depreciation expense		**(165,278)**	(62,883)
Administration expenses		**(1,324,242)**	(648,344)
Exploration expenditure		**(9,148,387)**	(3,801,818)
Share based payment expense	25	**(439,404)**	(1,479,500)
Fair value movement of financial assets through the profit and loss		**(1,666,484)**	-
LOSS BEFORE INCOME TAX		**(11,841,523)**	(4,435,730)
INCOME TAX	7	**-**	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF SOUTH BOULDER MINES LIMITED		**(11,841,523)**	(4,435,730)
Basic earnings per share (cents per share)	24	**(11.6)**	(5.9)
Diluted earnings per share (cents per share)	24	**(10.6)**	(5.9)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

AS AT 30 JUNE 2012

	Notes	Consolidated 2012 $	Consolidated 2011 $
CURRENT ASSETS			
Cash and cash equivalents	8	**21,288,409**	10,970,886
Trade and other receivables	9	**136,639**	130,276
Financial assets at fair value through profit or loss	10	**1,243,779**	3,565,785
TOTAL CURRENT ASSETS		**22,668,827**	14,666,947
NON-CURRENT ASSETS			
Plant and equipment	11	**288,169**	231,820
TOTAL NON-CURRENT ASSETS		**288,169**	231,820
TOTAL ASSETS		**22,956,996**	14,898,767
CURRENT LIABILITIES			
Trade and other payables	12	**1,745,275**	159,501
Provisions	13	**93,405**	-
TOTAL CURRENT LIABILITIES		**1,838,680**	159,501
NON-CURRENT LIABILITIES			
Provisions	13	**33,299**	-
TOTAL NON-CURRENT LIABILITES		**33,299**	-
TOTAL LIABILITIES		**1,871,979**	159,501
NET ASSETS		**21,085,017**	14,739,266
EQUITY			
Issued capital	14	**40,933,675**	23,185,805
Reserves	15(a)	**6,907,729**	6,468,325
Accumulated losses	15(b)	**(26,756,387)**	(14,914,864)
TOTAL EQUITY		**21,085,017**	14,739,266

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

FOR THE YEAR ENDED 30 JUNE 2012 Consolidated	Notes	Contributed Equity $	Options Reserve $	Accumulated Losses $	Total $
BALANCE AT 1 JULY 2010		11,446,330	4,988,825	(10,479,134)	5,956,021
Loss for the year	15(b)	-	-	(4,435,730)	(4,435,730)
TOTAL COMPREHENSIVE LOSS		11,466,330	4,988,825	(14,914,864)	1,520,291
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	14	11,739,475	-	-	11,739,475
Employee and contractor options	15(a)	-	1,479,500	-	1,479,500
BALANCE AT 30 JUNE 2011		23,185,805	6,468,325	(14,914,864)	14,739,266
BALANCE AT 1 JULY 2011		**23,185,805**	**6,468,325**	**(14,914,864)**	**14,739,266**
TOTAL COMPREHENSIVE LOSS		**-**	**-**	**(11,841,523)**	**(11,841,523)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	14	**17,747,870**	**-**	**-**	**17,747,870**
Employee and contractor options	15(a)	**-**	**439,404**	**-**	**439,404**
BALANCE AT 30 JUNE 2012		**40,933,675**	**6,907,729**	**(26,756,387)**	**21,085,017**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Consolidated 2012 $	2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**692,459**	231,788
Payments to suppliers and employees		**(873,381)**	(588,182)
Proceeds from sale of tenement rights		**200,000**	-
Expenditure on mining interests		**(7,883,320)**	(3,810,721)
Proceeds on sale of financial assets at fair value through profit or loss		**757,272**	324,214
Payments for other financial assets at fair value through profit or loss		**(101,750)**	(616,528)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	23	**(7,208,720)**	(4,459,429)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		**(221,627)**	(162,278)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(221,627)**	(162,278)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		**17,747,870**	11,739,475
NET CASH INFLOW FROM FINANCING ACTIVITIES		**17,747,870**	11,739,475
NET INCREASE IN CASH AND CASH EQUIVALENTS		**10,317,523**	7,117,768
Cash and cash equivalents at the beginning of the financial year		**10,970,886**	3,853,118
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	8	**21,288,409**	10,970,886

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

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 28 September 2012. 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 Consolidated Entity 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 2012 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 Consolidated Entity.

