Sheffield Resources LIMITED

ACN 125 811 083

ANNUAL FINANCIAL REPORT
30 JUNE 2012

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CORPORATE INFORMATION

ACN 125 811 083

Directors

Mr Will Burbury, Chairman
Mr Bruce McQuitty, Managing Director
Mr David Archer, Technical Director

Company secretary

Mr Will Burbury

Registered office

14 Prowse Street
West Perth WA 6005

Principal place of business

14 Prowse Street
West Perth WA 6005

Share register

Link Market Services
178 St Georges Terrace
Perth WA 6000

Solicitors

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000

Bankers

Australia and New Zealand Banking Corporation

Auditors

HLB Mann Judd
Level 4, 130 Stirling Street
Perth WA 6000

Securities Exchange Listing

Australian Securities Exchange (ASX: SFX)

DIRECTORS' REPORT

Your directors submit the annual financial report of the company for the financial year ended 30 June 2012. In order to comply with the provisions of the Corporations Act, the directors report as follows:

Directors

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

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Mr Will Burbury BComm, LLB (Chairman and Company Secretary)

Will Burbury practised as a corporate lawyer with a leading Australian law firm prior to entering the mining and exploration industry in 2003. During this time, he has been actively involved in the identification and financing of many resources projects in Australia and on the African continent and has held senior management positions and served on boards of several private and publicly listed companies.

Mr Burbury was previously chairman of ASX listed Warwick Resources Limited prior to its merger with Atlas Iron Limited in 2009. He was also previously a director of ASX listed Lonrho Mining Limited and an executive of ASX listed NKWE Platinum Limited.

Mr Bruce McQuitty BSc, MEconGeol (Managing Director)

Bruce McQuitty has 29 years' experience in the mining and civil industries. During this time he has held various senior positions in large mining houses and has been involved in exploration through to the development of mines. Mr McQuitty has significant technical expertise in exploration, project generation, feasibility, underground mining and engineering geology and has managed exploration teams in Australia and overseas. Mr McQuitty holds a Masters of Economic Geology and a Bachelor of Science.

Mr McQuitty was previously Managing Director of ASX listed Warwick Resources prior to its merger with Atlas Iron Limited in 2009. Prior to that he held senior positions with ASX/AIM listed Consolidated Minerals Limited and Gympie Gold Limited.

Mr David Archer BSc (Hons) (Technical Director)

David Archer is a geologist with 23 years' experience in exploration and mining in Australia. He has held senior positions with major Australian mining companies, including Renison Goldfields Consolidated Ltd, and has spent the last ten years as a Director of Archer Geological Consulting specialising in project generation, geological mapping and project evaluation. Mr Archer was a consultant to ASX listed Atlas Iron Limited and Warwick Resources Limited and was responsible for significant iron ore discoveries for both companies in the Pilbara. He was also involved in the discovery of the Magellan lead mine and the Raleigh and Paradigm gold mines.

DIRECTORS' REPORT (continued)

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

The following relevant interests in shares and options of the company or a related body corporate were held by the directors as at the date of this report.

Directors	Number of options over ordinary shares	Number of fully paid ordinary shares
Will Burbury	2,500,000	5,150,001
Bruce McQuitty	2,500,000	5,133,168
David Archer	2,500,000	5,140,000

Details of ordinary shares issued by the company during or since the end of the financial year as a result of the exercise of an option are:

Number of shares	Amount paid per share
3,683,335	**$0.20**

Shares Under Option

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	*Exercise price (cents)*	*Number of options*
30 June 2013	20	16,195,832
30 June 2013	20	7,312,500
30 November 2013	30	3,000,000
13 December 2015	30	1,550,000
20 March 2016	44	550,000
30 June 2016	44	525,000
6 September 2014	44	250,000
1 April 2017	65	1,200,000
29 July 2017	53	500,000
		31,083,332

Dividends

No dividends have been paid or declared since the start of the financial year and the Directors do not recommend the payment of a dividend in respect of the financial year.

Principal Activities

The principal activity of the company during the year was exploration for mineral sands (zircon and titanium minerals), iron and talc within the state of Western Australia.

There have been no other significant changes in the nature of these activities during the year.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS

Sheffield made rapid progress through the year (and subsequent to the reporting period), with mineral resource estimates and new exploration discoveries underpinning the Company's emergence as a significant new player in the heavy mineral sands (HMS) sector.

Highlights include:

<u>Dampier HMS Project</u>

- Commencement of an 8,000m aircore drilling program at the Thunderbird prospect on 10 July 2012.
- On 3 September 2012, the Company announced a major new mineral sands discovery at Thunderbird with intersections of up to 42m width of high grade heavy mineral from the initial batch of drill results.

<u>Eneabba HMS Project</u>

- Total Mineral Resources of **226Mt @ 2.3% HM** for 5.29Mt of contained HM, including 564,000t of zircon and 369,000t of rutile (refer to Sheffield's ASX release dated 28 August 2012 which fully discloses the mineral resources for the Eneabba Project).
- A scoping study, completed by TZMI in March 2012, confirms the technical and robust financial viability of the Project.
- Subsequent to the Scoping Study, on 28 August 2012, the Company announced a maiden Mineral Resource for the Durack deposit of **65.3Mt @ 1.8% HM** (included in the above total), which is expected to further improve the Project economics.
- Further upside exists, with assay results still awaited from 6,800m of drilling (195 holes) at the Drummond Crossing and Irwin prospects.

<u>McCalls HMS Project</u>

- An Inferred Mineral Resource of **4.43Bt @ 1.2% HM** for 53Mt contained HM, including 43Mt of chloride ilmenite and 3.5Mt of zircon (refer to Sheffield's ASX release dated 20 February 2012 which fully discloses the mineral resources for the McCalls Project).

<u>Pilbara Iron Project</u>

- First pass RC drilling (25 holes for 1,212m) at Three Pools intersected broad zones of iron mineralisation from near surface, confirming a significant exploration target (refer to ASX release of 1 December 2011 for full details).

