

BROKEN HILL PROSPECTING LIMITED
(Formerly Broken Hill Cobalt Limited)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

BROKEN HILL PROSPECTING LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

CONTENTS

Directory	Page 1
Annual Report	Page 2
Auditor's Report	Page 3
Statement of Comprehensive Income	Page 4
Statement of Changes in Equity	Page 5
Statement of Financial Position	Page 6
Statement of Cash Flows	Page 7
Notes to the Financial Statements	Page 8

BROKEN HILL PROSPECTING LIMITED

**COMPANY DIRECTORY
AS AT 30 JUNE 2010**

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 - 34,371,000 shares
Heritage Gold - 16,929,000 shares

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

COMPANY SECRETARY Donald de Boer
C/- BOX 3486 GPO
SYDNEY NSW 2001

AUDITORS: Carlton – DFK
Newmarket
Auckland

BROKEN HILL PROSPECTING LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2010**

The Directors present the following report including financial statements of the company for the year ended 30 June 2010.

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 Prospecting 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



G Hill Director 30/7/2010



R Stagg Director 30/7/2010

AUDIT REPORT

TO THE SHAREHOLDERS OF BROKEN HILL PROSPECTING LIMITED

We have audited the financial report on pages 4 to 13. The financial report provides information about the past financial performance of the Company and its financial position as at 30 June 2010. This information is stated in accordance with the accounting policies set out on page 8 to 9.

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 2010 and of the results of its operations and cash flows for the year.

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 have no relationship with or interests in the Company.

Fundamental uncertainty

In forming our unqualified opinion, we have considered the adequacy of the disclosures made in the financial report in respect of funding required to ensure that financial obligations can be met and that the commercial extraction and realisation of the Company's mineral resources can be successfully achieved.

The financial report has been prepared on a going concern basis. The continuing validity of the going concern basis will depend on the continuing financial support of the two major shareholding companies. The financial report does not include any adjustments that would result if support is withdrawn.

Details of the circumstances relating to this fundamental uncertainty are described in note 16.

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 13
 - complies with generally accepted accounting practice;
 - complies with International Financial Reporting Standards;
 - gives a true and fair view of the financial position of the Company as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 30 July 2010 and our unqualified opinion is expressed as at that date.


CARLTON – DFK
Chartered Accountants
AUCKLAND

BROKEN HILL PROSPECTING LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010**

	Note	2010 \$	2009 \$
Continuing Operations			
Auditors' remuneration		9,420	1,309
Administration expenses		42,301	16,329
Unrealised foreign exchange loss/(gain)		(2,118)	(2,373)
Finance costs		-	7,833
		-----	-----
Loss for the year before income tax		49,603	23,098
Income tax expense	2	-	-
		-----	-----
Loss for the year		49,603	23,098
		-----	-----
Movement in foreign currency		-	1,979
Net profit and Comprehensive income / (loss) attributable to shareholders		(49,603)	(25,077)
		=====	=====
Earnings per share			
Basic earnings/(loss) per share from continuing operations		(0.07) cents	(11,549) cents
Diluted earnings/(loss) per share from continuing operations		(0.07) cents	(11,549) cents

The accompanying notes form part of these financial statements.

BROKEN HILL PROSPECTING LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010**

	Share capital \$ (note 9)	Retained earnings \$ (note 8)	Foreign currency translation \$	Total equity \$
2010				
Comprehensive income (loss)	-	(49,603)	-	(49,603)
Movement in equity for the year	-	(49,603)	-	(49,603)
Equity at beginning of year	337,170	(502,985)	(477)	(166,292)
Share issue	471,965	-	-	471,965
Equity at end of year	809,135	(552,588)	(477)	256,070
2009				
Comprehensive income (loss)	-	(23,098)	(477)	(23,575)
Movement in equity for the year	-	(23,098)	(477)	(23,575)
Equity at beginning of year	337,170	(479,887)	-	(142,717)
Equity at end of year	337,170	(502,895)	(477)	(166,292)

The accompanying notes form part of these financial statements.

