annualreport**2009**

CORPORATE INFORMATION

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Registration No. ABN 13 115 027 033

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CHAIRMAN'S LETTER

Dear Shareholder,

The 2008-09 financial year, while a challenging period in which to manage a listed resource company, has seen our company grow stronger and more focused. It was a time when a sudden loss of confidence in the sector, accompanied by dramatic share price falls across the board combined with a global financial shock, created the "perfect storm". Hardest hit were those companies seeking exploration and development funding just as that storm hit the market shores. High risk and speculative funding was all but washed away.

Gulf, however, weathered the global financial crisis better than others. As a small group we were able to seize the opportunities that lie at the edge of chaos. We acted quickly, reducing our exposure to substantial funding hurdles associated with the large and longer term projects, while focusing on securing early cash flow opportunities.

This was successfully achieved thanks to the tireless efforts of our staff, consultants, management and the consistent support gratefully received from shareholders.

Gulf's approach of combining a methodic and systematic assessment of potential resource projects and opportunities with innovative thinking, offers shareholders opportunities commensurate with the risk of operating in this sector of the market.

Gulf seeks to create value for shareholders through the identification, acquisition and valorisation of resource focused projects, with a particular emphasis on regions where the group maintains relationships that provide a strategic advantage.

In this regard, I note, with great pleasure, the acquisition of the largest reported high grade vermiculite deposit in the world from the Rio Tinto group during the latter part of this financial year. Purchasing this asset was in keeping with Gulf's strategy to seek early cash flow projects through acquisitions and it presents a great opportunity to reposition our company as an emerging producer.

As a result we continue to further refine Gulf's focus on building an industrial mineral development orientated company. Initially Gulf will concentrate its efforts in Africa. We will look outside this jurisdiction if it adds value to our African operations, and currently we are in the process of evaluating the acquisition of a downstream processing and marketing group that would capture and enhance further value from our substantial vermiculite project in Eastern Africa.

I am confident that the coming year will be one of further growth and success for Gulf as we move forward with our strategy. Our team is enthusiastic about the future for Gulf, as am I.

Our current projects alone provide a significant opportunity for Gulf to be re-rated over the next 12 months, with a view to a vastly improved share price.

With your kind and loyal support I look forward to building a strong and solid foundation to continue to grow our business.

Yours sincerely

Scott A Reid
Executive Chairman
Gulf Resources Ltd

ACTIVITIES & PROJECT REVIEW

For the financial year 2009, the company's key projects comprised:

- East African Vermiculite Project;
- Other African exploration opportunities;
- Coal to Liquid ("CTL") Project in Vietnam in partnership with a major Vietnamese industrial conglomerate;
- Australian gold and base metal projects - Ewingar and Crystalbrook.

Following strategies implemented in mid 2008 to focus on projects capable of providing the company with an early cash flow, company management negotiated and signed a Sale and Purchase Agreement with Rio Tinto International Holdings Ltd for the 100% acquisition of the East African Vermiculite Project in Eastern Uganda.

During the year the company has also continued to review and rationalise operations, making significant cuts in expenditures where possible, while ensuring the Gulf group retains its primary assets and experienced management team.

PROJECT SUMMARY

East African Vermiculite Project

The project is situated in Eastern Uganda near the towns of Mbale and Tororo, close to the Kenyan border. The project can be accessed by road from Kampala via sealed highway (190km) or by flying to Kisumu in Kenya and driving across the border into Uganda (Figure 1).

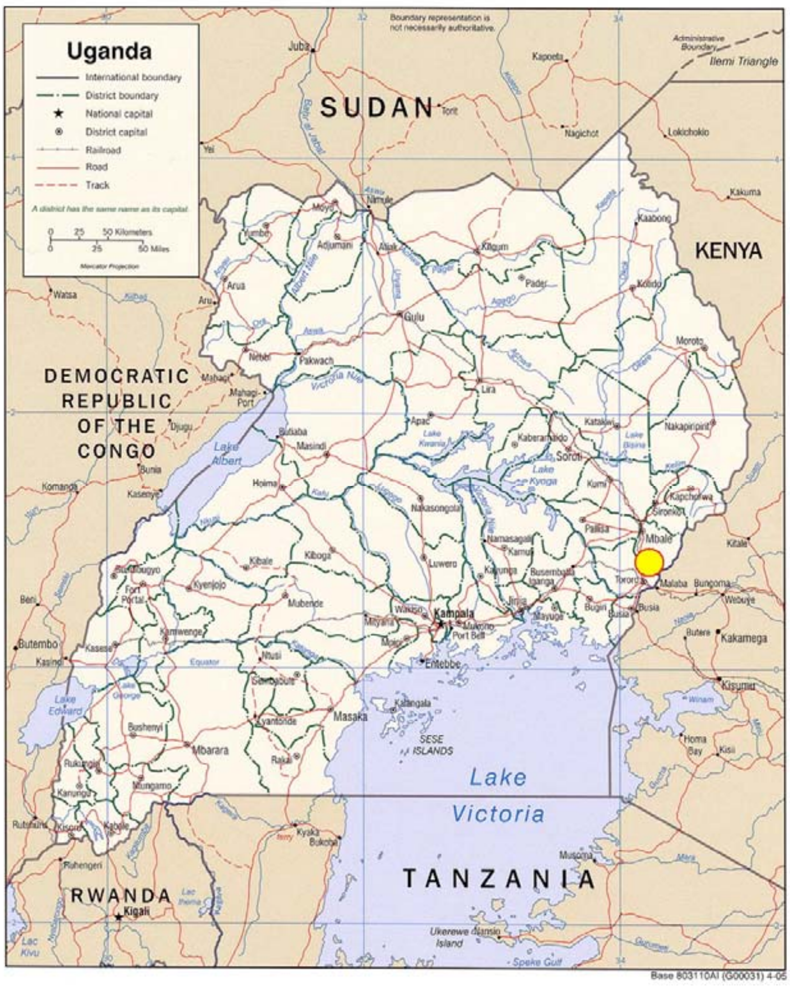

FIGURE 1: NAMEKARA MINING OPERATION, EASTERN UGANDA,

Vermiculite Mineralisation

The mineralisation was first documented in the 1950s, but it wasn't until 2002 that initial test production commenced with a small scale operation that produced 16,000 tonnes of ore between 2002 and 2006. Under Rio Tinto's stewardship, a substantial amount of work was completed including drilling over 64 holes for resource definition, pit optimisation and design, plant redesign, transport and infrastructure studies and market research.

The Namekara vermiculite deposit extends from near surface to a depth of 45 to 55m covering an area of 1 x 5km of which only a small portion has been exploited.

Vermiculite Market

The global vermiculite market is estimated by the United States Geological Survey (USGS) to be 800,000 tonnes, with production from Southern Africa accounting for approximately 39% of this amount.

The Namekara operation is capable of producing export quality vermiculite products with substantial profit margins due to the low cost nature of the operation and excellent existing infrastructure. Acquisition of the Namekara project from Rio Tinto fits with Gulf's strategy to seek, acquire, develop and manage cash positive mining operations.

Uses of Vermiculite

Industrial

- Absorbent Packing for Hazardous Goods
- Brake Pads & Brake Shoes
- Cast Items
- Dispersions
- Drilling Muds
- Filtration
- Fireproof Safes
- Fixation of Hazardous Material
- Furnaces
- Insulation Blocks & Shapes
- Insulation - High & Low Temperature
- Molten Metal Insulation
- Moulded Products
- Nuclear Waste Disposal
- Paints
- Perfume Absorbent
- Sealants

Construction

- Acoustic Finishes
- Air Setting Binder
- Construction Board
- Passive Fire Protection
- Floor & Roof Screeds
- Insulating and Light-Weight Concrete
- Gypsum Plasterboard
- Loose Fill Loft Insulation
- Sound Deadening Compounds

Horticultural

- Blocking Mixes
- Hydroponics
- Micro-Propagation
- Potting Mixes
- Root Cuttings
- Seed Germination
- Seedling Wedgemix
- Sowing Composts
- Twin Scaling Bulbs

Agricultural

- Animal Feed
- Anti-Caking Material
- Bulking Agent
- Fertilizer Carrier
- Pesticide Carrier
- Seed Encapsulant
- Soil Conditioner

ACTIVITIES & PROJECT REVIEW

OTHER PROJECTS

VIETNAM
Coal to Liquids (“CTL”) Project

The Vietnam CTL Project is a partnership between Gulf and one of Vietnam's largest private industrial conglomerates, Geleximco, to establish the feasibility of, and the development and implementation of an up to 60,000 barrel per day (bpd), Coal to Liquid fuel plant in northern Vietnam ("Vietnam CTL Project").

During the year our project partners (“Geleximco”), advised that application has been made to the Vietnamese Government for substantial coal concessions spanning two provinces in the Red River Delta coal basin near Hanoi.

On behalf of the Geleximco/Gulf partnership, Gulf’s technical representatives in conjunction with representatives from Hatch Engineering presented at the 4th Annual Coal-to-Liquids and Gas-to-Liquids Conference in February 2009 in Brisbane.