<u>Moora Talc Belt Project</u>

- An initial 1,238m core drilling programme identified high grade talc at all six prospects drilled. Results are pending from a second drilling programme of 2,070m, completed during Q2 2012.

<u>Other Projects</u>

- Two new projects were generated: the Oxley Potash project which is located west of Moora in WA's Mid-West region and the Red Bull project, located 17km south of Sirius Resources' Nova nickel-copper discovery in WA's Fraser Range region. Red Bull is likely to become a significant future exploration focus for the Company.

<u>Corporate</u>

In March 2012, the Company completed a $10 million placement through the issue of 33.35 million shares at 30c per share to fund the exploration of its mineral sands projects, principally the Damper project.

As of 30 June 2012, the Company had $9,297,529 in cash (2010: $4,128,361) and nil debt.

COMPETENT PERSONS' STATEMENT – EXPLORATION RESULTS

The information in this announcement that relates to exploration results is based on information compiled by David Boyd. Mr Boyd is a full time employee of the Company. Mr Boyd is a Member of the Australasian Institute of Geoscientists and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and the activity to which they are undertaking to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code")'. Mr Boyd consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

COMPETENT PERSONS' STATEMENT – RESOURCE ESTIMATES

The information in this report that relates to resource estimation is based on information compiled by Mr Trent Strickland. Mr Strickland is a full time employee of Quantitative Group (QG) and a Member of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Strickland has sufficient experience in the minerals industry to satisfy the requirements to act as the competent person for these estimates as defined in the 2004 Edition of the Australasian Code for Reporting of Mineral Resources and Ore Reserves. Mr Strickland consents to the inclusion in this report of the matters based on their information in the form and context in which it appears.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

The information in this report that relates to reporting of resource and exploration results is based on information compiled under the guidance of Mark Teakle. Mr Teakle is a full time employee of the Company. Mr Teakle is a Member of the Australasian Institute of Geoscientists and the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and the activity to which they are undertaking to qualify as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code")'. Mr Teakle consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the company to the date of this report.

Significant events after balance date

There have been no significant events after balance date.

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the company. Therefore, this information has not been presented in this report.

Environmental legislation

The Company's operations are subject to environmental regulation in respect to its mineral tenements relating to exploration activities on those tenements. No breaches of any environmental restrictions were recorded during the financial year. The company has not yet fully reviewed the reporting requirements under the Energy Efficient Opportunities Act 2006 or the National Greenhouse and Energy Reporting Act 2007 but believes it has adequate systems in place to ensure compliance with these Acts having regard to the scale and nature of current operations.

Indemnification and insurance of Directors and Officers

The Company has agreed to indemnify all the Directors of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as Directors of the Company, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Company paid a premium in respect of a contract insuring the Directors and Officers of the Company against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Remuneration report (audited)

This report outlines the remuneration arrangements in place for the key management personnel of the Company for the financial year ended 30 June 2012. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company directly or indirectly.

Key Management Personnel

(i) Directors

Will Burbury: Executive Chairman
Bruce McQuitty: Managing Director
David Archer: Technical Director

Remuneration philosophy

The performance of the company depends upon the quality of its Directors and Executives. The philosophy of the company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable Executive remuneration

DIRECTORS' REPORT (continued)

Remuneration report (continued)

Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is separate and distinct.

Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration at a level that provides the company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. The determination of this will be addressed at the upcoming Annual General Meeting.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process. Each Director receives a fee for being a Director of the company.

The Company has not appointed any Non-executive Directors.

Senior manager and executive director remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Fixed Remuneration

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed remuneration component of key management personnel is detailed in Table 1.

Variable Remuneration

The objective of the short term incentive program is to link the achievement of the Company's operational targets with the remuneration received by the Executives charged with meeting those targets. The total potential short term incentive available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

The aggregate of annual payments available for Executives across the Company is subject to the approval of the Remuneration Committee. Payments made are delivered as a cash bonus in the following reporting period.

The Company also makes long term incentive payments to reward senior executives in a manner that aligns this element of remuneration with the creation of shareholder wealth.

Employment Contracts

Executive Services Agreement – Bruce McQuitty

The Company entered into a services agreement with Bruce McQuitty (McQuitty Services Agreement) effective 1 July 2010. Under the McQuitty Services Agreement, Mr McQuitty is employed by the Company to provide services to the Company in the capacity of Managing Director.

Mr McQuitty is paid an annual remuneration of $200,000 plus statutory superannuation. Mr McQuitty will also be reimbursed for reasonable expenses incurred in carrying out his duties.

The McQuitty Services Agreement will continue until terminated in accordance with its terms. The McQuitty Services Agreement contains standard termination provisions under which either party must give three months' notice of termination (or shorter period in the event of a material breach) or alternatively, payment in lieu of service. In addition, Mr McQuitty is entitled to all unpaid remuneration and entitlements up to the date of termination.

Executive Services Agreement – Will Burbury

The Company entered into a services agreement with Will Burbury (Burbury Services Agreement) effective 1 July 2010. Under the Burbury Services Agreement, Mr Burbury is employed by the Company to provide services to the Company in the capacity of Executive Chairman and Company Secretary.

Mr Burbury is paid an annual remuneration of $100,000 plus statutory superannuation. Mr Burbury will also be reimbursed for reasonable expenses incurred in carrying out his duties.

DIRECTORS' REPORT (continued)

Remuneration report (continued)

The Burbury Services Agreement contains standard termination provisions under which either party must give three months' notice of termination (or shorter period in the event of a material breach), or alternatively, payment in lieu of service. In addition, Mr Burbury is entitled to all unpaid remuneration and entitlements up to the date of termination.

Executive Services Agreement – David Archer

The company entered into a services agreement with David Archer (Archer Services Agreement) effective 1 July 2010. Under the Archer Services Agreement, Mr Archer is employed by the Company to provide services to the Company in the capacity of Technical Director.

Mr Archer is paid an annual remuneration of $180,000 plus statutory superannuation. Mr Archer will also be reimbursed for reasonable expenses incurred in carrying out his duties.