BROKEN HILL PROSPECTING LIMITED

**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2010**

	Note	2010 \$	2009 \$
Equity			
Total equity		256,070	(166,292)
Total Equity		<u>256,070</u>	<u>(166,292)</u>
Represented by:			
Current assets			
Cash and cash equivalents		37,461	37,671
Due from related parties	7	-	1,195
Prepayments		25,890	-
Total current assets		<u>63,351</u>	<u>38,866</u>
Non-current assets			
Intangibles	4	502,669	461,124
Total assets		<u>566,020</u>	<u>499,990</u>
Current liabilities			
Share application deposits received	5	30,000	-
Trade and other payables	6	38,895	26,413
Due to related parties	7	-	639,869
Total current liabilities		<u>68,895</u>	<u>666,282</u>
Non-current liabilities			
Due to related parties	7	241,055	-
Total liabilities		<u>309,950</u>	<u>666,282</u>
Net assets /(excess of liabilities over assets)		<u>256,070</u>	<u>(166,292)</u>

For and on behalf of the Board



G Hill Director

30/7/2010



R Stagg Director

30/7/2010

The accompanying notes form part of these financial statements.

BROKEN HILL PROSPECTING LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 2010**

	Note	2010 \$	2009 \$ (unaudited)
Cash Flows from Operating Activities			
Payments to suppliers		(48,185)	(20,701)
Net Cash applied to Operating Activities	10	(48,185)	(20,701)
Cash Flows from Investing Activities			
Prospecting expenditure		(40,441)	(82,215)
Net Cash applied to Investing Activities		(40,441)	(82,215)
Cash Flows from Financing Activities			
Prepaid capital raising expenditure		(17,983)	-
Capital raising – deposits received		30,000	-
Proceeds from borrowings		76,399	48,370
Net Cash provided from Financing Activities		88,416	48,370
Net(decrease) / increase in cash and cash equivalents held		(210)	(54,546)
Cash and cash equivalents at the beginning of the year		37,671	92,217
Cash and cash equivalents at the end of the year		37,461	37,671

The accompanying notes form part of these financial statements.

BROKEN HILL PROSPECTING LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. Summary of significant accounting policies

Reporting entity: Broken Hill Prospecting Limited is a company incorporated in New Zealand and registered under the Companies Act 1993. Broken Hill Prospecting Limited is a reporting entity for the purposes of the Financial Reporting Act 1993. The financial statements of Broken Hill Prospecting 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 and presentation currency is Australian dollars. Monetary assets and liabilities in foreign currencies are translated into Australian currency at the closing rates of exchange.

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

All exchange variations are included in the statement of comprehensive income.

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 Financial instruments: Financial instruments recognized in the balance sheet include cash at bank, receivables, payables and borrowings. Receivables and payables are initially recorded at fair value and subsequently amortised using the effective interest method. Borrowings are initially recorded at fair value net of transaction costs and subsequently at amortised cost using the effective interest method. Borrowing costs are recognized as an expense in the period incurred.

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

1.5 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 statement of comprehensive income.

BROKEN HILL PROSPECTING LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

- 1.6 Impairment:** At each reporting date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication of impairment. If the recoverable amount of an intangible (i.e. prospecting costs and mining tenements) is less than its carrying amount, the amount is written down to its recoverable amount and the write down recognised as an expense in the statement of comprehensive income. Recoverable amount is the higher of fair value less costs to sell and value in use.
- 1.7 Segment Information:** Operating segments are reported if
- Revenue is 10% or more of combined operating segment revenues;
 - The absolute value of profit or loss is greater than 10% of the combined reported profits or losses of all operating segments, whichever is greater;
 - Assets are 10% or more of the combined assets of all operating segments; or
 - Information about the segment would be useful to users of the financial statements.
- 1.8 Share Capital:** Ordinary shares are classified as equity. Direct costs of issuing shares and options are deducted from the proceeds of the issue.