Subsidiaries are all entities (including special purpose entities) over which the Consolidated Entity 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 Consolidated Entity controls another entity.

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

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity.

Intercompany transactions, balances and unrealised gains on transactions between Consolidated Entity 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 Consolidated Entity.

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

(ii) Changes in ownership interests

The Consolidated Entity treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Consolidated Entity. 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 Consolidated Entity 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 Consolidated Entity 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.

(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 Consolidated Entity'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) Consolidated Entity companies

The results and financial position of all the Consolidated Entity 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.

(g) Leases

Leases of property, plant and equipment where the Consolidated Entity, 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 Consolidated Entity 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 Consolidated Entityed at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Consolidated Entitys 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 Consolidated Entity 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 Consolidated Entity's management has the positive intention and ability to hold to maturity. If the Consolidated Entity were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

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

Financial assets - reclassification

The Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity'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 Consolidated Entity assesses at each balance date whether there is objective evidence that a financial asset or Consolidated Entity 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 Consolidated Entity'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.

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 Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity provides benefits to employees (including directors) of the Consolidated Entity 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.

(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 2012 reporting periods. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below.

- **AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising for the Consolidation and Joint Arrangements Standards* (effective 1 January 2013).**

  In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

  The consolidated entity does not expect to adopt these new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

  AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as to the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the consolidated entity does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis on the new guidance in the context of its various investees that may or may not be controlled under the new rules.

  AASB 11 introduces a principles based approach to accounting for joint venture arrangements. The focus is no longer on the legal structure of the joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share or revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

  The consolidated entity is yet to assess the full impact of AASB 11.

  AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the consolidated entity will not affect any of the amount recognised in the financial statements, but will impact the type of information disclosed in relation to the consolidated entity's investments.

  Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a 'partial disposal' concept. The consolidated entity is still assessing the impact of these amendments.

- **AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)**

  AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The consolidated entity has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, on the new rules on any of the amount recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The consolidated entity does not intend to adopt the new standard before its operative date, which means that it will be first applied in the annual reporting period ending 30 June 2014.

- **Revised AASB 119 *Employee Benefits,* AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* and AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013)**

  In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. The consolidated entity has not yet decided when to adopt the new standard.

  There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(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 Consolidated Entity'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 Consolidated Entity 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 Consolidated Entity'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 Consolidated Entity'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 Consolidated Entity.

Risk management is carried out by the full Board of Directors as the Consolidated Entity 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 2012 financial year the Consolidated Entity has commenced operations internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar.

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 Consolidated Entity 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 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 Consolidated Entity's current exposure to foreign currency risk is immaterial.

(ii) Price risk

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

Sensitivity analysis

The Consolidated Entity's equity investments are listed on Australian Securities Exchange (ASX) and all are classified at fair value through profit or loss. At 30 June 2012, if the value of the equity instruments held had increased/decreased by 15% with all other variables held constant, post-tax loss for the Consolidated Entity would have been $187,000 lower/higher (2011: $535,000 lower/higher) as a result of gains/losses on the fair value of the financial assets.

(iii) Interest rate risk

The Consolidated Entity is exposed to movements in market interest rates on cash and cash equivalents. The Consolidated Entity's 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 Consolidated Entity $21,288,409 (2011: $10,970,886) 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 Consolidated Entity was 4.9% (2011: 4.7%).

Sensitivity analysis

At 30 June 2012, 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 Consolidated Entity would have been $68,000 lower/higher (2011: $58,000 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

The Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity. Due to the nature of the Consolidated Entity's activities, being mineral exploration, the Consolidated Entity 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 Consolidated Entity's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity is the current bid price.

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

3. SEGMENT INFORMATION

Identification of reportable segments

The Consolidated Entity 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 Consolidated Entity 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 activites by segment

Australia

The Australia segment is engaged in mineral exploration on the consolidated entity's interests in Australia.