The Archer Services Agreement will continue until terminated in accordance with its terms. The Archer Services Agreement contains standard termination provisions under which either party must give three months' notice of termination (or shorter period in the event of a material breach), or alternatively, payment in lieu of services. In addition, Mr Archer is entitled to all unpaid remuneration and entitlements up to the date of termination.

Remuneration of key management personnel

Table 1: Directors' remuneration for the years ended 30 June 2012 and 30 June 2011

		Short-term Employee benefit	Post-employment benefit		
		Salary & Fees $	Superannuation $	Total $	Performance Related %
Will Burbury	2012	89,015	8,011	97,026	-
	2011	100,000	9,000	109,000	-
Bruce McQuitty	2012	200,000	18,000	218,000	-
	2011	200,000	18,000	218,000	-
David Archer	2012	180,000	16,200	196,200	-
	2011	180,000	16,200	196,200	-

There were no share based or performance based remuneration in either the current or prior period.

Details of employee share option plans

1,725,000 unlisted options were issued during the year to two employees in accordance with the Employee Share Option Plan of the Company.

Of these 1,725,000 unlisted options, 525,000 unlisted options were issued on 1 July 2011, have an exercise price of $0.44 an expiry date of 30 June 2016 and a fair value at grant date of $92,348.

The remaining 1,200,000 unlisted options were issued on 2 April 2012, have an exercise price of $0.65 and an expiry date of 1 April 2017 and a fair value at grant date of $222,805.

These options are not subject to any vesting conditions.

DIRECTORS' REPORT (continued)

Remuneration report (continued)

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings
Number of meetings held:	5
Number of meetings attended:	
Will Burbury	5
Bruce McQuitty	5
David Archer	5

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 part of those proceedings.

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

Auditor Independence and Non-Audit Services

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 15 and forms part of this Directors' report for the year ended 30 June 2012.

Non-Audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 19 to the financial statements. 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 of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Signed in accordance with a resolution of the Directors.

Bruce McQuitty
Director
Perth, 18 September 2012

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Sheffield Resources Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sheffield Resources Limited.

Perth, Western Australia
18 September 2012

N G NEILL
Partner, HLB Mann Judd

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated	Company
		2012	2011
	Notes	$	$
Other income	2	271,672	175,344
Employee benefits expense		(272,592)	(226,138)
Depreciation expense		(108,218)	(25,684)
Other expenses		(628,182)	(285,358)
Share based payments		(351,721)	(287,410)
Write off exploration costs		(55,747)	(130,783)
Loss before income tax expense	2	(1,144,788)	(780,029)
Income tax expense	3	-	-
Loss for the year		(1,144,788)	**(780,029)**
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(1,144,788)	**(780,029)**
Basic loss per share (cents per share)	5	(1.65)	(1.88)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Notes	Consolidated 2012 $	Company 2011 $
Current Assets			
Cash and cash equivalents	6	9,297,529	4,128,361
Trade and other receivables	7	433,879	209,432
Total Current Assets		9,731,408	4,337,793
Non-Current Assets			
Plant and equipment	8	213,870	224,208
Deferred exploration expenditure	9	6,364,484	2,196,453
Total Non-Current Assets		6,578,354	2,420,661
Total Assets		16,309,762	6,758,454
Current Liabilities			
Trade and other payables	10	661,755	268,523
Provisions	11	60,769	32,709
Total Current Liabilities		722,524	301,232
Total Liabilities		722,524	301,232
Net Assets		15,587,238	6,457,222
Equity			
Issued capital	12	17,268,999	7,345,916
Reserves	13	639,131	287,410
Accumulated losses	13	(2,320,892)	(1,176,104)
Total Equity		15,587,238	6,457,222

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated			
	Issued Capital	Accumulated Losses	Reserves	Total
	$	$	$	$
Balance as at 1 July 2011	7,345,916	(1,176,104)	287,410	6,457,222
Loss for the year	-	(1,144,788)	-	(1,144,788)
Total comprehensive loss for the year	-	(1,144,788)	-	(1,144,788)
Shares issued during the year	10,574,667	-	-	10,574,667
Share issue costs	(651,584)	-		(651,584)
Recognition of share-based payments	-	-	351,721	351,721
Balance at 30 June 2012	**17,268,999**	**(2,320,892)**	**639,131**	**15,587,238**

	Company			
	Issued Capital	Accumulated Losses	Reserves	Total
	$	$	$	$
Balance as at 1 July 2010	465,100	(396,075)	-	69,025
Loss for the year	-	(780,029)	-	(780,029)
Total comprehensive loss for the year	-	(780,029)	-	(780,029)
Shares issued during the year	7,391,666	-	-	7,391,666
Share issue costs	(510,850)	-		(510,850)
Recognition of share-based payments	-	-	287,410	287,410
Balance at 30 June 2011	**7,345,916**	**(1,176,104)**	**287,410**	**6,457,222**

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Consolidated 2012 $	Company 2011 $
		Inflows/(Outflows)	
Cash flows from operating activities			
Payments to suppliers and employees		(917,118)	(190,372)
Interest received		247,415	151,135
Net cash (used in) operating activities	6	(669,703)	(39,237)
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		(3,992,832)	(2,474,263)
Purchase of non-current assets		(97,880)	(249,892)
Net cash (used in) investing activities		(4,090,712)	(2,724,155)
Cash flows from financing activities			
Proceeds from issue of shares		10,581,167	7,341,666
Payments for share issue costs		(651,584)	(510,850)
Net cash provided by financing activities		9,929,583	6,830,816
Net increase in cash and cash equivalents		5,169,168	4,067,424
Cash and cash equivalents at beginning of period		4,128,361	60,937
Cash and cash equivalents at end of period	6	9,297,529	4,128,361

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated.

The financial report has also been prepared on a historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets.

The company is a listed public company, incorporated in Australia and operating in Australia. The entity's principal activity is exploration for bulk minerals.

(b) Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2012, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. It has been determined by the Directors' that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Company accounting policies.

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Company accounting policies.

(c) Statement of compliance

The financial report was authorised for issue on 18 September 2012.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 30 June 2012. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through more than half of the voting rights. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

(e) Critical accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Share-based payment transactions:

The Company 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 external valuer using a Black and Scholes model, using the assumptions detailed in Note 14.