In light of significant economic downturn during the period, the company reviewed the terms of the Joint Development Agreement (JDA) with our partners and as a result has suspended operations under the JDA for the time being. Gulf’s management and technical team continues to assist our partner in procuring the coal license under the framework of the strategic alliance agreement with Geleximco.

KENYA

After review of a number of historical copper and iron prospects, Gulf applied for exploration tenements over vacant ground within 200km of the Kenyan capital, Nairobi. Indications are that Gulf’s applications are in the final stages of approval.

MADAGASCAR

Company management, in conjunction with its joint venture partner, Austral Malagasy Mining sarlu, has reviewed a number of promising mineral development projects.

SOUTHERN SUDAN

During the year company management reviewed an advanced copper/gold resource opportunity.

TANZANIA

During the year company management finalised reviews on a number of potential projects in Tanzania. While many of the projects are worthy of further work, they are either at an early stage of development or are large, capital intensive projects.

In this regard and following careful consideration of all data by the Gulf exploration and technical team, the company withdrew from:

- The Pare Mountains Copper Project (a joint venture with the National Development Corporation of Tanzania);
- Manga Handeni /Bagamoyo Gold Project (a joint venture with Kadolo Investments);
- Iringa Gold Prospect (under a Memorandum of understanding with Kadolo Investments/Msichesta Mining Co. Ltd);
- South West Tanzanian Coal Project;
- Mtwara Infrastructure Development Project.

SOUTH AFRICA

The company has ceased discussions with various BEE groups and other partners in South Africa primarily due to the prevailing financial climate and the associated difficulties in raising exploration funding for early stage projects.

AUSTRALIAN PROJECTS

- Crystalbrook Project, Far North Queensland
  (EPM 13841 and EPM 15707 – GLF 100%)

  Access has been established with the view to conducting ground geophysical surveys to extend the existing grid and provide coverage over EPM 15707. Further work programs over EPM 15707 will be reviewed internally in the next quarter.

- Swan Creek Project Northern Territory
  (EL24764, EL25083 and EL10097 and EL10096 - GLF 100%)

  Following careful consideration of all the exploration data to hand by the Gulf exploration and technical team, the company will be withdrawing from exploration over these projects.

- Ewingar Northern New South Wales
  (EL 6490 - GLF 100%)

  The tenement has been renewed with exploration to commence following finalisation of the Native Title Right to Negotiate process by the New South Wales Department of Natural Resources.

CORPORATE

Restructuring of Company Project Holdings

As part of the company's review of operations, Gulf Groups' key projects have been streamlined into a company structure designed to create efficiencies, protect project value and simplify valorisation transactions as follows:

1. Industrial Minerals International Corporation (previously GR Services Ltd)

   Company management is reviewing potential joint ventures that offer low cost exposure to promising industrial mineral development projects and potential acquisitions complimentary to the East African Vermiculite Project.

2. Gulf Future Fuels Corporation (previously GLFR508 Holdings Ltd)

   This company holds Gulf's interest in the Coal to Liquid ("CTL") Project in Vietnam, a partnership with a major Vietnamese industrial conglomerate, Geleximco, to establish the feasibility of, and the development and implementation of an up to 60,000 barrel per day (bpd), Coal to Liquid fuel plant in northern Vietnam ("Vietnam CTL Project").

3. East African Development Corporation (previously GLFR308 Holdings Ltd)

   Previously referred to as the Mtwara Infrastructure Corporation, the company is primarily seeking iron ore, copper and other metal opportunities in eastern Africa.

   Company management has reviewed an advanced copper mineralisation project and a small scale iron ore production opportunity. Both projects have the potential to generate modest cash income to sustain local operations for minimal capital expenditure.

   The company will also hold our interests in the Southern Sudan Copper Gold Project and related logistics and supply project. Both of these projects are in joint venture with locally based partners.

4. Revuma Energy Corporation (previously GR Projects Ltd)

   The company holds a 70% interest in a Tanzanian coal prospect, license PL4510/2007. The company is seeking further coal related opportunities in East Africa and discussions are at an advanced level with government representatives in East African countries with respect to a power generation strategy for the region.

5. Asia Pacific Gold Corporation Pty Ltd (Previously Dingo Resources Pty Ltd)

The company holds the Ewingar Project in Northern New South Wales (EL 6490 - GLF 100%). The tenement includes a small inferred resource of 31,000 ounces of gold at the Horton's Prospect, which remains open at the northern end, with possible extension to the south. The tenement has been renewed with exploration to commence following finalisation of the Native Title Right to Negotiate process by the New South Wales Department of Natural Resources.

6. Chillagoe Resources Pty Ltd

The company currently holds the advanced Crystalbrook base metal project in Far North Queensland (EPM 13841 and EPM 15707 – GLF 100%) where access has been established with the view to conducting ground geophysical surveys to extend the existing grid and provide coverage over EPM 15707.

CP STATEMENT

The information in this release that relates to the Exploration Process is based on information compiled by Andrew Johnstone who is a member of the Australian Institute of Geoscientists (AIG). Andrew Johnstone provides exploration management consulting services to Gulf Resources Ltd and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which Andrew Johnstone is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Andrew Johnstone consents to the inclusion in the press release of the matters based on his information in the form and context in which it appears.

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Gulf Resources Limited ("the company") have adhered to the principles of corporate governance and this statement outlines the main corporate practices in place throughout the financial year. The ASX Corporate Governance Council released revised Corporate Governance Principles and Recommendations on 2 August 2007. Having regard to the size of the Company and the nature of its enterprise, it is considered that the company complies as far as possible with the spirit and intentions of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations as set out below. Unless otherwise stated, the practices were in place for the entire year.

1. Board of Directors

The Board of Directors of the company is responsible for the corporate governance of the company. The Board guides and monitors the business and affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

As the Board acts on behalf of shareholders, it seeks to identify the expectations of shareholders, as well as other ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The primary responsibilities of the Board include:

- formulation and approval of the strategic direction, objectives and goals of the company;
- monitoring the financial performance of the company, including approval of the company's financial statements;
- ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed;
- the review of performance and remuneration of executive directors; and
- the establishment and maintenance of appropriate ethical standards.

The responsibility for the operation and administration of the company is carried out by the directors, who operate in an executive capacity, supported by senior professional staff. The Board ensures that this team is suitably qualified and experienced to discharge its responsibilities, and assesses on an ongoing basis the performance of the management team, to ensure that management's objectives and activities are aligned with the expectations and risks identified by the board.

The directors of the company are as follows:

Mr Scott Reid	- Executive Chairman
Mr Philip Treisman	- Director of Strategy & Counsel
Mr Wayne Kernaghan	- Finance Director
Mr Greg Duncan	- Technical Director

For information in respect to each director refer to the directors' report.

2. Independent Directors

Under ASX guidelines principle 2.1, all of the current board members are considered not to be independent directors. The executive role is performed by the directors, accordingly all directors are considered not to be independent. The Board is satisfied that the structure of the Board is appropriate for the size of the company and the nature of its operations and is a cost effective structure for managing the company.

3. Board Composition

When the need for a new director is identified, selection is based on the skills and experience of prospective directors, having regard to the present and future needs of the company. Any director so appointed must then stand for election at the next Annual General Meeting of the company.

4. Terms of Appointment as a Director

The constitution of the company provides that a director other than the Managing Director may not retain office for more than three calendar years or beyond the third Annual General Meeting following his or her election, whichever is longer, without submitting for re-election. One third of the directors must retire each year and are eligible for re-election. The directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

5. Board Committees

In view of the size of the company and the nature of its activities, the Board has considered that establishing formally constituted committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly audit matters, the nomination of new directors and the setting, or review, of remuneration levels of directors and senior executives are reviewed by the Board as a whole and approved by resolution of the Board (with abstentions from relevant directors where there is a conflict of interest). Where the Board considers that particular expertise or information is required, which is not available from within their number, appropriate external advice may be taken and reviewed prior to a final decision being made by the Board.

6. Remuneration

Remuneration and other terms of employment of executives, including executive directors, are reviewed periodically by the Board having regard to performance, relevant comparative information and, where necessary, independent expert advice. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the company's operations.

The terms of engagement and remuneration of executive directors is reviewed periodically by the Board. Where the remuneration of a particular executive director is to be considered, the director concerned does not participate in the discussion or decision-making.

7. Conflict of Interest

The directors must keep the company informed, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the Board believes a significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

8. Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

9. Code of Conduct

In view of the size of the company and the nature of its activities, the Board has considered and adopted a code of conduct which is appropriate to guide executives, management and employees in carrying out their duties and responsibilities.

10. Make Timely and Balanced Disclosures

The Board has in place written policies and procedures to ensure the Company complies with its obligations under the continuous disclosure rule 3.1 and other ASX Listing Rule disclosure requirements.

11. Communication to Market & Shareholders

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors and the company. Information is communicated to shareholders and the market through:

- the Annual Report which is available to all shareholders;
- other periodic reports which are lodged with ASX and available for shareholder scrutiny;
- other announcements made in accordance with ASX Listing Rules;
- special purpose information memoranda issued to shareholders as appropriate;
- the Annual General Meeting and other meetings called to obtain approval for board action as appropriate; and
- the company's website.