1.9 Changes in Accounting Policy:

The company changed its presentation currency from New Zealand dollars to Australian dollars effective 1 July 2010. As a result 2009 comparatives have also been changed to Australian dollars.

As the Company no longer qualifies for differential reporting exemptions, presentation and disclosure in these financial statements has been changed. The company adopts new and revised financial reporting standards as they become mandatory. Resulting changes to accounting policies have not affected trading results.

Other than these changes, accounting policies have been applied consistently with the previous year.

2. Taxation	2010	2009
	\$	\$
Operating surplus/(deficit) before taxation	(49,603)	(23,098)
Non-deductible legal expenses	400	1,142
	-----	-----
Taxable surplus/ (deficit) for year	(49,203)	(21,956)
Income tax losses at beginning of year	(396,840)	(373,219)
Foreign exchange variance	-	(1,665)
	-----	-----
Tax losses to be carried forward	(446,043)	(396,840)
	=====	=====

Income tax losses have not been recognised in these financial statements.

BROKEN HILL PROSPECTING LIMITED

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

3. Imputation credit account

There were no movements through the company's imputation credit account during the year. The balance at 30 June 2010 was nil (2009 - nil).

4. Intangible assets	2010	2009
	\$	\$
Prospecting costs and mining tenements		
Mining tenements at cost	258,911	258,911
Development expenditure at cost	243,758	202,213
	-----	-----
	502,669	461,124
	=====	=====

The carrying value of intangibles in the financial statements at 30 June 2010 represents the historical cost of acquiring and maintaining the mining leases. The carrying value is significantly less than the valuation range in a valuation prepared on 21 October 2009 by T.V. Willsted, an independent consulting mining engineer.

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.

The exploration lease EL6622 has been extended to 29th August 2011.

5. Share application deposits received	2010	2009
	\$	\$
Share application deposits received	30,000	-
	=====	=====

The company is raising capital from sophisticated and professional investors as outlined in note 18. As at 30 June 2010 it had received \$30,000 in deposits.

6. Trade and other payables	2010	2009
	\$	\$
- Director related entities	31,308	23,505
- Other trade payables	3,587	2,908
- Non trade payables and accrued expenses	4,000	-
	-----	-----
	38,895	26,413
	=====	=====

The amount payable to director related entities of \$31,308, (June 2009: \$23,505) is payable to a company related to Director Geoff Hill. It represents the entire balance of amounts owing to director related entities as at 30 June 2010.

BROKEN HILL PROSPECTING LIMITED

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

7. Related party balances	2010	2009
	\$	\$
<u>Amounts due to related parties</u>		
Loans from associated entities		
- So Co Limited	-	326,895
- Heritage Gold NZ Limited	-	170,956
	-----	-----
Total loans due to related parties	-	497,851
Intercompany Payables		
- So Co Limited	155,119	70,997
- Heritage Gold NZ Limited	85,936	71,021
	-----	-----
Total intercompany payables	241,055	142,018
	-----	-----
Total due to related parties	241,055	639,869
	=====	=====
<u>Amounts due from related parties</u>		
Mining Investments Services Limited	-	1,195
	=====	=====

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

There is an amount of \$31,308 payable to a company related to Director Geoff Hill. This amount is disclosed as part of note 6 above.

8. Retained earnings	2010	2009
	\$	\$
Opening accumulated deficit	(502,985)	(479,887)
Operating surplus/(deficit) attributable to shareholders	(49,603)	(23,098)
	-----	-----
Closing accumulated deficit	(552,588)	(502,985)
	=====	=====

BROKEN HILL PROSPECTING LIMITED

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

9. Share capital	2010	2009
	\$	\$
Ordinary Shares – 51,300,000 (2009: 200)	809,135	337,170
	=====	=====
Movement in share capital	No. of shares	\$
Share capital at 30 June 2009	200	337,170
30/10/2009 subdivision of shares	42,499,800	-
	-----	-----
	42,500,000	337,170
30/10/2009 share issue	60,100,000	471,965
	-----	-----
	102,600,000	809,135
30/5/2010 share consolidation 2 to 1	(51,300,000)	-
	-----	-----
	51,300,000	809,135
	=====	=====

All shares have equal voting rights and will share equally in dividends and surplus on winding up. The company is currently undertaking a capital raising as outlined in Note 18.