The Company measures the cost of cash-settled share-based payments at fair value at the grant date using the Black and Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 14.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Going concern

The directors are of the opinion that the company is a going concern.

(g) 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 Board of Directors of Sheffield Resources Limited.

(h) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income - Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(i) Income tax

The income tax expense or benefit 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 difference 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. 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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income tax (continued)

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Sheffield Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income, directly in equity or as a result of a business combination. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(j) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(k) Business combination

The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets

The Company assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(m) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(n) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms.

Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(o) Payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the year end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms. They are recognised initially at fair value and subsequently at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee Benefits

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of statement of financial position date are recognised in respect of employees' services rendered up statement of financial position date and measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. Liabilities for wages and salaries are included as part of Other Payables and liabilities for annual and sick leave are included as part of Employee Benefits Provisions.

Long Service Leave

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the statement of financial position date using the projected future projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at statement of financial position date with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(q) Exploration and evaluation expenditure

Exploration and evaluation expenditure encompasses expenditures incurred by the Company in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Exploration and evaluation expenditure incurred by the Company is accumulated for each area of interest and recorded as an asset if:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

(1) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or

(2) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

For each area of interest, expenditure incurred in the acquisition of rights to explore is capitalised, classified as tangible or intangible, and recognised as an exploration and evaluation asset. Exploration and evaluation assets are measured at cost at recognition.

The recoverable amount of each area of interest is determined on a bi-annual basis and the provision recorded in respect of that area adjusted so that the net carrying amount does not exceed the recoverable amount. For areas of interest that are not considered to have any commercial value, or where exploration rights are no longer current, the capitalised amounts are written off against the provision and any remaining amounts are charged to profit and loss.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(r) 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.

(s) Goods and Services Tax

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financial activities, which are recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(u) Provisions

Provisions for legal claims are recognised when the Group has a legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(v) Share based payments

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or options over shares (“equity-settled transactions”).

The fair value of options is recognised as an expense with a corresponding increase in equity (share-based payments reserve). The fair value is measured at grant date and recognised over the period during which the holder becomes unconditionally entitled to the options. Fair value is determined by an independent valuer using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of the Company (“market conditions”).

(w) Share based payments (continued)

The cumulative expense recognised between grant date and vesting date is adjusted to reflect the director’s best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with the company until vesting date, or such that employees are required to meet internal sales targets. No expense is recognised for options that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the statement of comprehensive income. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

(x) Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated on the straight line basis to write off the net cost of each item over its expected useful life. Depreciation rate for computer equipment is 33%. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

As 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Comprehensive Income. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Earnings per Share

(i) Basic Earnings per Share

Basic earnings per share is determined by dividing the operating loss after income tax by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of partly paid shares or options outstanding during the financial year.

(z) Parent entity financial information

The financial information for the parent entity, Sheffield Resources Limited, disclosed in Note 21 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Share-based payments

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTE 2: REVENUE AND EXPENSES

	Consolidated	Company
	2012	2011
	$	$
(a) Revenue		
Bank interest received	271,672	175,344
(b) Expenses		
Accounting fees	43,965	32,448
Interest expense	1,855	2,639
Depreciation of non-current assets	108,218	25,684
Operating lease rental expense	122,420	60,990
Share based payments expense	351,721	287,410
Write off of exploration expenditure	55,747	130,783

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: INCOME TAX

The prima facie income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:

Accounting loss before income tax	(1,144,788)	(780,029)
Income tax expense calculated at 30%	(343,436)	(234,009)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	105,516	86,223
Accruals	9,616	7,799
Other expenses	2,412	1,230
Share issue costs	(71,101)	(32,006)
Unrecognised tax losses	296,993	170,763
Income tax expense reported in the statement of comprehensive income	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

The Company has tax losses arising in Australia. The tax benefit of these losses of $467,755 (2011: $289,585) is available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated	Company
	2012 $	2011 $
Deductible temporary differences	251,585	18,000
Tax losses	467,755	289,585
	719,340	307,585

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits thereof.

NOTE 4: SEGMENT REPORTING

Description of segment

The Company operates in one geographical segment, being Western Australia and in one operating category, being exploration in bulk minerals.

The chief operating decision maker has been identified as the Board of Directors. Information reported to the Board members for the purpose of resource allocation and assessment of performance is focused on exploration for bulk minerals within Western Australia. Consequently the Company reports within one segment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 5: LOSS PER SHARE

	Consolidated	Company
	2012	2011
	Cents per share	Cents per share
Basic loss per share:		
Continuing operations	(1.65)	(1.88)
Total basic loss per share	(1.65)	(1.88)

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share is as follows:

Loss	(1,144,788)	(780,029)
Losses from continuing operations	(1,144,788)	(780,029)
	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	69,245,362	41,412,412

All potential ordinary shares, being options to acquire ordinary shares, are not considered dilutive in the calculation of 2012 or 2011 loss per share as the exercise of the options would not increase the loss per share.

NOTE 6: CASH AND CASH EQUIVALENTS

	Consolidated	Company
	2012	2011
	$	$
Cash at bank and on hand	713,006	628,361
Short-term deposits	8,584,523	3,500,000
	9,297,529	4,128,361

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 Company, and earn interest at the respective short-term deposit rates.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6: CASH AND CASH EQUIVALENTS (continued)

	Consolidated	Company
	2012	2011
	$	$
(i) Reconciliation of loss for the year to net cash flows from operating activities		
Loss for the year	(1,144,788)	(780,029)
Equity settled share based payment	351,721	287,410
Depreciation	108,218	25,684
Write off of exploration expenditure	55,747	130,783
(Increase)/decrease in assets:		
Current receivables	(129,111)	(201,344)
Increase/(decrease) in liabilities:		
Current payables	60,450	465,550
Provision for employee benefits	28,060	32,709
Net cash from operating activities	(669,703)	(39,237)

NOTE 7: TRADE AND OTHER RECEIVABLES

	2012	2011
	$	$
Trade receivables	49,797	3,973
Allowance for impairment	-	-
	49,797	3,973
GST recoverable	222,586	167,014
Prepaid expenses	6,984	13,734
Bank guarantee (i)	105,545	-
Accrued interest	48,967	24,711
	433,879	209,432

(i) $72,000 is held as security for the performance bond for programme of works for permit 04/2083 and bears 5.20% interest for the period 16/03/2012-16/03/2013. $33,540 is held as security for the office lease and bears 1.25% interest.