12. Share Trading

Dealings are not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act 2001 prohibits the purchase or sale of securities whilst a person is in possession of inside information.

13. External Auditors

The external auditor is A D Danieli Audit Pty Ltd. The external auditor is invited to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Full details of the company's corporate governance practices can be viewed at its website – www.gulfresources.com.au.

Your Directors submit their report on the company and its controlled entities for the financial the year ended 30 June 2009.

Directors

The names of directors in office at any time during or since the end of the year are:

Director	Appointed	Resigned
S Reid	30 June 2005	-
W Kernaghan	30 June 2005	-
G Duncan	30 June 2005	-
P Treisman	14 August 2007	-

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Information on Current Directors

Scott Andrew Reid B.Sc. (Syd), Grad. Dip. Sci. (Geophys), MAIG, FFin, MAICD ● Executive Chairman

Scott Reid has over 18 years experience in the exploration and mining finance sectors. His technical experience in the mineral and oil & gas industry was gained in a wide variety of geological and geographical settings including Australia, Asia, West and Eastern Africa and North and South America during his time with large multinational French Geophysical Contracting Corporation (CGG) including managing World Bank and United Nations sponsored geophysical projects.

Scott Reid holds graduate and postgraduate qualifications in geophysics, applied finance and mineral economics. During the past three years Mr Reid has held the following listed company directorships:

- AIM Resources Limited from 16 May 2002 to 31 March 2007
- Discovery Nickel Limited from 30 May 2003 to 31 July 2006
- MXL Limited from 5 June 2007 to 2 May 2008

Philip Treisman B.A., LLB (Wits) ● Director of Strategy & Counsel

Philip Treisman has over 10 years experience in the international finance and mining and resource industries and has been the principal advisor for strategic business development in international finance, mining and resource projects and various government sponsored infrastructure development projects throughout Africa, the Caribbean, Asia, Oceania and Australia. His close relationship with London's finance community and his role in advising companies listing on the Johannesburg Stock Exchange, Botswana Stock Exchange and London's Alternative Investment Market has provided him with extensive experience in corporate activities relating to junior mining companies expanding their activities and increasing their shareholder value as they move into the multinational arena.

Wayne John Kernaghan B.Bus, ACA, FAICD, FCIS ● Finance Director & Company Secretary

Wayne Kernaghan is a member of the Institute of Chartered Accountants in Australia with over 20 years experience in various areas of the mining industry. He is a Fellow of the Australian Institute of Company Directors and a Chartered Secretary. During the past three years Mr Kernaghan has held the following listed company directorships:

- Cullen Resources Limited from 11 November 1997
- ETT Limited from 19 February 2009
- Goldlink Incomeplus Limited from 18 December 2003 to 29 November 2007
- Australia Motor Finance Group Limited from 7 September 2006 to 24 November 2008

Mr Kernaghan was appointed company secretary on 30 June 2005.

Gregory Neil Duncan B.Sc., MAusIMM ● Technical Director

Greg Duncan is an exploration geologist with extensive experience in gold, base metal and diamond exploration in Australia. He combines field experience with technical expertise in the planning and management of exploration programs in remote locations and has successfully advanced conceptual models to exploration success during his career.

Currently a consulting geologist based in Brisbane he brings solid exploration credentials to the Board.

Directors' Interests

Directors' interests in the shares and options of the company were:

Director	Direct		Indirect	
	Shares	Various Options	Shares	Various Options
S Reid	5,501,667	3,672,500	-	-
P Treisman	443,333	-	-	-
W Kernaghan	5,150,005	4,875,003	1,726,667	1,109,807
G Duncan	1,000,000	-	5,231,667	4,595,416

Principal Activities

The principal activities of the consolidated group during the financial year were mining and mineral exploration and seeking mining infrastructure opportunities. There was no significant change in the nature of the consolidated group's principal activities during the financial year.

Review & Results of Operations

Gulf Resources Limited is involved in mining and mineral exploration and infrastructure projects. The net loss after providing for income tax amounted to $70,598 (2008: $4,078,525). This year the consolidated entity recognized a gain on business acquisition of $3,236,712 in respect of the purchase of Rio Tinto Uganda Ltd.

The consolidated entity negotiated and signed a Sale and Purchase Agreement with Rio Tinto International Holdings Ltd for the acquisition of the Namekara mining operation in Eastern Uganda. The acquisition of the Namekara vermiculite project fits with the company's strategy to seek early cashflow operations.

This acquisition was completed in late May 2009 with the company now owning one of the largest high grade vermiculite mineral deposits in the world.

Development opportunities were also reviewed in Uganda, Southern Sudan, Tanzania, Madagascar, South Africa and Vietnam.

Dividends Paid or Recommended

The directors do not recommend the payment of a dividend for this financial year. No dividend has been declared or paid by the company since the end of the previous financial year.

Financial Position

The net assets of the consolidated group were $4,376,740 at 30 June 2009. The increase in net assets is the result of the acquisition in late May 2009 of the Namekara vermiculite project on delayed payment terms from Rio Tinto Limited.

Future Developments, Prospects & Business Strategies

Gulf is committed to injecting USD$500,000 for plant upgrade and mining operations for the vermiculite operation over the next 12 months to bring the operation to a sustained production rate of 8,000 tonnes per annum of vermiculite product, as agreed in the Sale and Purchase Agreement. Gulf plans to expand the operation to achieve 25,000 tonnes per annum by 2012.

Environmental Issues

The exploration activities of the consolidated entity in Australia are subject to environmental regulation under the laws of the Commonwealth and the States in which those exploration activities are conducted. The environmental laws and regulations generally address the potential impact of the consolidated entity's activities in the areas of water and air quality, noise, surface disturbance and the impact upon flora and fauna. The directors are not aware of any environmental matter which would have a materially adverse impact on the overall business of the consolidated entity.

The exploration and mining activities of the consolidated entity in Uganda are subject to environmental regulation under the laws of the Republic of Uganda (most specifically the 2004 Ugandan Mining Regulations and 2003 Ugandan Mining Act). The environmental laws and regulations in Uganda address the impact of the consolidated entity's activities in the areas of water and air quality, noise, surface disturbance and impact on flora and fauna. The directors are not aware of any environmental matter which would have a materially adverse impact on the overall business of the consolidated entity.

Significant Changes in State of Affairs

The significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review were:

- The issue of shares and options during the year to raise a net $751,500.
- The incorporation of a number of overseas consolidated entities. (Refer to Note 16)
- The consolidated entity negotiated and signed a Sale and Purchase Agreement with Rio Tinto International Holdings Ltd for the acquisition of the Namekara mining operations in Eastern Uganda. Namekara is one of the largest high grade vermiculite mineral deposits in the world. (Refer to Note 18)

After Balance Date Events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the parent entity, to affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the subsequent financial years, other than:

- On 4 August 2009, an additional 35,000,000 shares have been issued at $0.03 to raise $1,050,000 before expenses.

Directors Meetings

The number of Directors Meetings of Gulf Resources Limited held during the financial period ended 30 June, 2009 and the number of meetings attended by each director are as follows:

	Directors Meetings	
Name	Eligible to Attend	Attended
S Reid	5	5
W Kernaghan	5	5
G Duncan	5	5
P Treisman	5	5

As well as formal directors' meetings, executive and non-executive directors are in frequent communication.

Options

At the date of this report and at 30 June 2009 the company had 68,078,100 (2008: 60,078,100) listed options on issue over unissued ordinary shares and the details are as follows:

Type	Grant Date	Number	Exercise Price	Expiry Date
Listed	Various	42,629,028	$0.25	31 December 2009
Listed	Various	25,449,072	$0.20	30 June 2011

During the year, no (2008: 378,330) fully paid ordinary shares were issued by virtue of the exercise of options. Since the end of the financial year no shares have been issued by virtue of the exercise of options.

Remuneration Report

This report details the nature and amount of remuneration for each director of Gulf Resources Limited.

Remuneration Policy

The remuneration policy of Gulf Resources Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The board of Gulf Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated group as well as create goal congruence between directors and shareholders.

Company Performance, Shareholders' Wealth & Director Remuneration

The remuneration policy, setting the terms and conditions for the executive directors was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience), options and incentives. The board reviews executive packages annually by reference to comparable information from industry sectors and other listed companies in similar industries.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of directors' fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Directors' fees for non-executive directors are not linked to the performance of the company.

During the year no remuneration was based on any performance conditions, including company or personal performance.

To align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

Compensation Practices

The board's policy for determining the nature and amount of compensation of key management for the company is:

The remuneration for executive officers, including executive directors is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. There are no formal written contracts in place, however normal employment arrangements are adhered to. Upon retirement, specified directors and executives are paid employee benefit entitlements accrued to the date of retirement. Any options not exercised before or on the date of termination lapse.

