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BROKEN HILL COBALT LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2009**

BROKEN HILL COBALT LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

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BROKEN HILL COBALT LIMITED

**COMPANY DIRECTORY
AS AT 30 JUNE 2009**

COMPANY NUMBER: 322887

IRD NUMBER: 21-523-089

YEAR OF INCORPORATION: 1986

REGISTERED OFFICE: Level 3,
135 Broadway
Newmarket
Auckland

PRINCIPAL ACTIVITIES: Mineral Exploration

SHAREHOLDERS: So Co Limited - 134 shares
Heritage Gold - 66 shares

DIRECTORS: PR Atkinson
WR Eades
GG Hill
FC O'Connor
RN Stagg

AUDITORS: Carlton - DFK
Newmarket
Auckland

BROKEN HILL COBALT LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2009

The Directors present the following report including financial statements of the company for the year ended 30 June 2009.

DIVIDEND

No dividends were declared for the current year.

AUDITOR

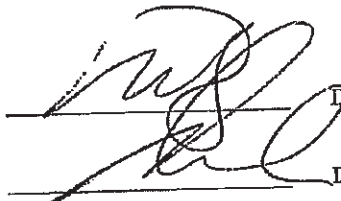
The Auditors, Carlton – DFK continue in office in terms of Section 200 (1) of the Companies Act 1993.

GENERAL


The nature of the company's business has not changed during the year under review.

The Shareholders of Broken Hill Cobalt Limited, having considered the contents of the Annual Report, have unanimously resolved that the Annual Report need not comply with paragraphs (e) to (i) of section 211 (1) of the Companies Act 1993.

Signed for and on behalf of the Board



Director



Director

29/10/09 Date

29/10/09 Date

**AUDIT REPORT
TO THE SHAREHOLDERS OF
BROKEN HILL COBALT LIMITED**

We have audited the financial report on pages 4 to 10. The financial report provides information about the past financial performance of the Company and its financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on page 7.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation of a financial report which gives a true and fair view of the financial position of the Company as at 30 June 2009 and of the results of its operations for the year ended 30 June 2009.

AUDITORS' RESPONSIBILITIES

It is our responsibility to express an independent opinion on the financial report presented by the Board and report our opinion to you.

BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgments made by the Board in the preparation of the financial report, and
- whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

Other than in our capacity as auditors we provide taxation advice to the Company.

FUNDAMENTAL UNCERTAINTY

In forming our unqualified opinion, we have considered the adequacy of the disclosures made in the financial report concerning the adoption of the going concern assumption. The financial report has been prepared on a going concern basis, the validity of which is dependent on the continuing financial support of the shareholders. The financial report does not include any adjustments that might be necessary should that support be withdrawn. Details of the circumstances relating to this fundamental uncertainty are described in note 11 on page 10.

UNQUALIFIED OPINION

We have obtained all the information and explanations that we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial report on pages 4 to 10
 - complies with International Financial Reporting Standards (IFRS);
 - gives a true and fair view of the financial position of the Company as at 30 June 2009 and the results of its operations for the year ended on that date.

Our audit was completed on 29 October 2009 and our unqualified opinion is expressed as at that date.


CARLTON - DFK
Chartered Accountants
AUCKLAND

BROKEN HILL COBALT LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2009**

	2009	2008
	\$	\$
Expenses		
Auditors' remuneration	1,631	5,681
Consulting fees	-	131,816
Formation expenses written off	-	922
Administration expenses	20,350	5,990
Finance costs	9,761	31,397
Total Expenses	<u>31,742</u>	<u>175,806</u>
Other Income / (expenses)		
Unrealised foreign exchange gain/(loss)	2,958	(60,625)
Total Income / (Expenses)	<u>(28,784)</u>	<u>(236,431)</u>
Comprehensive income / (loss) before income tax	<u>(28,784)</u>	<u>(236,431)</u>
Income tax expense	3	-
Net profit and Comprehensive income / (loss) attributable to shareholders	<u>(28,784)</u>	<u>(236,431)</u>

The accompanying notes form part of these financial statements.