Aging of past due but not impaired		
30 – 60 days	49,224	3,973
60 – 90 days	573	-
90 – 120 days	-	-
Total	49,797	3,973

In determining the recoverability of a trade receivable, the Company considers any changes in the credit quality of the trade receivable from the date credit was initially granted up to the balance date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for impairment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 8: PLANT AND EQUIPMENT

		Consolidated	
	Motor Vehicles	Plant and equipment	Total
	$	$	$
Year ended 30 June 2012			
At 1 July 2011, net of accumulated depreciation and impairment	58,467	165,741	224,208
Additions	-	97,880	97,880
Depreciation charge for the year	(15,543)	(92,675)	(108,218)
At 30 June 2012, net of accumulated depreciation and impairment	42,924	170,946	213,870

		Company	
At 1 July 2011			
Cost or fair value	62,172	187,720	249,892
Accumulated depreciation and impairment	(3,705)	(21,979)	(25,684)
Net carrying amount	58,467	165,741	224,208

		Consolidated	
At 30 June 2012			
Cost or fair value	62,172	285,600	347,772
Accumulated depreciation and impairment	(19,248)	(114,654)	(133,902)
Net carrying amount	42,924	170,946	213,870

The useful life of the assets was estimated as follows for both 2012 and 2011:

Motor Vehicles	4 years
Plant and equipment	4 to 15 years

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2012 is Nil. (2011: Nil).

NOTE 9: DEFERRED EXPLORATION EXPENDITURE

	Consolidated	Company
	2012 $	2011 $
Costs carried forward in respect of:		
Exploration and evaluation phase – at cost		
Balance at beginning of year	2,196,453	-
Expenditure incurred	4,223,778	2,327,236
Expenditure written off	(55,747)	(130,783)
Total exploration expenditure	6,364,484	2,196,453

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 10: TRADE AND OTHER PAYABLES (CURRENT)

	2012 $	2011 $
Trade creditors	575,761	225,679
Accruals	85,944	42,844
	661,755	268,523

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

NOTE 11: PROVISIONS (CURRENT)

	2012 $	2011 $
Employee benefits – annual leave	60,769	32,709

NOTE 12: ISSUED CAPITAL

	2012 $	2011 $
94,856,669 (2011: 58,658,334) Ordinary shares issued and fully paid	17,268,999	7,345,916

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		Company	
	2012		2011	
	No.	$	No.	$
Movement in ordinary shares on issue				
Balance at beginning of financial year	58,658,334	7,345,916	21,000,001	465,100
Issued on 18 January 2011 as part consideration for acquisition of McCalls Heavy Minerals Sands Project	-	-	500,000	50,000
Issue of 900,000 fully paid ordinary shares at $0.10 each	-	-	900,000	90,000
Issue of 35,000,000 fully paid ordinary shares at $0.20 each	-	-	35,000,000	7,000,000
Issue of 33,350,000 fully paid ordinary shares at $0.30 each	33,350,000	10,005,000	-	-
Issued for cash on exercise of share options	2,848,335	569,667	1,258,333	251,667
Share issue costs	-	(651,584)	-	(510,851)
Balance at end of financial year	94,856,669	17,268,999	58,658,334	7,345,916

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 12: ISSUED CAPITAL (continued)

	2012		2011	
	No.	$	No.	$
Movements in options over ordinary shares on issue				
Balance at beginning of financial year	32,291,667	-	10,500,000	-
Issue of unlisted options exercisable at $0.20 each on or before 30 June 2013	-	-	17,950,000	-
Issue of unlisted options exercisable at $0.30 each on or before 30 November 2013	-	-	3,000,000	-
Issue of unlisted options exercisable at $0.30 each on or before 30 December 2013	-	-	1,550,000	-
Issue of unlisted options exercisable at $0.44 each on or before 20 March 2016	-	-	550,000	-
Issue of unlisted options exercisable at $0.65 each on or before 1 April 2017	1,200,000	-	-	-
Issue of unlisted options exercisable at $0.44 each on or before 30 June 2016	525,000	-	-	-
Issue of unlisted options exercisable at $0.44 each on or before 6 September 2014	250,000	-	-	-
Exercise of unlisted options exercisable at $0.20 each on or before 30 June 2013	(2,848,335)	-	(1,258,333)	-
Balance at end of financial year	31,418,332	-	32,291,667	-

Employee Share options

The company has an Employee Share Option Plan under which options to subscribe for the company's shares have been granted to certain employees (refer to Note 14).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 13: ACCUMULATED LOSSES AND RESERVES

	Consolidated	Company
	2012 $	2011 $
Accumulated Losses		
Balance at beginning of financial year	(1,176,104)	(396,075)
Loss for the year	(1,144,788)	(780,029)
Balance at end of financial year	(2,320,892)	(1,176,104)
Share-based payments reserves		
Balance at beginning of financial year	287,410	-
Share based payments	351,721	287,410
Balance at end of financial year	639,131	287,410

(i) *Nature and purpose of reserves*
Share-based payments reserve
The share-based payments reserve is used to recognise the fair value of options issued.

NOTE 14 : SHARE BASED PAYMENT PLANS

1,725,000 unlisted options were issued during the year to two employees in accordance with the Employee Share Option Plan of the Company.

Of these 1,725,000 unlisted options, 525,000 unlisted options were issued on 1 July 2011, have an exercise price of $0.44 an expiry date of 30 June 2016 and a fair value at grant date of $128,916. The remaining 1,200,000 unlisted options were issued on 2 April 2012, have an exercise price of $0.65 and an expiry date of 1 April 2017 and a fair value at grant date of $222,805.

250,000 unlisted options were issued to consultants on 7 September 2011 as consideration for identifying the Dampier Zircon Project granted to the Company.