Key Management Personnel Remuneration

The remuneration for each director received during the year was as follows:

Director 2009	Short Term Directors Fees $	Short Term Consulting Fees $	Non Monetary Benefit $	Post Employment Superannuation $	Total $
S Reid	108,108	145,000	33,760	9,730	296,598
P Treisman	60,000	129,545	-	5,400	194,945
W Kernaghan	60,000	170,000	-	5,400	235,400
G Duncan	60,000	42,000	-	5,400	107,400

Director 2008	Short Term Directors Fees $	Short Term Consulting Fees $	Non Monetary Benefit $	Post Employment Superannuation $	Total $
S Reid	59,240	375,000	33,760	5,320	473,320
P Treisman	50,000	130,000	-	4,500	184,500
W Kernaghan	58,000	180,000	-	5,220	243,220
G Duncan	58,000	170,000	-	5,220	233,220

There have been payments made to director related entities for services provided to the economic entity which have been included in the above amounts.

The executive role is performed by the directors.

Options Granted as Part of Remuneration for the Year Ended 30 June 2009

There were no options granted as part of director and executive emoluments during the year.

Corporate Governance

In recognising the need for the highest standard of corporate behaviour and accountability, the directors of Gulf Resources Limited support and adhere to the principles of good corporate governance. The company's corporate governance statement can be found on pages 7 to 8.

Indemnifying Officers

The company has not, during or since the end of the financial year, in respect of any person who is or has been an officer of the company or related body corporate indemnified against liability incurred as an officer including costs and expenses in successfully defending legal proceedings or paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-Audit Services

The Board of Directors confirms that no non-audit services were provided during the year by the auditors, and therefore the general standard of independence for auditors imposed by the Corporations Act 2001 and APES 110: code of Ethics for Professional Accountant set by the Accounting Professional and Ethical Standards Board has been complied with.

Auditor's Independence Declaration

The lead auditor's independence declaration for the period ended 30 June 2009 has been received and can be found on page 14.

Signed in accordance with a resolution of the Board of Directors:

S Reid
Chairman
Sydney, 29 September 2009

A D Danieli Audit Pty Ltd

Authorised Audit Company
ASIC Registered Number 339233

Audit & Assurance Services

Level 5, 285 George Street
Sydney NSW 2000
PO Box H88
Australia Square NSW 1215

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Ph: (02) 9290 3099
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Website:
www.addca.com.au

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF GULF RESOURCES LIMITED AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief during the year ended 30 June 2009 there have been:

i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

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

A D DANIELI AUDIT PTY LTD

Sam Danieli
Director

Sydney, 29 September 2009

Liability limited by a scheme approved under Professional Standards Legislation

COVER OF EXCELLENCE

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Independent Auditor's Report
To the Members of
Gulf Resources Ltd
A.B.N. 13 115 027 033

Report on the Financial Report

We have audited the accompanying financial report of Gulf Resources Limited (the company) and Gulf Resources Limited and Controlled Entities (the consolidated group), which comprises the balance sheet as at 30 June 2009 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgment, 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.

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. We confirm that the independence declaration required by the Corporations Act 2001, was provided to the directors of Gulf Resources Limited on 29 September 2009.

__Auditor's Opinion__

In our opinion:

a the financial report of Gulf Resources Limited and Gulf Resources Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

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

__Report on the Remuneration Report__

We have audited the Remuneration Report included in pages 11 to 12 of the report of the directors for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 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.

__Auditors Opinion__

In our opinion the Remuneration Report of Gulf Resources Limited for the year ended 30 June 2009, complies with s 300A of the Corporations Act 2001.

A D DANIELI AUDIT PTY LTD

Sam Danieli
Director

Sydney, 29 September 2009

DIRECTORS' DECLARATION

The directors of the company declare that:

(a) The financial statements and notes, as set out on pages 18 to 38, are in accordance with the Corporations Act 2001 and:

- (i) comply with Accounting Standards; and
- (ii) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and consolidated group;

(b) The Executive Chairman and Finance Director have each declared that:

- (i) the financial records for the company for the financial period have been properly maintained in accordance with section 286 of the Corporations Act 2001;
- (ii) the financial statements and notes for the financial period comply with the Accounting Standards; and
- (iii) the financial statements and notes for the financial year give a true and fair view.

(c) In the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

S Reid
Chairman
Sydney, 29 September 2009

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
Revenue	2	511,571	90,895	511,571	90,895
Gain on business acquisition	18	3,236,712	-	-	-
Employee benefits expense		(580,125)	(474,839)	(483,779)	(369,570)
Depreciation expense		(163,984)	(101,734)	(88,675)	(82,324)
Exploration expenditure	8	(1,012,189)	(1,483,972)	(1,002,466)	(1,482,273)
Exploration expenditure impaired	8	(301,650)	-	-	-
Operating expenses		(1,760,933)	(2,108,875)	(3,036,367)	(2,062,470)
Loss from continuing activities before income tax		(70,598)	(4,078,525)	(4,099,716)	(3,905,742)
Income tax expense		-	-	-	-
Net loss attributable to members of Gulf Resources Limited		(70,598)	(4,078,525)	(4,099,716)	(3,905,742)
Basic loss per share (cents per share)	17	(0.10)	(7.8)		
Diluted loss per share (cents per share)		(0.05)	(5.3)		

(The accompanying notes form part of these financial statements.)

BALANCE SHEET
AT 30 JUNE 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	4	766,793	2,825,199	735,087	2,817,539
Trade and other receivables	5	278,845	265,902	256,345	190,975
TOTAL CURRENT ASSETS		1,045,638	3,091,101	991,432	3,008,514
NON-CURRENT ASSETS					
Trade and other receivables	5	-	-	74,976	659,137
Financial assets	6	39,390	122,187	39,498	844,305
Property, plant and equipment	7	4,570,897	264,740	95,147	174,274
Deferred exploration costs	8	-	301,650	-	-
TOTAL NON-CURRENT ASSETS		4,610,287	688,577	209,621	1,677,716
TOTAL ASSETS		5,655,925	3,779,678	1,201,053	4,686,230
CURRENT LIABILITIES					
Trade and other payables	9	231,002	228,215	160,711	228,003
Provisions	10	3,208	-	3,208	-
TOTAL CURRENT LIABILITIES		234,210	228,215	163,919	228,003
NON-CURRENT LIABILITIES					
Trade and other payables	9	1,044,975	-	-	-
TOTAL NON-CURRENT LIABILITIES		1,044,975	-	-	-
TOTAL LIABILITIES		1,279,185	228,215	163,919	228,003
NET ASSETS		4,376,740	3,551,463	1,037,134	4,458,227
EQUITY					
Issued capital	11	9,549,967	8,958,467	9,549,967	8,958,467
Reserves	12	1,290,594	986,219	1,073,342	986,219
Accumulated losses		(6,463,821)	(6,393,223)	(9,586,175)	(5,486,459)
TOTAL EQUITY		4,376,740	3,551,463	1,037,134	4,458,227

(The accompanying notes form part of these financial statements.)

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

Consolidated Group	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Balance at 1 July 2007	4,740,963	666,451	(2,314,698)	3,092,716
Issue of share capital	4,217,504	-	-	4,217,504
Issue of options	-	697,581	-	697,581
Fair value revaluation	-	(377,813)	-	(377,813)
Loss for the year	-	-	(4,078,525)	(4,078,525)
Balance at 30 June 2008	8,958,467	986,219	(6,393,223)	3,551,463
Balance at 1 July 2008	8,958,467	986,219	(6,393,223)	3,551,463
Issue of share capital	591,500	-	-	591,500
Issue of options	-	160,000	-	160,000
Fair value revaluation	-	(72,877)	-	(72,877)
Foreign currency translation	-	217,252	-	217,252
Loss for the year	-	-	(70,598)	(70,598)
Balance at 30 June 2009	9,549,967	1,290,594	(6,463,821)	4,376,740

Parent Entity	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Balance at 1 July 2007	4,740,963	666,451	(1,580,717)	3,826,697
Issue of share capital	4,217,504	-	-	4,217,504
Issue of options	-	697,581	-	697,581
Fair value revaluation	-	(377,813)	-	(377,813)
Loss for the year	-	-	(3,905,742)	(3,905,742)
Balance at 30 June 2008	8,958,467	986,219	(5,486,459)	4,458,227
Balance at 1 July 2008	8,958,467	986,219	(5,486,459)	4,458,227
Issue of share capital	591,500	-	-	591,500
Issue of options	-	160,000	-	160,000
Fair value revaluation	-	(72,877)	-	(72,877)
Loss for the year	-	-	(4,099,716)	(4,099,716)
Balance at 30 June 2009	9,549,967	1,073,342	(9,586,175)	1,037,134