Eritrea

The Eritrea segment is engaged in mineral exploration on the consolidated entity'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 Consolidated Entity.

Inter-segment transactions

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 Consolidated Entity as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

3. SEGMENT INFORMATION (cont'd)

	Australia		Eritrea		Total	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
Segment revenue						
Other income	**210,400**	3,330	**-**	-	**210,400**	3,330
Total segment revenue	**210,400**	3,330			**210,400**	3,330
Reconciliation of segment revenue to Consolidated Entity revenue						
Interest revenue	**691,872**	344,376			**691,872**	344,376
Fair value gains on financial assets	**-**	1,209,109			**-**	1,209,109
Total Consolidated Entity revenue	**902,272**	1,556,815			**902,272**	1,556,815
Segment result						
Segment result before income tax	**(1,089,701)**	(1,457,119)	**(7,848,286)**	(2,341,369)	**(8,937,987)**	(3,798,488)
Reconciliation of segment result to Consolidated Entity loss before tax						
Depreciation					**(165,278)**	(62,883)
Interest revenue					**691,872**	344,376
Fair value gains/(losses) on financial assets					**(1,666,484)**	1,209,109
Administration and corporate charges					**(1,324,242)**	(648,344)
Share-based payment expenses					**(439,404)**	(1,479,500)
Loss for the year					**(11,841,523)**	(4,435,730)
Segment assets	**-**	25,008	**320,386**	157,635	**320,386**	182,643
Reconciliation of segment assets to Consolidated Entity assets						
Corporate assets					**22,636,610**	14,716,124
Total Consolidated Entity assets from continuing operations					**22,956,996**	14,898,767
Segment liabilities	**-**	54,701	**-**	-	**-**	54,701
Reconciliation of segment liabilities to Consolidated Entity liabilities						
Corporate liabilities					**1,871,979**	104,800
Total Consolidated Entity liabilities from continuing operations					**1,871,979**	159,501

	Consolidated	
	2012 $	2011 $
4. REVENUE		
From continuing operations		
Interest	**691,872**	344,376

	Consolidated	
	2012	2011
	$	$
5. OTHER INCOME		
Fair value gains on financial assets at fair value through profit or loss	**-**	1,209,109
Net gain on sale or sub-let of tenement	**210,400**	3,330
	210,400	1,212,439
6. EXPENSES		
Profit / (loss) before income tax includes the following specific expenses:		
Foreign exchange losses	**30,912**	93,873
Minimum lease payments relating to operating leases	**107,854**	84,852
Defined contribution superannuation expense	**82,371**	50,140
Loss on disposal of plant and equipment	-	7,044
7. INCOME TAX		
(a) Income tax expense/(benefit)		
Current tax	**-**	-
Deferred tax	**-**	-
	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	**(11,841,523)**	(4,435,730)
Prima facie tax benefit at the Australian tax rate of 30% (2011: 30%)	**(3,552,457)**	(1,330,719)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**131,821**	443,850
Movements in unrecognised temporary differences	**499,945**	(394,648)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	**2,920,691**	1,281,517
Income tax expense/(benefit)	**-**	-
(c) Deferred tax liabilities (at 30%)		
Financial assets at fair value through profit or loss	**973,606**	555,704
Deferred tax liabilities offset by deferred tax assets	**(973,606)**	(555,704)
	-	-
(d) Deferred Tax Assets (at 30%)		
On Income Tax Account		
Tax losses	**6,203,410**	3,282,719
Deferred tax assets offset against deferred tax liabilities	**(973,606)**	(555,704)
Deferred tax assets not brought to account	**(5,229,804**	(2,727,015)
	-	-

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

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	Consolidated 2012 $	Consolidated 2011 $

8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2012 $	2011 $
Cash at bank and in hand	**806,756**	1,938,425
Short-term deposits	**20,481,653**	9,032,461
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	**21,288,409**	10,970,886

Cash at bank 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 Consolidated Entity, and earn interest at the respective short-term deposit rates.