These options are not subject to any vesting conditions.

The following share-based payment arrangements were in place during the current and prior periods:

	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
SERIES 1	1,200,000	02/04/2012	01/04/2017	0.65	222,805
SERIES 2	525,000	01/07/2011	30/06/2016	0.44	92,348
SERIES 3	250,000	07/09/2011	06/09/2014	0.44	36,567

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

	2012 No.	2012 Weighted average exercise price	2011 No.	2011 Weighted average exercise price
Outstanding at the beginning of the year	5,100,000	0.32	-	-
Granted during the year	1,975,000	0.57	5,100,000	0.32
Exercised during the year	-	-	-	-
Outstanding at the end of the year	7,075,000	0.39	5,100,000	0.32
Exercisable at the end of the year	4,075,000	-	2,100,000	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 14 : SHARE BASED PAYMENT PLANS (continued)

The outstanding balance as at 30 June 2012 is represented by:

7,075,000 options over ordinary shares with a weighted average exercise price of $0.39 each, exercisable upon meeting the above conditions and until the relevant expiry dates.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 is 3.55 years (2011: 3.28).

The weighted average share price at the date of exercise options exercised during the year ended 30 June 2012 was $0.20 (2011: $0.32).

The range of exercise prices for options outstanding at the end of the year is $0.30 - $0.65 (2011: $0.30 - $0.44).

The fair value of the equity-settled share options granted under the option is estimated as at the date of grant using the Black and Scholes model taking into account the terms and conditions upon which the options were granted.

	SERIES 1	SERIES 2	SERIES 3
Dividend yield (%)	-	-	-
Expected volatility (%)	70	75	75
Risk-free interest rate (%)	3.63	4.50	4.50
Expected life of option (years)	5	5	3
Exercise price (cents)	65	44	44
Grant date share price (cents)	29	25.5	27

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The carrying amount of the liability relating to the cash-settled share-based payment at 30 June 2012 is nil (2011: $34,500)

NOTE 15: FINANCIAL INSTRUMENTS

(a) Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Company's overall strategy remains unchanged from 2011.

The capital structure of the Company consists of debt, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings.

None of the Company's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15: FINANCIAL INSTRUMENTS (continued)

	Consolidated	Company
	2012	2011
	$	$
(b) Categories of financial instruments		
Financial assets		
Receivables	433,879	195,629
Cash and cash equivalents	9,297,529	4,128,429
Financial liabilities		
Trade and other payables	661,756	301,232

(c) Financial risk management objectives

The main risks arising from the Company's financial instruments are interest risk, credit risk and liquidity risk. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(d) Interest rate risk management

The Company's exposure to risks of changes in market interest rates relates primarily to the Company cash balances. The Company constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing positions and the mix of fixed and variable interest rates. As the Company has no interest bearing borrowing, its exposure to interest rate movements is limited to the amount of interest income it can potentially earn on surplus cash deposits.

	2012				2011			
	≤6 months $	6 – 12 months $	1-5 Years $	Total $	≤6 months $	6 – 12 months $	1-5 Years $	Total $
Financial assets								
Variable interest rate instruments	713,006	-	-	713,006	628,361	-	-	628,361
Fixed Interest bearing	8,690,068	-	-	8,690,068	3,500,000	-	-	3,500,000
Non-interest bearing	328,334	-	-	328,334	209,432	-	-	209,432
Total Financial Assets	**9,731,408**	**-**	**-**	**9,731,408**	**4,337,793**	**-**	**-**	**4,337,793**
Financial liabilities								
Non-interest bearing	661,756	-	-	661,756	301,232	-	-	301,232
Total Financial Liabilities	**661,756**	**-**	**-**	**661,756**	**301,232**	**-**	**-**	**301,232**

Interest rate risk sensitivity analysis

Exposure arises predominantly from assets and liabilities bearing variable interest rates as the Company intends to hold fixed rate assets and liabilities to maturity. Interest rate risk is considered unlikely to be material.

(e) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses publicly available financial information and its own trading record to rate its major customers.

The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15: FINANCIAL INSTRUMENTS (continued)

(e) Credit risk management (continued)

The Company does not have any significant credit risk exposure to any single counterparty or any Company of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2012

	Carrying amount	Total Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	661,756	661,756	661,756	-	-	-	-
	661,756	661,756	661,756	-	-	-	-

2011

	Carrying amount	Total Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	301,232	301,232	301,232	-	-	-	-
	301,232	301,232	301,232	-	-	-	-

NOTE 16: COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Company entered in to a 3 year lease agreement in relation to offices premises on 1 January 2011.
The commitments in relation to this, inclusive of floor space and parking bays are as follows:

	Consolidated	Company
	2012	2011
	$	$
Within one year	93,480	93,480
After one year but not more than three years	46,740	186,960
	140,220	280,440

Exploration commitments

The Company has certain obligations to perform minimum exploration work and to spend minimum amounts on exploration tenements. The obligations may be varied from time to time subject to approval and are expected to be fulfilled in the normal course of the operations of the Company. Due to the nature of the Company's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond the next year. Expenditure may be reduced by seeking exemption from individual commitments, by relinquishing of tenure or any new joint venture agreements. Expenditure may be increased when new tenements are granted.

Other commitments

Sheffield Resources Limited has the following other commitments at 30 June 2012:

- It has two indemnity guarantees totalling $105,545 (see details per Note 7); and
- credit card facility of $30,000.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 16: COMMITMENTS AND CONTINGENCIES (continued)

Commitment contracted for at balance date but not recognised as liabilities are as follows:

	2012 $
Within one year	1,552,185

NOTE 17: RELATED PARTY DISCLOSURE

There were no transactions entered into with related parties for the June 2012 financial year. Details of key management personnel share and option holdings are set out in Note 20.

NOTE 18: EVENTS AFTER THE REPORTING PERIOD

There are no other matters or circumstance has arisen since 30 June 2012, which has significantly affected, or may significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company in subsequent financial years.

NOTE 19: AUDITOR'S REMUNERATION

The auditor of Sheffield Resources Limited is HLB Mann Judd.