(The accompanying notes form part of these financial statements.)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Group 2009	2008	Parent Entity 2009	2008
		$	$	$	$
Cash flows from Operating Activities					
Interest received		79,492	62,625	79,492	62,625
Receipts from customers		432,079	28,270	432,079	28,270
Payments to suppliers and employees		(3,333,204)	(4,131,330)	(3,267,719)	(3,923,242)
Net Cash (used in) provided by Operating Activities	23	(2,821,633)	(4,040,435)	(2,756,148)	(3,832,347)
Cash flows from Investing Activities					
Exploration expenditure		-	(301,650)	-	-
Proceeds from sale of financial assets		118,771	398,679	118,771	398,679
Acquisition of financial assets		(94,454)	(383,768)	(94,454)	(383,768)
Acquisition of subsidiaries		-	-	-	(1,416)
Cash acquired with subsidiaries		28	-	-	-
Proceeds for plant and equipment		-	51,184	-	51,184
Payment for plant and equipment		(12,618)	(154,517)	(9,548)	(44,641)
Net Cash (used in) provided by Investing Activities		11,727	(390,072)	14,769	20,038
Cash flows from Financing Activities					
Loans to controlled entities		-	-	(92,573)	(625,137)
Proceeds from share and option issues		751,500	4,915,085	751,500	4,915,085
Net Cash provided by (used in) Financing Activities		751,500	4,915,085	658,927	4,289,948
Net (decrease)/increase in cash held		(2,058,406)	484,578	(2,082,452)	477,639
Cash at beginning of the year		2,825,199	2,340,621	2,817,539	2,339,900
Cash at end of the year	4	766,793	2,825,199	735,087	2,817,539

(The accompanying notes form part of these financial statements.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity and controlled entities and as an individual parent entity Gulf Resources Limited is a public listed company incorporated and domiciled in Australia.

The financial report of Gulf Resources Limited and its controlled entities and Gulf Resources Limited as an individual parent entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared using the accrual basis of accounting and is based on historical cost and does not take account of changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Going concern

The accounts have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the normal course of business.

The consolidated group had cash assets of $766,793 at 30 June 2009. The directors acknowledge that continued exploration and development of the consolidated group's mineral exploration projects will necessitate further capital raisings.

The company remains dependent on its ability to raise funding in volatile capital markets. However, the directors continue to believe that the going concern basis of accounting by the parent entity and consolidated group is appropriate for the following reasons:

- The company and consolidated group have successfully completed capital raisings during the year to 30 June 2009, notwithstanding the challenging conditions in equity markets.
- The company raising $1,050,000 before expenses since 30 June 2009.

In consideration of the above matters, the directors have determined that it is reasonably foreseeable that the company and consolidated group will continue as going concerns and that it is appropriate that the going concern method of accounting be adopted in the preparation of the financial statements. In the event that the consolidated group is unable to continue as a going concern (due to inability to raise future funding requirements), it may be required to realise its assets at amounts different to those currently recognised, settle liabilities other than in the ordinary course of business and make provisions for other costs which may arise as a result of cessation or curtailment of normal business operations.

Accordingly, the financial statements do not include adjustments relating to the recoverability and classification of assets amount or to the amounts and classification of liabilities that might be necessary if the company and consolidated group do not continue as going concerns.

a. Principles of Consolidation

A controlled entity is any entity controlled by the Company. Control exists where the Company has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Company to achieve the objectives of the Company.

A list of controlled entities is contained in Note 16 to the Financial Statements. All controlled entities have a June financial year end. All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

b. Mining Tenements & Deferred Exploration, Evaluation & Development Expenditure

Mining tenements are carried at cost, less accumulated impairment losses.

Mineral exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area of interest or sale of that area of interest, or exploration and evaluation activities have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in or in relation to, the area of interest are continuing.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

c. Goods & Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are presented in the Cash Flow Statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

d. Impairment of Assets

At each reporting date, the consolidated group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired.

If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

e. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates and tax laws that have been enacted or are subsequently enacted by the reporting date.

Current tax losses for current and prior periods are not recognised as an asset as the future income tax benefit can be carried forward only as an asset where realisation of the benefit can be regarded as being probable.

f. Share-Based Payments

The fair value determined at the grant date of equity-settled share-based payments is treated as the cost of assets acquired or expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Vesting is not conditional upon a market condition. No asset or expense is recognised for share-based payments that do not vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

g. Cash

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 14 days to maturity.

h. Revenue Recognition

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

i. Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained.

Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

j. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

k. Joint Venture Interests

An interest in a joint venture operation is brought to account by including in the respective financial statement categories:

- the consolidated entity's share in each of the individual assets employed in the joint venture;
- liabilities incurred by the consolidated entity in relation to the joint venture including the economic entity's share of any liabilities for which the consolidated entity is jointly and/or severally liable; and
- The consolidated entity's share of expenses of the joint venture.

l. Financial Instruments

Recognition & Initial Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification & Subsequent Measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

a. the amount at which the financial asset or financial liability is measured at initial recognition;
b. less principal repayments;
c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
d. less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

i. *Financial assets at fair value through profit or loss*
Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

ii. *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

iii. *Held-to-maturity investments*
Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

iv. *Available-for-sale financial assets*
Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. *Financial liabilities*
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

m. Foreign Currency Transactions and Balances

Functional & presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction & Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group Companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

n. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within the year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

o. Critical Accounting Estimates & Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates

(i) *Impairment*

The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key judgements

(i) *Exploration and Evaluation Expenditure*

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded.

p. Property, Plant & Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Property and Leasehold Improvement

Freehold land and buildings and leasehold improvements are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant & equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings	10%
Leasehold improvements	10%
Plant and equipment	33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

q. New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:

  - acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;

  - a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
  - contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;

  - there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);

  - dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;

  - impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and

  - where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

  The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.

- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

- AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
2 Loss for the Year				
Revenue from ordinary activities:				
Interest – other persons	79,492	62,625	79,492	62,625
Other - realised exchange gain	432,079	28,270	432,079	28,270
	511,571	90,895	511,571	90,895
Expenses from ordinary activities:				
Loss on sale of financial assets	(14,397)	97,314	(14,397)	97,314
Consulting	48,219	489,300	48,219	489,300
Compliance	122,318	100,140	122,291	100,140
Legal	72,664	71,180	75,584	71,180
Travel and Airfares	472,647	295,215	471,372	295,215
Rental expense – minimum lease payments	214,174	161,185	211,509	161,185
3. Income Tax				
Operating (loss) before income tax	(70,598)	(4,078,525)	(4,099,716)	(3,905,742)
Prima facie income tax (benefit) calculated at 30% (2008:30%)	(21,179)	(1,223,557)	(1,229,915)	(1,171,723)
Non-deductible items				
Gain on business acquisition	(971,014)	-	-	-
Non-deductible expenses	21,796	-	21,796	-
Less income tax benefits not brought to account at balance date	970,397	1,223,557	1,208,119	1,171,723
Total income tax expense	-	-	-	-

Potential future income tax benefits estimated at $2,888,363 (2008: $1,917,966) attributable to Australian tax losses carried forward by the company and future benefits to exploration expenditure and other timing differences allowable for deduction have not been brought to account in the consolidated accounts at 30 June 2009 because the Directors do not believe it is appropriate to regard full realisation of the future income tax benefits as probable. These benefits will only be obtained if:

(a) the company derives future assessable income of a nature and of sufficient amount to enable the benefit from the deductions to be realised; and
(b) the company continues to comply with the conditions for deductibility imposed by tax legislation; and
(c) no changes in tax legislation adversely affect the company in realising the benefit from the deduction in losses.

4. Cash & Cash Equivalents

Cash and cash equivalents at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash on hand and at bank	766,793	2,825,199	735,087	2,817,539
	766,793	2,825,199	735,087	2,817,539

5. Trade & Other Receivables

Current				
Other debtors	256,345	245,902	256,345	190,975
Security deposits	22,500	20,000	-	-
	278,845	265,902	256,345	190,975
Non-Current				
Loans to controlled entities	-	-	74,976	659,137
	-	-	74,976	659,137

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
6. Financial Assets				
Available for sale financial assets comprise:				
Unlisted investments at cost				
- shares in controlled entities	-	-	108	722,118
Listed investments at fair value				
- shares in listed corporations	39,390	122,187	39,390	122,187
	39,390	122,187	39,498	844,305

The fair value of unlisted available for sale financial assets cannot be reliably measured, and are therefore measured at cost. Available for sale financial assets comprise investments in the ordinary capital of various entities. There are no fixed returns or fixed maturity dates attached to these investments.