9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	2012 $	2011 $
Trade and other receivables	**136,639**	130,276

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

	2012 $	2011 $
Australian listed equity securities	**1,243,779**	3,565,785

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

11. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

	2012 $	2011 $
Plant and equipment		
Cost	**567,256**	345,629
Accumulated depreciation	**(279,087)**	(113,809)
Net book amount	**288,169**	231,820

	2012 $	2011 $
Plant and equipment		
Opening net book amount	**231,820**	139,469
Additions	**221,627**	162,278
Disposals	**-**	(7,044)
Depreciation charge	**(165,278)**	(62,883)
Closing net book amount	**288,169**	231,820

12. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2012 $	2011 $
Trade payables	**1,037,416**	65,082
Other payables and accruals	**707,859**	94,419
	1,745,275	159,501

13. PROVISIONS

CURRENT

	2012 $	2011 $
Employee entitlements	**93,405**	-

NON-CURRENT

	2012 $	2011 $
Employee entitlements	**33,299**	-

Employee entitlements relate to the balance of annual leave and long service leave accrued by the Consolidated Entity's employees. Recognition and measurement criteria have been disclosed in Note 1.

14. ISSUED CAPITAL

(a) Share capital

	Notes	2012 Number of shares	2012 $	2011 Number of shares	2011 $
Ordinary shares fully paid	13(b), 13(d)	**120,969,668**	**40,933,675**	87,115,688	23,185,805
Total issued capital		**120,969,668**	**40,933,675**	87,115,688	23,185,805

(b) Movements in ordinary share capital

	2012 Number of shares	2012 $	2011 Number of shares	2011 $
Beginning of the financial year	**87,115,688**	**23,185,805**	65,543,738	11,446,330
Issued during the year:				
• Issued for cash at $2.00 per share	**-**	**-**	3,500,000	7,000,000
• Issued on exercise of options (20 cents)	**8,000,000**	**1,600,000**	8,290,000	1,658,000
• Issued on exercise of options (25 cents)	**-**	**-**	3,710,000	927,500
• Issued on exercise of options (30 cents)	**-**	**-**	3,440,000	1,032,000
• Issued on exercise of options (35 cents)	**520,000**	**182,000**	1,460,000	511,000
• Issued on exercise of options (50 cents)	**-**	**-**	1,071,950	535,975
• Issued on exercise of options (75 cents)	**1,100,000**	**825,000**	100,000	75,000
• Rights issue (55 cents)	**19,347,138**	**10,640,870**	-	-
• Rights issue (nil – underwriter shares)	**150,000**	**-**	-	-
• Issued for cash at $0.95 per share (i)	**4,736,842**	**4,500,000**	-	-
End of the financial year	**120,969,668**	**40,933,675**	87,115,688	23,185,805

(i) Part receipt of $9.5 million placement to Meridian Capital International Fund.

(c) Movements in options on issue

	Number of options 2012	Number of options 2011
Beginning of the financial year	**18,690,000**	31,965,000
Issued during the year:		
• Exercisable at $0.75, on or before 30 June 2015	**-**	5,000,000
• Exercisable at $2.00, on or before 31 March 2015	**1,250,000**	-
Exercised, cancelled or expired during the year:		
• Exercisable at 20 cents, on or before 24 March 2011	**-**	(2,490,000)
• Exercisable at 20 cents, on or before 30 November 2012	**(1,100,000)**	(1,550,000)
• Exercisable at 20 cents, on or before 30 June 2014	**(3,900,000)**	(3,750,000)
• Exercisable at 20 cents, on or before 31 March 2015	**(3,000,000)**	(500,000)
• Exercisable at 25 cents, on or before 31 August 2010	**-**	(450,000)
• Exercisable at 25 cents, on or before 31 March 2011	**-**	(3,260,000)
• Exercisable at 30 cents, on or before 31 March 2011	**-**	(3,640,000)
• Exercisable at 35 cents, on or before 31 July 2013	**(520,000)**	(1,460,000)
• Exercisable at 50 cents, on or before 19 August 2010	**-**	(1,075,000)
• Exercisable at 75 cents, on or before 30 June 2015	**(1,100,000)**	(100,000)
End of the financial year	**10,320,000**	18,690,000

14. ISSUED CAPITAL (cont'd)

(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.