	Consolidated 2012 $	Company 2011 $
Amounts received or due and receivable by HLB Mann Judd for:		
An audit or review of the financial report of the entity	29,650	7,500
Other services in relation to the entity		
- Independent accountant's report	-	8,000

NOTE 20: DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Will Burbury	Chairman (Non-Executive)/Company Secretary
Bruce McQuitty	Managing Director
David Archer	Technical Director

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' report.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 20: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(b) Option holdings of Key Management Personnel

	Balance at beginning of period	Granted as remuneration	Options exercised	Net change Other	Balance at end of period	Total	Vested and exercisable	Unvested
30 June 2012								
Directors								
Will Burbury	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
Bruce McQuitty	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
David Archer	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
Total	**7,500,000**	**-**	**-**	**-**	**7,500,000**	**7,500,000**	**7,500,000**	**-**

	Balance at beginning of period	Granted as remuneration	Options exercised	Net change Other	Balance at end of period	Total	Vested and exercisable	Unvested
30 June 2011								
Directors								
Will Burbury	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
Bruce McQuitty	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
David Archer	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
Total	**7,500,000**	**-**	**-**	**-**	**7,500,000**	**7,500,000**	**7,500,000**	**-**

(c) Shareholdings of Key Management Personnel

	Balance at beginning of period	Granted as remuneration	On exercise of options	Net change Other	Balance at end of period
30 June 2012					
Directors					
Will Burbury	5,000,001	-	-	100,000	5,100,001
Bruce McQuitty	5,000,000	-	-	100,000	5,100,000
David Archer	5,000,000	-	-	100,000	5,100,000
Total	**15,000,001**	**-**	**-**	**300,000**	**15,300,001**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 20: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(c) Shareholdings of Key Management Personnel (continued)

	Balance at beginning of period	Granted as remuneration	On exercise of options	Net change Other	Balance at end of period
30 June 2011					
Directors					
Will Burbury	5,000,001	-	-	-	5,000,001
Bruce McQuitty	5,000,000	-	-	-	5,000,000
David Archer	5,000,000	-	-	-	5,000,000
Total	**15,000,001**	**-**	**-**	**-**	**15,000,001**

(d) Other transactions and balances with Key Management Personnel

Key management personnel compensation

Details of key management personnel compensation are provided in the Remuneration Report of the Directors' Report.

Loans to key management personnel

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

NOTE 21: PARENT ENTITY DISCLOSURES

	2012	2011
	$	$
ASSETS		
Current assets	9,731,608	4,337,793
Non-current assets	6,578,354	2,420,661
TOTAL ASSETS	**16,309,962**	**6,758,454**
LIABILITIES		
Current liabilities	722,524	301,232
TOTAL LIABILITIES	**722,524**	**301,232**
EQUITY		
Contributed equity	17,269,199	7,345,916
Reserves	639,131	287,410
Retained earnings	(2,320,892)	(1,176,104)
TOTAL EQUITY	**15,587,438**	**6,457,222**
FINANCIAL PERFORMANCE		
Loss for the year	1,144,788	780,029
Other comprehensive income	-	-
Total comprehensive income	**1,144,788**	**780,029**

CONTINGENT LIABILITIES

As at 30 June 2012 and 2011, the Company had no contingent liabilities.

CONTRACTUAL COMMITMENTS

As at 30 June 2012 and 2011, the Company had no contractual commitments other than those commitments disclosed in Note 16.

GUARANTEES ENTERED INTO BY PARENT ENTITY

As at 30 June 2012, the Company has the following financial guarantees:

- $72,000 is held as security for the performance bond for programme of works for permit 04/2083; and
- $33,545 is held as security for the office lease.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 22: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Sheffield Resources Limited and the subsidiaries listed in the following table.

Name	Country of	Equity Interest		Investment	
	Incorporation	2012	2011	2012	2011
		%	%	$	$
Moora Talc Pty Ltd	Australia	100	-	100	-
Ironbridge Resources Pty Ltd	Australia	100	-	100	-

Moora Talc Pty Ltd and Ironbridge Resources Pty Ltd were incorporated on 17 November 2011.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Sheffield Resources Limited (the 'Company'):
   a. the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:
      i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year then ended; and
      ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.
   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.
   c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

This declaration is signed in accordance with a resolution of the Board of Directors.

Bruce McQuitty

Director

Dated this 18th day of September 2012

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Sheffield Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Sheffield Resources Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

HLB Mann Judd

Accountants | Business and Financial Advisers

Matters relating to the electronic presentation of the audited financial report and remuneration report

This auditor's report relates to the financial report and remuneration report of Sheffield Resources Limited for the financial year ended 30 June 2012 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report and remuneration report.

Auditor's opinion

In our opinion:

(a) the financial report of Sheffield Resources Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

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.

Auditor's opinion

In our opinion the remuneration report of Sheffield Resources Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman Neill

Perth, Western Australia
18 September 2012

N G NEILL
Partner

CORPORATE GOVERNANCE STATEMENT

Prior to listing on ASX, Sheffield established a set of corporate governance policies and procedures that were based on the Australian Securities Exchange Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*.

In accordance with the Recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where Sheffield has not adopted or complied with the relevant recommendation, the reasons are set out below.

For further information on corporate governance policies adopted by the Company, refer to our website, www.sheffieldresources.com.au

Structure of the Board of Directors

The Board established a formal Board Charter as per Recommendation 1.1. In broad terms, the Board is accountable to the shareholders and must ensure that Sheffield is properly managed to protect and enhance shareholders' wealth and other interests. The Board Charter sets out the role and responsibilities of the Board of Sheffield within its governance structure.

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the Directors' Report.

The Board reviews its composition on an annual basis to ensure that it has the necessary skills, experience and expertise appropriate for the Company.

The performance of all Directors is reviewed by the Chairman on an ongoing basis and any Director whose performance is considered unsatisfactory is asked to retire. Given the small size of the company and hands on management style requires an increased level of interaction between Directors and Executives throughout the year. Board members meet amongst themselves both formally and informally. The Board considers that the current approach that it has adopted with regard to the review of its performance provides the best guidance and value to the Company.