	Consolidated Group 2009	Consolidated Group 2008	Parent Entity 2009	Parent Entity 2008
7. Property, Plant & Equipment				
Plant and equipment	534,638	55,856	57,090	47,542
Less accumulated depreciation	(143,601)	(11,724)	(28,372)	(11,091)
	391,037	44,132	28,718	36,451
Leasehold improvements	4,821,603	84,783	84,783	84,783
Less accumulated amortisation	(682,888)	(27,978)	(55,957)	(27,978)
	4,138,715	56,805	28,826	56,805
Motor Vehicles	144,801	233,123	131,561	131,561
Less accumulated depreciation	(103,656)	(69,320)	(93,958)	(50,543)
	41,145	163,803	37,603	81,018
Total Property, Plant & Equipment	4,570,897	264,740	95,147	174,274

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Consolidated Group 2009	Consolidated Group 2008	Parent Entity 2009	Parent Entity 2008
Plant and Equipment				
Balance at the beginning of year	44,132	2,741	36,451	2,741
Additions	12,618	52,955	9,548	44,642
Acquired business combination	352,041	-	-	-
Net exchange differences	18,957	-	-	-
Disposals	(9,131)	-	-	-
Depreciation	(27,580)	(11,564)	(17,281)	(10,932)
Carrying amount at the end of year	391,037	44,132	28,718	36,451
Leasehold improvements				
Balance at the beginning of year	56,805	135,967	56,805	135,967
Additions	-	-	-	-
Acquired business combination	3,969,057	-	-	-
Net exchange differences	188,013	-	-	-
Disposals	-	(51,184)	-	(51,184)
Amortisation	(75,160)	(27,978)	(27,979)	(27,978)
Carrying amount at the end of year	4,138,715	56,805	28,826	56,805
Motor Vehicles				
Balance at the beginning of year	163,803	124,433	81,018	124,433
Additions	-	101562	-	-
Acquired business combination	3,780	-	-	-
Net exchange differences	525	-	-	-
Disposals	(65,719)	-	-	-
Depreciation	(61,244)	(62,192)	(43,415)	(43,415)
Carrying amount at the end of year	41,145	163,803	37,603	81,018

The consolidated entity has a certain obligation to provide USD$500,000 to East African Vermiculite Ltd over the next year for plant upgrade and mining operations.

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
8. Deferred Exploration Costs				
Costs carried forward in respect of areas of interest in the exploration and evaluation phase				
Opening balance	301,650	-	-	-
Expenditure incurred during the year	1,012,189	1,785,622	1,002,466	1,482,273
	1,313,839	1,785,622	1,002,466	1,482,273
Less expenditure written off during the year	(1,012,189)	(1,483,972)	(1,002,466)	(1,482,273)
Expenditure impaired	(301,650)	-	-	-
Closing balance	-	301,650	-	-
9. Trade & Other Payables				
Current				
Trade and other payables	231,002	228,215	160,711	228,003
	231,002	228,215	160,711	228,003
Non-Current				
Trade and other payables (i)	1,044,975	-	-	-
	1,044,975	-	-	-

(i) This amount represents the USD$1,000,000 payable to Rio Tinto Ltd for the purchase of Rio Tinto Uganda Ltd which is due to be paid on 31 March 2012. Rio Tinto Uganda Limited has subsequently changed its name to East African Vermiculite Ltd. This amount has been discounted at the rate of 8% per annum. If the consolidated entity completes an external fund raising of USD$5,000,000 before this date the amount becomes repayable on the successful completion of this funding. Refer to Note 18 for further details of the acquisition.

10. Provisions				
Current				
Employee benefits	3,208	-	3,208	-
	3,208	-	3,208	-
11. Issued Capital				
Issued capital				
89,474,729 (2008: 69,758,055) fully paid shares	9,549,967	8,958,467	9,549,967	8,958,467

The company has authorised share capital amounting to 89,474,729 ordinary shares of no par value.

Movements during the year	2009 Number of Shares	2008 Number of Shares	2009 $	2008 $
Beginning of the financial year	69,758,055	46,559,271	8,958,467	4,740,963
20/11/2007 Performance Rights	-	3,000,000	-	-
10/12/2007 issued at 27.5 cents	-	545,454	-	150,000
10/12/2007 issued at 26.5 cents	-	4,500,000	-	1,192,500
27/05/2008 exercise of options at 20 cents	-	21,666	-	4,333
28/05/2008 exercise of options at 20 cents	-	356,664	-	71,333
28/05/2008 issued at 20 cents	-	14,775,000	-	2,955,000
12/06/2009 issued at 3 cents	8,050,007	-	241,500	-
12/06/2009 issued at 3 cents	11,666,667	-	350,000	-
Share issue expenses	-	-	-	(155,662)
End of the financial year	89,474,729	69,758,055	9,549,967	8,958,467

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid upon shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Capital Management

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure to include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

Options

At 30 June 2009 there are 68,078,100 (2008: 60,078,100) unissued shares in respect of which options were outstanding and the details of them are as follows:

Type	Number	Exercise Price	Expiry Date
Listed	42,629,028	$0.25	31 December 2009
Listed	25,449,072	$0.20	30 June 2011

During the year 8,000,000 options over unissued shares in the company were issued at 2 cents each.

12. Reserves

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
Share Option Reserve	1,524,032	1,364,032	1,524,032	1,364,032
Financial Asset Reserve	(450,690)	(377,813)	(450,690)	(377,813)
Foreign Currency Translation Reserve	217,252	-	-	-
	1,290,594	986,219	1,073,342	986,219
(i) Share Option Reserve				
This relates to the recognition on the issue of options.				
Beginning of the financial year	1,364,032	666,451	1,364,032	666,451
Share based payment	-	-	-	-
Issue of options to shareholders	160,000	697,581	160,000	697,581
End of the financial year	1,524,032	1,364,032	1,524,032	1,364,032
(ii) Financial Asset Reserve				
This relates to the movement in the fair valuation of financial assets.				
Beginning of the financial year	(377,813)	-	(377,813)	-
Fair value of financial assets	(72,877)	(377,813)	(72,877)	(377,813)
End of the financial year	(450,690)	(377,813)	(450,690)	(377,813)
(iii) Foreign Currency Translation Reserve				
This relates to translation of foreign subsidiaries accounts to Australian dollars.				
Beginning of the financial year	-	-	-	-
Translation	217,252	-	-	-
End of the financial year	217,252	-	-	-

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
13. Auditors remuneration				
Remuneration of the auditor of the parent entity for:				
– auditing or reviewing the financial report	62,367	43,712	62,367	43,712
– other services	-	-	-	-
	62,367	43,712	62,367	43,712

14. Key management personnel compensation

(a) Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Name	Appointed	Position
S Reid	30 June 2005	Executive Chairman
P Treisman	14 August 2007	Director of Strategy & Counsel
W Kernaghan	30 June 2005	Finance Director
G Duncan	30 June 2005	Technical Director

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

(b) Number of options over ordinary shares of the parent held by key management personnel and their related parties

Company Director	Balance 1/7/2008	Options Issued	Options Exercised	Balance 30/6/2009
S Reid	3,672,500	-	-	3,672,500
W Kernaghan	5,984,810	-	-	5,984,810
G Duncan	4,595,416	-	-	4,595,416
P Treisman	-	-	-	-

	Balance 1/7/2007	Options Issued	Options Exercised	Balance 30/6/2008
S Reid	967,116	2,622,500	-	3,672,500
W Kernaghan	2,653,825	3,334,318	-	5,984,810
G Duncan	3,095,416	1,500,000	-	4,595,416
P Treisman	-	-	-	-

(c) Number of shares held by key management personnel and their related parties

Company Director	Balance 1/7/2008	Options Exercised	Net Change Other	Balance 30/6/2009
S Reid	5,245,000	-	256,667	5,501,667
P Treisman	410,000	-	33,333	443,333
W Kernaghan	6,668,637	-	208,035	6,876,672
G Duncan	6,065,000	-	166,667	6,231,667

	Balance 1/7/2007	Options Exercised	Net Change Other	Balance 30/6/2008
S Reid	3,288,464	-	1,956,536	5,245,000
P Treisman	-	-	410,000	410,000
W Kernaghan	5,178,632	-	1,500,000	6,668,637
G Duncan	4,815,000	-	1,250,000	6,065,000

15. Related Party Transactions

(a) Payments to director related companies

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Consultancy payments were made to J A Hobson & Associates Pty Ltd totaling $129,545 (2008: $130,000) which is a company controlled by Mr P Treisman. Consultancy payments were made to Mosman Corporate Services Pty Ltd totaling $170,000 (2008: $180,000) which is a company controlled by Mr W Kernaghan. Geological payments were made to Pacific Consulting Services Pty Ltd totaling $42,000 (2008: $170,000) which is a company controlled by Mr G Duncan and was reimbursed geological services of $Nil (2008: $10,813).

(b) Transactions with partially and wholly owned controlled entities

During the financial year there have been transactions between Gulf Resources Limited, and its partially and wholly owned controlled entities which have been eliminated for consolidation purposes.

Interest free loans have been provided by the company to its partially and wholly owned controlled entities $92,573 (2008: $659,137).

The consolidated entity has certain obligations to provide USD$500,000 to East African Vermiculite Ltd over the next year for plant upgrade and mining operations. This amount has been guaranteed by the parent company.