	Consolidated	
	2012	2011
	$	$

(e) Capital risk management

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

Due to the nature of the Consolidated Entity's activities, being mineral exploration, the Consolidated Entity does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Consolidated Entity's capital risk management is the current working capital position against the requirements of the Consolidated Entity to meet exploration programmes and corporate overheads. The Consolidated Entity'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 Consolidated Entity at 30 June 2012 and 30 June 2011 are as follows:

	2012 $	2011 $
Cash and cash equivalents	**21,288,409**	10,970,886
Trade and other receivables	**136,639**	130,276
Financial assets at fair value through profit or loss	**1,243,779**	3,565,785
Trade and other payables	**(1,838,680)**	(159,501)
Working capital position	**20,830,147**	14,507,446

15. RESERVES AND ACCUMULATED LOSSES

(a) Reserves

Share-based payments reserve

	2012 $	2011 $
Balance at beginning of year	**6,468,325**	4,988,825
Employees and contractors share options (note 25)	**439,404**	1,479,500
Balance at end of year	**6,907,729**	6,468,325

(b) Accumulated losses

	2012 $	2011 $
Balance at beginning of year	**(14,914,864)**	(10,479,134)
Net loss for the year	**(11,841,523)**	(4,435,730)
Balance at end of year	**(26,756,387)**	(14,914,864)

(c) Nature and purpose of reserves

Share-based payments reserve

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

16. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key Management Personnel

The Key Management Personnel of South Boulder Mines Ltd and the Consolidated Entity during the year included:

d) **Directors**

T R Grammer	Chairman (Non-Executive)
D L Hughes	Managing Director
L R Cornelius	Executive Director
I C R Gilchrist	Non-Executive Director

e) **Named Executives**

F L Garofalo	Chief Financial Officer
D W Wilkins	Company Secretary

Refer to the Remuneration Report contained in the Director's Report for details of the remuneration paid or payable to key management personnel.

(b) Key management personnel compensation

	Consolidated 2012 $	Consolidated 2011 $
Short-term benefits	**850,983**	394,251
Post employment benefits	**46,428**	28,348
Other long-term benefits	**-**	-
Termination benefits	**-**	-
Share-based payments	**12,452**	-
	909,863	422,599

(c) 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 contained within the Directors' Report.

(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 Consolidated Entity, including their personally related parties, are set out below:

2012	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of South Boulder Mines Limited							
T Grammer	**1,600,000**	**-**	**-**	**-**	**1,600,000**	**1,600,000**	**-**
D Hughes	**3,000,000**	**-**	**(500,000)**	**-**	**2,500,000**	**2,500,000**	**-**
L Cornelius	**4,650,000**	**-**	**(4,650,000)**	**-**	**-**	**-**	**-**
I Gilchrist	**-**		**-**	**-**	**-**	**-**	**-**
Other key management personnel of the Consolidated Entity							
D Wilkins	**-**	**-**	**-**	**-**	**-**	**-**	**-**
F Garofalo	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

2011	*Balance at start of the year*	*Granted as compensation*	*Exercised*	*Other changes*	*Balance at end of the year*	*Vested and exercisable*	*Unvested*
Directors of South Boulder Mines Limited							
T Grammer	*1,700,000*	*-*	*(100,000)*	*-*	*1,600,000*	*1,600,000*	*-*
D Hughes	*3,400,000*	*-*	*(400,000)*	*-*	*3,000,000*	*3,000,000*	*-*
L Cornelius	*8,250,000*	*-*	*(3,600,000)*	*-*	*4,650,000*	*4,650,000*	*-*
Other key management personnel of the Consolidated Entity							
D Wilkins	*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 Consolidated Entity, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2012 **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**
Directors of South Boulder Mines Limited				
T Grammer	**410,000**	**-**	**82,000**	**492,000**
D Hughes	**674,945**	**500,000**	**234,989**	**1,409,934**
L Cornelius	**6,307,338**	**4,650,000**	**2,191,468**	**13,148,806**
I Gilchrist	**-**	**-**	**30,000**	**30,000**
Other key management personnel of the Consolidated Entity				
Dennis Wilkins	**165,000**	**-**	**-**	**165,000**
Flavio Garofalo	**-**	**-**	**20,000**	**20,000**