BROKEN HILL COBALT LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009**

	2009			2008		
	Share capital \$	Retained earnings \$	Total equity \$	Share capital \$	Retained earnings \$	Total equity \$
Comprehensive income (loss)	0	(28,784)	(28,784)	0	(236,431)	(236,431)
Equity at beginning of year	425,000	(604,894)	(179,894)	425,000	(368,463)	56,537
Equity at end of year	<u>425,000</u>	<u>(633,678)</u>	<u>(208,678)</u>	<u>425,000</u>	<u>(604,894)</u>	<u>(179,894)</u>

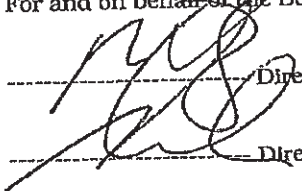
The accompanying notes form part of these financial statements.

BROKEN HILL COBALT LIMITED

**BALANCE SHEET
FOR THE YEAR ENDED 30 JUNE 2009**

	Note	2009 \$	2008 \$
Equity			
Share capital – 200 ordinary shares	8	425,000	425,000
Retained earnings	7	(633,678)	(604,894)
Equity		<u>(208,678)</u>	<u>(179,894)</u>
Represented by:			
Current assets			
Cash and cash equivalents		47,274	116,240
Due from related parties	6	1,500	-
Total current assets		<u>48,774</u>	<u>116,240</u>
Intangible assets			
Mining lease and prospecting costs	5	578,665	475,829
Total assets		<u>627,439</u>	<u>592,069</u>
Current liabilities			
Trade payables		33,146	35,488
Due to related parties	6	802,971	736,475
Total current liabilities		<u>836,117</u>	<u>771,963</u>
Total liabilities		<u>836,117</u>	<u>771,963</u>
Excess of liabilities over assets		<u>(208,678)</u>	<u>(179,894)</u>

For and on behalf of the Board


 _____ Director
 _____ Director

29/10/2009 Date
 29/10/2009 Date

The accompanying notes form part of these financial statements.

BROKEN HILL COBALT LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. Summary of significant accounting policies

Reporting entity: Broken Hill Cobalt Limited is a company incorporated in New Zealand and registered under the Companies Act 1993. Broken Hill Cobalt Limited is a reporting entity for the purposes of the Financial Reporting Act 1993. The financial statements of Broken Hill Cobalt Limited have been prepared in accordance with the Financial Reporting Act 1993.

Measurement base: The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis have been followed by the company.

These accounts have been prepared in accordance with generally accepted accounting practice in New Zealand and therefore also comply with International Financial Reporting Standards. For this purpose, the company has designated itself as profit-oriented.

Specific accounting policies: The following specific accounting policies which materially affect the measurement of profit and financial position have been applied:

1.1 Foreign currencies: The functional currency is Australian dollars and presentational currency is New Zealand Dollars

Monetary assets and liabilities in foreign currencies are translated into New Zealand currency at the closing rates of exchange.

Transactions in foreign currencies are converted into New Zealand currency at the rate of exchange ruling at the date of receipt or payment.

All exchange variations are included in the income statement.

1.2 Income taxation: The income tax expense charged to the income statement includes both the current year's provision and the income tax effect of taxable temporary differences and deductible temporary differences to the extent that it is probable that they will be utilised.

Income tax benefits and a deferred tax asset are recognized only to the extent that it is probable there will be future taxable profit to utilise them.

1.3 Differential reporting exemptions: The company qualifies for differential reporting exemptions as it is not publicly accountable and there is no separation between the owners and the governing body. The company has taken advantage of all available differential reporting exemptions.

1.4 Financial instruments: Financial instruments recognized in the balance sheet include cash at bank and payables.

1.5 Prospecting costs: Acquisition, exploration and development costs of prospects held by the company at balance date are capitalized as deferred expenditure.

1.6 Mining tenements: Prospecting expenditure and mining tenements are initially recorded at cost. When a tenement is capable of sustaining commercial mining operations, the value or cost will be amortised over the expected productive life of the mine. In the event where exploration demonstrates a permit area is no longer prospective for economically recoverable reserves, the value or cost of the tenement is immediately recognised as an expense in the income statement.

BROKEN HILL COBALT LIMITED

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

Changes in Accounting Policies

The company has presented a statement of comprehensive income instead of an income statement. This is a change of presentation only and has not resulted in any changes to the reported profit.

The company changed its accounting policy relating to prospecting costs for the financial year ended 30 June 2009. Prospecting costs were previously expensed as incurred. The company has now elected to capitalise these costs as deferred expenditure. This change has been implemented as the directors are of the opinion that it will provide more reliable and relevant information about the financial performance and financial position of the company. The effect of the change is to: reduce costs in the income statement by \$102,836 (2008 87,242); reduce opening retained earnings at 30/6/2007 by 63,679 and to increase intangible assets by the same amounts. The total amount included in prospecting costs at 30/6/2009 is 253,757.