16. Economic entity accounts include a consolidation of the following companies:

Company	Contribution to consolidated operating loss		Details of investment in shares Cost of parent entity's investment in subsidiaries	
	2009	2008	2009	2008
	$	$	$	$
Gulf Resources Ltd	(3,117,563)	(3,905,742)	-	-
Asia Pacific Gold Corporation Pty Ltd (previously Dingo Resources Pty Ltd)	12,198	(650)	-	251,100
Chillagoe Resources Pty Ltd	3,700	(585)	-	469,600
Bonanza Uranium Ltd	-	(2,513)	-	2
Gulf Resources Uganda Limited	-	(500)	-	400
Gulf Resources Logistics (Southern Sudan) Limited	-	(100)	-	400
Gulf Resources (Southern Sudan) Limited	-	(500)	-	400
GLF Holdings Limited	(1,432)	(1,900)	108	108
Industrial Minerals International Corporation (previously GR Services Limited)	3,234,771	(1,900)	-	108
Nile Fresh Produce Limited	-	(500)	-	-
Revuma Energy Corporation (previously GR Projects Limited)	(1,935)	(1900)	-	-
East Africa Development Corporation (previously GLFR308 Holdings Limited/Mtwara Infrastructure Corporation)	(2,412)	(1,900)	-	-
Gulf Future Fuels Corporation (previously GLFR508 Holdings Limited)	(1,934)	(1,900)	-	-
URT Development Co. Ltd	(99,834)	(157,935)	-	-
East African Vermiculite Limited (previously Rio Tinto Uganda Ltd)	(96,157)	-	-	-
	(70,598)	(4,078,525)	108	722,118

Company	Place of Incorporation	Date of Acquisition	Class of Shares	2009	2008
Asia Pacific Gold Corporation Pty Ltd (previously Dingo Resources Pty Ltd)	Australia	28.02.06	Ordinary	100%	100%
Chillagoe Resources Pty Ltd	Australia	28.02.06	Ordinary	100%	100%
Bonanza Uranium Ltd	Australia	23.05.07	Ordinary	-	100%
East African Vermiculite Limited (previously Rio Tinto Uganda Ltd)	Uganda	22.05.09	Ordinary	100%	100%
Gulf Resources Uganda Limited	Uganda	29.04.08	Ordinary	90%	90%
Gulf Resources Logistics (Southern Sudan) Limited	Southern Sudan	29.04.08	Ordinary	80%	80%
Gulf Resources (Southern Sudan) Limited	Southern Sudan	29.04.08	Ordinary	80%	80%
Nile Fresh Produce Limited	Southern Sudan	29.04.08	Ordinary	64%	64%
GLF Holdings Limited	British Virgin Islands	30.04.08	Ordinary	100%	100%
Industrial Minerals International Corporation (previously GR Services Limited)	British Virgin Islands	30.04.08	Ordinary	100%	100%
Revuma Energy Corporation (previously GR Projects Limited)	British Virgin Islands	30.04.08	Ordinary	100%	100%
East Africa Development Corporation (previously GLFR308 Holdings Limited/Mtwara Infrastructure Corporation)	British Virgin Islands	30.04.08	Ordinary	100%	100%
Gulf Future Fuels Corporation (previously GLFR508 Holdings Limited)	British Virgin Islands	30.04.08	Ordinary	100%	100%
URT Development Co. Limited	Tanzania	27.03.08	Ordinary	-	80%

Bonanza Uranium Ltd was struck off on 5 November 2008.

On 27 October 2008, URT Development Co. Limited was sold for nil consideration which resulted in net assets disposed of $79,763 for the Group. The loss for the period up to its sale was $99,834.

17. Earnings per share

	2009	2008
(a) Net loss: Net loss used in the calculation of basic earnings per share	(70,598)	(4,078,525)
(b) Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	70,730,384	52,552,892
Weighted average number of options outstanding	67,189,059	24,635,505
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	137,919,443	77,188,397

Subsequent to year end, the company completed a placement of 35,000,000 ordinary shares at a price of $0.03 each.

18. Business Combination

Acquisition of Rio Tinto Uganda Limited

On 22 May 2009, Industrial Minerals International Corporation (a subsidiary owned 100% by the parent entity) acquired 100% of Rio Tinto Uganda Limited, a company engaged in the exploration and mining of vermiculite in Uganda. Rio Tinto Uganda Limited has subsequently changed its name to East African Vermiculate Limited. Consideration for the acquisition is US$1,000,000 which is payable on 31 March 2012. If the consolidated entity completes an external fund raising of USD $5,000,000 before this date the amount becomes repayable on the successful completion of this funding.

Details of the fair value of the identifiable assets and liabilities acquired are as follows:

	Consolidated	
	Recognised on Acquisition $	Carrying Value $
Assets		
Cash at bank	28	28
Other debtors	197	197
Fixed Assets	4,324,879	4,324,879
	4,325,104	4,325,104
Liabilities		
Trade creditors	42,988	42,988
Salaries	429	429
	43,417	43,417
Fair value of identifiable net assets	4,281,687	4,281,687
Gain on business combination	(3,236,712)	
	1,044,975	
Consideration	1,044,975	
Cost relating to the acquisition	-	
	1,044,975	
Net cash inflow on acquisition is as follows:		
Net cash acquired with the subsidiary	28	
	28	

From the date of acquisition Rio Tinto Uganda Limited achieved a net loss of $98,765 after tax which has been included in the consolidated group's income statement. If the business combination acquisition had taken place at the beginning of the year, the loss after tax from continuing operations would have increased from $98,765 to $1,294,111 based upon no revenue for the year. The gain on business combination of $3,236,712 has been recognised in the Income Statement as Gain on Business Acquisition.

19. Capital & Leasing Commitments

(i) The consolidated entity has certain obligations to perform mining exploration work and expend minimum amounts of money on mineral exploration tenements. The consolidated entity has committed to expend a minimum of $75,000 (2008: $365,000) over the next year to keep its current tenements in good standing.

(ii) The consolidated entity has certain obligations to provide USD$500,000 to East African Vermiculite Ltd over the next year for plant upgrade and mining operations. This amount has been guaranteed by the parent company.

(iii) Lease expenditure commitments	Consolidated Group		Parent Entity	
Lease expenditure commitment Operating lease for premises	2009 $	2008 $	2009 $	2008 $
Minimum lease payments:				
– not later than one year	174,340	167,633	174,340	167,633
– later than one year and not later than five years	353,616	527,956	353,616	527,956
Aggregate lease expenditure contracted for at reporting date but not provided for	527,956	695,589	527,956	695,589

The property lease is a non–cancellable lease with a five year term (1 June 2007 to 31 May 2012), with rent payable monthly in advance.

20. Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries. The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk and liquidity risk. The Board of Directors is responsible for overseeing the establishment, implementation and ongoing monitoring and review of an effective risk management framework for the group. The group's risk management policies and objectives are designed to minimise the potential impacts of these risks on the results of the group where such impacts may be material.

i) Interest Rate Risk

The economic exposure to interest rate risk and the effective weighted interest for classes of financial assets and financial liabilities are set out below:

2009	Note	Floating Interest rate $	One year or less $	Over one To 5 years $	Non interest bearing $	Total $	Weighted average effective int. rate %
Financial assets							
Cash and cash equivalents	4	766,793	-	-	-	766,793	4
Trade and other receivables	5	-	-	-	278,845	278,845	N/A
Financial assets	6	-	-	-	39,390	39,390	N/A
		766,793	-	-	318,235	1,085,028	
Financial Liabilities							
Trade and other payables	9	-	-	1,044,975	231,002	1,275,977	N/A
		-	-	1,044,975	231,002	1,275,977	

2008	Note	Floating Interest rate $	One year or less $	Over one To 5 years $	Non interest bearing $	Total $	Weighted average effective int. rate %
Financial assets							
Cash and cash equivalents	4	2,825,199	-	-	-	2,825,199	7.0
Trade and other receivables	5	-	-	-	265,902	265,902	N/A
Financial assets	6	-	-	-	122,187	122,187	N/A
		2,825,199	-	-	388,089	3,213,288	
Financial Liabilities							
Trade and other payables	9	-	-	-	228,215	228,215	N/A
		-	-	-	228,215	228,215	N/A

The parent entity exposure to interest rate risk and the effective weighted interest for classes of financial assets and financial liabilities are set out below:

2009	Note	Floating Interest rate $	One year or less $	Over one To 5 years $	Non interest bearing $	Total $	Weighted average effective interest rate %
Financial assets							
Cash and cash equivalents	4	735,087	-	-	-	735,087	4
Trade and other receivables	5	-	-	-	331,321	331,321	NA
Financial assets	6	-	-	-	39,498	39,498	N/A
		735,087	-	-	370,819	1,105,906	
Financial Liabilities							
Trade and other payables	9	-	-	-	160,711	160,711	N/A
		-	-	-	160,711	160,711	

2008	Note	Floating interest rate $	One year or less $	Over one To 5 years $	Non interest bearing $	Total $	Weighted average effective interest rate %
Financial assets							
Cash and cash equivalents	4	2,817,539	-	-	-	2,817,539	7.0
Trade and other receivables	5	-	-	-	850,112	850,112	N/A
Financial assets	6	-	-	-	844,305	844,305	N/A
		2,817,539	-	-	1,694,417	4,511,956	
Financial Liabilities							
Trade and other payables	9	-	-	-	228,003	228,003	N/A
		-	-	-	228,003	228,003	

ii) Net fair values

Monetary financial assets and financial liabilities not readily traded in an organised financial market have been valued at cost, which approximate fair value. The carrying amounts of bank deposits, accounts receivable and, accounts payable approximate net fair value.

iii) Foreign Currency Risk

The consolidated group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the consolidated group's measurement currency.

iv) Liquidity Risk

The group manages liquidity risk by monitoring forecast cash flows.

v) Sensitivity Analysis

The group has performed a sensitivity analysis relating to its exposure to foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

The group has not performed a sensitivity analysis relating to its exposure to interest rate risk at balance date as it is not material and would have limited effect on the current year results.