2011 *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*
Directors of South Boulder Mines Limited				
T Grammer	*310,000*	*100,000*	*-*	*410,000*
D Hughes	*237,000*	*400,000*	*37,945*	*674,945*
L Cornelius	*2,897,338*	*3,600,000*	*(190,000)*	*6,307,338*
Other key management personnel of the Consolidated Entity				
D Wilkins	*-*	*500,000*	*(335,000)*	*165,000*

(iv) Performance Rights held by Key Management Personnel

The Performance Rights Plan and issue of rights during the year was approved by shareholders at the 2011 Annual General Meeting of the Company.

2012 Performance Rights	**Balance at start of the year**	**Granted as Remuneration**	**Other changes during the year**	**Balance at end of the year**	**Performance Rights Vested**
Directors of South Boulder Mines Limited					
T Grammer	**-**	**100,000**	**-**	**100,000**	**-**
L Hughes	**-**	**300,000**	**-**	**300,000**	**-**
L Cornelius	**-**	**100,000**	**-**	**100,000**	**-**
I Gilchrist	**-**	**200,000**	**-**	**200,000**	**-**
Other key management personnel of the Consolidated Entity					
D Wilkins	**-**	**-**	**-**	**-**	**-**
F Garofalo	**-**	**-**	**-**	**-**	**-**

(d) Loans to key management personnel

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

(e) 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 2012 $	Consolidated 2011 $
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**	44,000
(b) Non-audit services		
Rothsay Chartered Accountants – tax compliance services	**-**	2,000

18. CONTINGENCIES

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

19. COMMITMENTS

(a) Exploration commitments

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

	2012	2011
within one year	**6,048,042**	4,015,720
later than one year but not later than five years	**-**	-
	6,048,042	4,015,720

	Consolidated 2012 $	Consolidated 2011 $
(b) Lease commitments: Consolidated Entity as lessee		
Operating leases (non-cancellable):		
Minimum lease payments		
within one year	**90,396**	-
later than one year but not later than five years	**361,584**	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	**451,980**	-

The minimum future payments above relate to non-cancellable operating leases for offices.

(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 contained within the Directors' Report that are not recognised as liabilities and are not included in the key management personnel compensation.

	2012	2011
within one year	**317,750**	24,458
later than one year but not later than five years	**-**	-
	317,750	24,458

20. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Consolidated Entity 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)] 2012 %	Equity Holding[(1)] 2011 %
STB Eritrea Pty Ltd	Australia	Ordinary	**100**	100
Duketon Mining Ltd	Australia	Ordinary	**100**	-

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 2012, which has significantly affected, or may significantly affect the operations of the Consolidated Entity, the result of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

	Consolidated 2012 $	Consolidated 2011 $
23. STATEMENT OF CASH FLOWS		
Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	**(11,841,523)**	(4,435,730)
Non-Cash Items		
Depreciation of plant and equipment	**165,278**	62,883
Share-based payment expense	**439,404**	1,479,500
Fair value (gains)/losses on financial assets at fair value through profit and loss	**1,666,484**	(1,209,109)
Equity securities received on sale of tenements	**-**	(3,330)
Loss on disposal of plant and equipment	**-**	7,044
Change in operating assets and liabilities		
(Increase) in trade and other receivables	**(6,363)**	(88,338)
(Increase)/decrease in financial assets at fair value through profit or loss	**688,851**	(292,314)
Increase in trade and other payables	**1,585,744**	19,965
Increase in provisions	**93,405**	-
Net cash outflow from operating activities	**(7,208,720)**	(4,459,429)

24. LOSS PER SHARE

	Consolidated 2012 $	Consolidated 2011 $
(a) Reconciliation of earnings used in calculating earnings per share		
Loss attributable to the owners of the Company used in calculating	**(11,841,523)**	(4,435,730)

basic and diluted loss per share

(b) Weighted average number of shares used as the denominator

	No. of Shares	No. of Shares
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	**101,698,565**	75,581,120
Weighted average number of ordinary shares used as the denominator in calculating diluted loss per share	**112,018,017**	75,581,120