3. Taxation

	2009 \$	2008 \$
Operating surplus/(deficit) before taxation	(28,784)	(236,431)
Non-deductible legal expenses	1,423	-
Non-deductible consulting costs	-	131,816
	-----	-----
Taxable surplus/ (deficit) for year	(27,361)	(104,615)
Income tax losses at beginning of year	(470,440)	(365,825)
	-----	-----
Tax losses to be carried forward	(497,801)	(470,440)
	=====	=====

4. **Imputation credit account:** There were no movements through the company's imputation credit account during the year. The balance at 30 June 2009 was nil (2008 - nil).

5. Intangible assets

	2009 \$	2008 \$
Prospecting costs and mining tenements		
Mining tenements at cost	324,908	324,908
Development expenditure at cost	253,757	150,921
	-----	-----
	578,665	475,829
	=====	=====

The carrying value of intangibles in the financial statements at 30 June 2009 is significantly less than the valuation range in a valuation prepared by T.V. Willstead, an independent consulting mining engineer, on 21 October, 2009 and represents the historical cost of acquiring and maintaining the mining leases.

The ultimate recovery of the investment in mining tenements is dependent on the establishment of economic operations or the realisation of the entity's economic interest in the relevant mining tenement.

BROKEN HILL COBALT LIMITED

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

6. Related party balances

	2009	2008
	\$	\$
Amounts due to related parties		
Loans from associated entities		
- So Co Limited	410,220	-
- Heritage Gold NZ Limited	214,533	-
	-----	-----
Total loans due from related parties	624,753	-
Convertible notes from associated entities		
- So Co Limited	-	371,876
- Heritage Gold NZ Limited	-	184,963
	-----	-----
Total notes due from related parties	-	556,839
Intercompany Payables		
- So Co Limited	89,095	90,035
- Heritage Gold NZ Limited	89,124	89,124
- Mining Investments Services Limited	-	477
	-----	-----
Total payables due from related parties	178,219	179,636
	-----	-----
Total due from related parties	802,972	736,475
	=====	=====
Amounts due from related parties		
Mining Investments Services Limited	1,500	1,500
	=====	=====

The convertible notes owing to Heritage Gold NZ were converted to an interest free loan on the 20 December 2008

The convertible notes owing to So Co Limited were converted to an interest free loan on the 1 July 2008

The loans made to Broken Hill Cobalt Limited by the related parties listed above have no fixed repayment terms and are provided interest free.

Interest was charged during the year on the convertible note to Heritage Gold of 9,761 (AUD 8,490) up to 21 December when the note was converted to an interest-free loan.

BROKEN HILL COBALT LIMITED

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

7. Retained earnings		2009	2008
		\$	\$
	Opening accumulated deficit	(604,894)	(368,463)
	Operating surplus/(deficit) attributable to shareholders	(28,784)	(236,431)
		-----	-----
	Closing accumulated deficit	(633,678)	(604,894)
		=====	=====
 8. Share capital			
	200 Ordinary Shares	425,000	425,000
		-----	-----
	Total	425,000	425,000
		=====	=====

All ordinary shares rank equally with one vote attached to each ordinary share.

9. Capital commitments: There were no capital commitments at balance date (2008 - nil).

10. Contingencies: There were no contingent liabilities at balance date (2008 - nil).

The exploration lease 6622 expired on the 29 August 2009. An extension for this lease has been lodged after year end and is expected to be resolved in the 3 months following August.

Based on discussions held with Heritage personnel it appears probable that the renewal will be successful and the mining lease maintained.

11. Going concern

The company had negative equity at balance date.

The parent company has pledged its continuing financial support for the company for the next 12 months and has confirmed that it will not require repayment of the intercompany advance during that period. In view of the shareholder's support, the directors believe that the adoption of the going concern assumption is valid.

12. Post balance date events

Since balance date, the company intends to:

- subdivide the existing 200 shares into a larger parcel of shares, and
 - convert at least \$601,000 of loans from related parties to equity.
- Share capital will therefore increase from \$425,000 to at least \$1,026,000.

The company is also investigating the opportunity for a listing on a recognised securities exchange in Australia and / or in New Zealand.