Sheffield does not comply with Recommendation 2.1 which states that the majority of Directors should be independent directors. There are no Directors that qualify as independent directors as required under Recommendation 2.2, nor are there non-executive Directors.

There are procedures in place, as agreed by the Board, to enable Directors to seek independent professional advice.

Nomination Committee

The Board has formally adopted a Nomination Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Nomination Committee Charter. At such time when the Company is of sufficient size a separate Nomination Committee will be formed.

Audit and Risk Management Committee

The Board has formally adopted an Audit and Risk Management Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function of the Committee will be undertaken by the full Board in accordance with the policies and procedures outlined in the Audit and Risk Management Committee Charter. At such time when the Company is of sufficient size a separate Audit and Risk Management Committee will be formed.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes both internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial and non-financial-information. It is the Board's responsibility for the establishment and maintenance of a framework of internal control of the Company.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board by remunerating Directors fairly and appropriately with reference to relevant employment market conditions. The Company does not link the nature and amount of executive and directors' emoluments to the Company's financial and operational performance.

For details of remuneration of Directors and Executives, please refer to the Directors' Report.

The Board is responsible for determining and reviewing compensation arrangements for executive Directors. The Board has formally adopted a Remuneration Committee Charter however given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Remuneration Committee Charter. At such time when the Company is of sufficient size a separate Remuneration Committee will be formed.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive Directors.

Share Trading Policy

Sheffield has introduced a formal securities trading policy as required by Recommendation 3.2. This policy applies to key management personnel and Directors and prohibits them from trading in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Before commencing to trade, all key management personnel must first obtain the approval of the Managing Director to do so and a Director must first obtain approval of the Chairman. Only in exceptional circumstances will approval be forthcoming inside closed periods (two weeks prior to and one day after) the release of the Company's Annual Financial Report, Consolidated Interim Financial Report or Quarterly Reports.

Ethical Standards

Sheffield has introduced a Code of Conduct as per Recommendation 3.1. This code outlines how Sheffield expects Directors and its employees to behave and conduct its business on a range of issues. Sheffield is committed to the highest levels of integrity and ethical standards in all business practices.

All employees and Directors are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Risk Management

Sheffield has a Risk Management Policy in accordance with Recommendation 7.1. Significant areas of concern and potential risks are discussed at Board level to ensure potential risks to the business are identified and then managed. When appropriate, experts are invited to address Board meetings on major risks facing the Company and to develop strategies to mitigate those risks.

Continuous Disclosure

The Company introduced a formal Continuous Disclosure Policy as required by Recommendation 5.1. This policy was introduced to assist Sheffield to achieve best practice by:

- Ensuring that shareholders and the financial markets are provided with full and timely information;
- Complying with continuous disclosure obligations contained in the ASX listing rules and the Corporations Act in Australia; and
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with the Company.

Shareholder Communication

The Company has introduced a Shareholder Communications Strategy Policy as required by Recommendation 6.1. This policy was introduced to promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX;
- Through the distribution of the annual report and notices of annual general meeting;
- Through shareholder meetings and investor relations presentations; and
- By posting relevant information on the Company's website: www.sheffieldresources.com.au

The external auditors are required to attend the annual general meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

Approach to Diversity

The Company has established a diversity policy which set out the beliefs, goals and strategies of the Company. The Company recognises the value of a diverse work force and believes that diversity supports all employees reaching their full potential, improves business decisions, business results, increases stakeholder satisfaction and promotes realisation of the company vision.

The policy sets out the positive steps taken to ensure that current and prospective employees are not discriminated against, either directly or indirectly on such characteristics as gender, age, disability, marital status, sexual orientation, religion, ethnicity or any other area of potential difference. A copy of the Company's diversity policy has been posted on the Company's website.

Gender Diversity

The Company is committed to gender diversity at all levels of the organisation. The Board is responsible for establishing and monitoring on an annual basis the achievement against gender diversity objectives and strategies, including the representation of women at all levels of the organisation. The proportion of women within the whole organisation as at the date of this report is as follows:

Women employees in the whole organisation	27.27%
Women in Senior Executive positions	0%
Women on the Board of Directors	0%

The Board acknowledges the absence of female participation on the Board of Directors and in Senior Executive positions. The Board has determined that the composition of the current Board represents the best mix of Directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management.

Corporate Governance Compliance

During the financial year Sheffield has complied with each of the 8 Corporate Governance Principles and the corresponding Best Practice Recommendations, other than in relation to the matters specified below.

Recommendation Reference	*Notification of Departure*	*Explanation of Departure*
2.1, 2.2	*No independent Directors*	*The Board considers that the Company is not of a size or scale, nor are its affairs of such complexity to justify the expense of the appointment of a majority of independent non-executive Directors.* *The Board believes that the individuals on the Board can make and do make quality and independent judgments in the best interests of the Company.*
3.3	*No measurable objectives for achieving gender diversity set by the Board*	*The Company aims to achieve an appropriate mix of diversity on its Board, in senior management and throughout the organisation.* *The Board has determined that no specific measurable objectives will be established until the number of employees and level of activities of the Company increases to a level sufficient to enable meaningful and achievable objectives to be developed.*
2.4	*No separate nomination committee*	*The Board considers that the Company is not of a size or scale to justify the formation of a nomination committee.* *The Board as a whole undertakes the process of reviewing the skill base and experience of existing Directors to enable identification or attributes required in new Directors.*

4.2	*A separate Audit Committee has not been formed*	*The Board considers that the Company is not of a size or scale, nor are its financial affairs of such complexity to justify the formation of an audit committee.* *The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.*
7.1, 7.2, 7.3	*A separate Risk Committee has not been formed*	*The Board considers that the Company is not of a size or scale, nor are its affairs of such complexity to justify formation of a risk committee.* *The Board as a whole undertakes the process of identifying the risks of the Company.*
8.1, 8.2	*A separate Remuneration Committee has not been formed*	*The Board considers that the Company is not of a size or scale, nor are its financial affairs of such complexity to justify the formation of a remuneration committee.* *The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company.*