10. Reconciliation of Operating Cash Flow & Net Income	2010	2009
	\$	\$
		(unaudited)
Net income / (loss)	(49,603)	(23,098)
	-----	-----
Add non-cash items:		
Exchange (gain)/loss	(2,118)	(2,373)
Interest expense payable	-	7,833
Add (less) movement in working capital:		
Increase (decrease) in payables	3,536	(3,063)
	-----	-----
Net cash flows from operating activities	(48,185)	(20,701)
	=====	=====

11. Financial Instruments:

Credit Risk: Financial instruments which potentially subject the company to credit risk principally consist of bank balances and receivables. Maximum exposure to credit risk at balance date is represented by the carrying value of the financial instruments. No collateral is held on these assets and none are considered overdue or impaired. All bank deposits were held with an authorised bank in Australia and represented 100% of cash. There were no receivables at 30 June 2010.

Currency Risk: The company has exposure to foreign currency exchange risk as a result of transactions from normal trading activities mainly denominated in Australian currencies. The company holds funds in an Australian currency bank account. Exposure to exchange is unhedged.

Liquidity Risk: Management supervises liquidity by carefully monitoring cash flow requirements. The company relies on new equity to fund exploration expenditure.

Interest Rate Risk: The company has no current exposure to interest rate risk.

BROKEN HILL PROSPECTING LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

12. Segment Information: During the current period, the Company had only one business segment – mineral exploration within Australia.

13. Earnings per share	2010	2009
	\$	\$
Profit/(loss) from continuing operations	(49,603)	(23,098)
Average number of shares on issue	72,241,844	200
Basic earning per shares	(0.07) cents	(11,549) cents
Diluted average shares on issue	72,241,844	200
Diluted earnings per share	(0.07) cents	(11,549) cents

Earnings per share is based on the average weighted number of ordinary shares on issue during the year and on the operating deficit after tax attributable to shareholders. Movement in the number of shares on issue is shown in Note 9.

14. Capital commitments: In accordance with the conditions of exploration licence EL6622, the Company is required to spend a minimum of \$52,000 pa during the term of the licence. There were no other capital commitments at balance date (2009 - nil).

15. Contingencies: There were no contingent liabilities at balance date (2009 - nil).

16. Going concern

The financial report has been prepared on a going concern basis. The continuing validity of the going concern basis will depend on the Company maintaining adequate funding to ensure that financial obligations can continue to be met and to achieve successful commercial extraction and realisation of its mineral resources.

The two major shareholding companies (So Co Limited and Heritage Gold NZ Limited) have pledged their continuing financial support for the company for the next 12 months and have confirmed that they will not require repayment of the intercompany advances during that period. In view of the shareholders' support, the directors believe that the adoption of the going concern assumption is valid.

17. Judgement and estimation uncertainty: The preparation of financial statements of necessity involves judgement and estimation. The effect of judgement is greatest in the assessment of impairment to capitalised exploration expenditure. The directors have therefore obtained independent confirmation from an experienced valuer as described in note 4.

18. Post balance date events

The company is raising capital from sophisticated and professional investors and expects raise between \$650,000 and \$1,000,000 with the issue of 6,500,000 – 10,000,000 additional shares in late July/ August 2010.

The company also intends to issue 25,650,000 3 year options exercisable at \$0.20 to initial shareholders Heritage Gold NZ Limited (8,464,500 options) and So Co Limited (17,185,500 options) on 31 August 2010.

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