25. SHARE-BASED PAYMENTS

a) Option Plans

The Consolidated Entity provides benefits to employees (including directors), contractors and consultants of the Consolidated Entity in the form of share-based payment transactions, whereby employees, contractors and consultants render services in exchange for options to acquire ordinary shares. All options issued have exercise prices ranging from 20 to 200 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:

	Consolidated			
	2012		2011	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	**18,690,000**	**36.5**	25,950,000	22.9
Granted	**1,250,000**	**200.0**	5,000,000	75.0
Forfeited	**-**	**-**	-	-
Exercised	**(9,620,000)**	**23.6**	(12,260,000)	23.6
Expired	**-**	**-**	-	-
Outstanding at year-end	**10,320,000**	**65.0**	18,690,000	36.5
Exercisable at year-end	**10,320,000**	**65.0**	18,690,000	36.5

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 2.2 years (2011: 3.1 years), with exercise prices ranging from $0.20 to $2.00.

The weighted average fair value of the options granted during the year was 34.0 cents (2011: 29.6 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2012	2011
Weighted average exercise price (cents)	**200.0**	75.0
Weighted average life of the option (years)	**3.0**	5.0
Weighted average underlying share price (cents)	**100.0**	66.0
Expected share price volatility	**75%**	50%
Risk free interest rate	**4.25%**	4.50%

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.

b) Performance Rights Plan

The Performance Rights Plan was approved at the 2011 annual general meeting of the company. Under the Performance Rights Plan, shares are issued in the future subject to the performance based vesting conditions being met. The vesting conditions include the following:

- 50% upon completion of a Feasibility Study; and
- 50% upon completion of securing finance for the development of the Colluli Potash Project

Subject to achievement of either one of these performance conditions, one share will be issued for each Performance Right that has vested. No Performance Rights were issued in 2011, the following were issued in 2012.

2012 Performance Rights Grant Date	Balance at start of the year	Granted during the year	Other changes during the year	Balance at end of the year	Performance Rights Vested
25 January 2012	-	700,000		700,000	-
15 May 2012	-	772,000		772,000	-
TOTAL	-	1,472,000		1,472,000	

c) Expenses arising from share-based payment transactions

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

	Consolidated 2012 $	Consolidated 2011 $
Options and Performance Rights issued to employees and contractors	**439,404**	1,479,500

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.

	2012 $	2011 $
Current assets	**22,596,854**	14,587,169
Non-current assets	**10,994,357**	3,097,528
Total assets	**33,591,211**	17,684,697
Current liabilities	**1,838,680**	159,501
Non-current liabilities	**33,299**	-
Total liabilities	**1,871,979**	159,501
Issued capital	**40,933,675**	23,185,805
Share-based payments reserve	**6,907,729**	6,468,325
Accumulated losses	**(16,122,172)**	(12,128,934)
Total equity	**31,719,232**	17,525,196
Loss for the year	**(3,993,237)**	(2,084,380)
Total comprehensive loss for the year	**(3,993,237)**	(2,084,380)

27. DIVIDENDS

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

28. INTERESTS IN JOINT VENTURES

The Consolidated Entity has interest in the following joint ventures.

1. *Duketon Nickel Project*

   Independence Group NL may earn a 70% interest in the nickel rights on South Boulder tenements within the Duketon Greenstone Belt by completing a Bankable Feasibility Study.

2. *Cardabia Phosphate Project*

   Strata Minerals Inc. has a 80% interest and South Boulder retains a 20% free carried interest through to the completion of a Bankable Feasibility Study.

3. *Georgina Phospahte Project*
Auvex Resources Limited 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.

4. *Western Shaw Project*
South Boulder retains tin, tantalum and lithium rights on the tenement, Atlas Iron Ltd hold 100% in the tenement.

5. *Pilgangoora Project*
South Boulder retains a 10 interest in the tenement and Lithex Resources Ltd holds 90% in the tenement.

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 2012 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, 28 September 2012

ROTHSAY

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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 2012 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*.

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 2012 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 2012. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Audit opinion

In our opinion the remuneration report of South Boulder Mines Ltd for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Frank Vrachas
Partner

Dated 28 September 2012

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 24 September 2012.

(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	860	449,111
1,001	-	5,000	1,443	3,688,298
5,001	-	10,000	515	3,843,044
10,001	-	100,000	668	18,742,339
100,001		and over	106	100,010,034
			3,592	126,732,826
The number of shareholders holding less than a marketable parcel of shares are:			488	141,555

(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	18,554,848	14.64%
2	Cornelius, Liam Raymond	12,708,806	10.03%
3	Meridian Capital International Fund	10,000,000	7.89%
4	National Nominees Ltd	9,034,005	7.13%
5	Alpha Boxer Ltd	4,625,400	3.65%
6	Kongming Investments Ltd	3,699,200	2.92%
7	JP Morgan Nominees Australia Ltd Cash Income A/C	3,268,451	2.58%
8	Maslin Anthony + Norris M	2,452,320	1.94%
9	Zero Nominees PL	2,277,692	1.80%
10	Ranguta Ltd	2,250,000	1.78%
11	Grandor PL	1,906,077	1.50%
12	Arotinco Resources Pty Ltd	1,410,000	1.11%
13	Aradia Ventures PL	1,360,000	1.07%
14	Giles Michael Ashley	1,320,000	1.04%
15	J P Morgan Nominees Australia Ltd	1,248,348	0.99%
16	Sino West Assets Ltd	1,183,900	0.93%
17	Ranguta PL	960,000	0.76%
18	Natural Res Goup PL	700,000	0.55%
19	Lewis Kathryn	665,200	0.52%
20	Cho Yongsu	636,000	0.50%
		80,260,247	63.33%

(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
Sprott Asset Management LP (SAM)	17,977,795
Meridian Capital International Fund	11,574,591
Cornelius, Liam Raymond	7,007,338

(d) Voting rights

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

(e) Schedule of interests in mining tenements

Location	Tenement	Percentage held / earning
Duketon	E38/1511	100
Duketon	E38/1522	100
Duketon (IGO)	E38/1535	100
Duketon	E38/1537	100
Duketon	E38/1800	100
Duketon	E38/1979	100
Duketon	E38/2177	100
Duketon	E38/2206	100
Duketon	E38/2231	100
Duketon	E38/2255	100
Duketon	E38/2397	100
Duketon	E38/2614	100
Duketon	E38/2615	100
Duketon	E38/2649	100
Duketon	E38/2660	100
Duketon	E38/2661	100
Duketon	E38/2666	100
Duketon	E38/2686	100
Duketon	E38/2697	100
Duketon	E38/2698	100
Duketon	E38/2699	100
Duketon	E38/2700	100
Duketon	E38/2714	100
Duketon	E38/2715	100
Duketon	E38/2716	100
Duketon	E38/2717	100
Duketon	E38/2730	100
Duketon	E38/2731	100
Duketon	E38/2736	100
Duketon	E38/2737	100
Duketon	E38/2738	100
Duketon	E38/2757	100
Duketon	E38/2767	100
Duketon	L38/33	100
Duketon (IGO)	L38/174	100
Duketon	M38/330	100
Duketon (IGO)	M38/1252	100
Duketon	P38/3893	100
Duketon	P38/3897	100
Duketon	P38/3984	100
Duketon	P38/4028	100
Duketon	P38/4029	100
Duketon	P38/4030	100
Duketon	P38/4031	100
Duketon	P38/4032	100
Duketon	P38/4033	100
Duketon	P38/4034	100
Duketon	P38/4035	100
Lake Disappointment	E45/3259	100
Lake Disappointment	E45/3984	100
Lake Disappointment	E45/4047	100
Lake Burnside	E69/2558	100
Diorite Hill	E38/2762	100
Lake Lefroy	E15/1188	100
Cutters Luck	E26/132	100
Cardabia	E08/2302	20
Cardabia	E08/2303	20
Cardabia	E08/2322	20
Cardabia	E08/2359	20
Cardabia	E08/2411	20
Pilgangoora	E45/2375	10
Western Shaw	E45/2768	0
Georgina Basin	EL25982	10
Georgina Basin	EL25983	10
Georgina Basin	EL26380	10
Colluli, Eritrea	Colluli	100