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
Currency Risk	$	$	$	$
10% Weakening of Australian dollar				
- Profit/Loss impact	117,646	-	-	-
10% Strengthening Australian Dollar				
- Profit/Loss impact	(117,646)	-	-	-

Currency risk applies to a portion of operating and project costs for the Uganda subsidiaries. The impact on the profit/(loss) for the year relates to administration expenditure, operating and project costs.

21. Exchange Rates

The following exchange rates were used to convert Ugandan Shillings to United States dollars then to Australian Dollars for the Ugandan subsidiaries for the consolidated entity's accounts.

		Consolidated Group 2009
Spot rate for end of year balances	Ugandan Shillings to USD	2092
	USD to AUD	0.804
Average rates applied to revenue, costs	Ugandan Shillings to USD	2198
Capital additions and disposals	USD to AUD	0.7983

22. After Balance Date Events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the parent entity, to affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the subsequent financial years. Other than:

- An additional 35,000,000 shares have been issued at $0.03 per share since the end of the financial year which raised $1,050,000.

23. Cash Flow Information

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Loss from ordinary activities after income tax	(70,598)	(4,078,525)	(4,099,716)	(3,905,742)
Non cash flows in loss:				
Gain on business acquisition	(3,236,712)	-	-	-
Profit on sale of financial assets	(14,397)	-	(14,397)	-
Plant and equipment disposal	41,388	-	-	-
Provision for employee benefit	3,208	-	3,208	-
Depreciation	163,984	101,734	88,675	82,324
Exploration expenditure	301,650	-	-	-
Inter-Company loan written off	-	-	676,734	-
Loss on sale of financial asset	-	97,314	722,010	97,314
Changes in assets and liabilities:				
(Increase)/Decrease in Trade receivables	(12,943)	(149,220)	(65,370)	(94,293)
Increase/(Decrease) Trade and other payables	2,787	(11,738)	(67,292)	(11,950)
Operating cash flow	(2,821,633)	(4,040,435)	(2,756,148)	(3,832,347)

24. Segment Information

The group's primary segment reporting is business segments in the mining industry. Secondary segment information is reported geographically.

The following table presents revenue and profit information and certain assets and liability information regarding business segments for the year ended 30 June 2009 and 30 June 2008.

Geographical Location	Australia 2009	Australia 2008 $	Africa 2009 $	Africa 2008 $	Consolidated Group 2009 $	Consolidated Group 2008 $
Revenue						
Unallocated revenue	511,571	90,895	3,236,712	-	3,748,283	90,895
Total revenue	511,571	90,895	3,236,712	-	3,748,283	90,895
Result						
Segment result	(3,101,665)	(3,909,490)	3,031,067	(169,035)	(70,598)	(4,078,525)
Loss before income tax	(3,101,665)	(3,909,490)	3,031,067	(169,035)	(70,598)	(4,078,525)
Income tax expense	-	-	-	-	-	-
Loss after income tax	(3,101,665)	(3,909,490)	3,031,067	(169,035)	(70,598)	(4,078,525)
Assets						
Total assets	1,223,553	3,638,226	4,432,372	141,452	5,655,925	3,779,678
Liabilities						
Total liabilities	185,035	228,215	1,094,150	-	1,279,185	228,215
Other						
Depreciation and amortisation of segment assets	(88,675)	(82,324)	(75,309)	(19,410)	(163,984)	(101,734)

AUSTRALIAN SECURITIES EXCHANGE INFORMATION

Shareholdings

(a) Analysis of holdings as at 23 September 2009

	Ordinary Shares	Options 31/12/2009	Options 30/06/2011
1-1,000	11	1	1
1,001-5,000	52	70	85
5,001-10,000	121	30	24
10,001-100,000	226	125	54
100,001 and over	198	46	31
	608	272	195
Less than marketable parcels	184		

(b) Substantial shareholders

The company has the following substantial shareholders as at 22 September 2009:

	No. of Shares	% of Total
Mr Wayne Kernaghan	6,876,672	5.52
Pacific Consulting Services Pty Ltd	6,231,667	5.01

(c) Voting rights

No restrictions. On a show of hands every member present or by proxy shall have one vote and upon a poll each share shall have one vote.

(d) The names of the twenty largest shareholders of ordinary shares as at 22 September 2009.

	Holder Name	No. of Shares	% of Total
1	Merrill Lynch (Australia) Nominees Pty Limited	10,142.015	8.15
2	Mr Wayne Kernaghan	5,500,000	4.42
3	Pacific Consulting Services Pty Ltd	4,681,667	3.76
4	ANZ Nominees Limited	4,600,000	3.70
5	SA Capital Funds Management Limited	4,600,000	3.21
6	Mr Scott Reid	3,557,820	2.86
7	Mr Scott Reid	2,621,000	2.11
8	WJK Investments Pty Ltd	2,458,632	1.98
9	Mr Allan Harvey Moffatt	2,390,897	1.92
10	West African Exploration	1,950,000	1.57
11	Mr Rupert Northcott	1,670,000	1.34
12	Mr John William Rothe	1,666,666	1.34
13	Mrs Katherine Louise Reid	1,530,349	1.23
14	Mr A L Johnstone & Miss H L Morrison	1,316,667	1.06
15	M & S Super Investments Pty Ltd	1,300,000	1.04
16	Mr Morrice Cordiner	1,148,000	0.92
17	Andrew William Blackman	1,112,500	0.89
18	HSBC Custody Nominees (Australia) Limited	1,010,000	0.81
19	Mrs C E Taylor	1,000,000	0.80
20	Mr W J Vardanega & Mrs L Vardanega	1,000,000	0.80

AUSTRALIAN SECURITIES EXCHANGE INFORMATION

(e) The name of the twenty largest option holders for options expiring 31/12/2009

		No. of Options	% of Total
1	Merrill Lynch (Australia) Nominees Pty Limited	11,316,726	26.55
2	Mr Wayne Kernaghan	2,575,002	6.04
3	Proto Resources & Investments Ltd	2,550,000	5.98
4	Superstructure International Pty Ltd	1,750,000	4.11
5	Pacific Consulting Services Pty Ltd	1,500,000	3.52
6	Mr Craig Naysmith & Mrs Tara Naysmith	1,364,000	3.20
7	Mr Scott Andrew Reid	1,356,910	3.18
8	Mr Scott Andrew Reid	1,300,000	3.05
9	Mr P Gebhardt & Mrs C Gebhardt	1,100,000	2.58
10	ANZ Nominees Limited	1,000,000	2.35
11	WJK Investments Pty Ltd	759,316	1.78
12	Jacobs Corporation Pty Ltd	820,980	1.69
13	Mrs Katherine Louise Reid	700,000	1.64
14	Mr Morrice Cordiner	655,000	1.54
15	M & S Super Investments Pty Ltd	650,000	1.52
16	West African Exploration Pty ltd	575,000	1.35
17	HSBC Custody Nominees (Australia) Limited	500,000	1.17
18	Mrs Katherine Louise Reid	407,174	0.96
19	Mr Andrew William Blackman	387,500	0.91
20	Ms Kate Reid	375,000	0.88

(f) The name of the twenty largest option holders for option expiring 30/06/2011

		No. of Options	% of Total
1	Paradigm Capital Pty Ltd	3,000,000	11.79
2	Merrill Lynch (Australia) Nominees Pty Limited	2,500,000	9.82
3	Mr Wayne Kernaghan	2,300,000	9.04
4	Pacific Consulting Services Pty Ltd	1,528,750	6.01
5	Mr Marc Flory	1,500,000	5.89
6	Pacific Consulting Services Pty Ltd	1,383,333	5.44
7	West African Exploration Pty Ltd	1,150,000	4.52
8	Mr Craig Naysmith & Mrs Tara Naysmith	1,111,603	4.37
9	Mr Morrice Cordiner	1,000,000	3.93
10	Mr Scott Reid	750,000	2.95
11	M & S Super Investments Pty Ltd	750,000	2.95
12	The Health Information Service Pty Ltd	650,000	2.55
13	Armco Barriers Pty Ltd	493,333	1.94
14	Mrs Katherine Louise Reid	360,000	1.41
15	WJK Investments Pty Ltd	350,491	1.38
16	Mr Paul Phillip Cox	350,000	1.38
17	Mrs Karen Mitchell	350,000	1.38
18	Mr P Gebhardt & Mrs C Gebhardt	327,749	1.29
19	Mr Craig Naysmith & Mrs Karen Mitchell	311,682	1.22
20	Mr Scott Andrew Reid	300,000	1.18

AUSTRALIAN SECURITIES EXCHANGE INFORMATION

(g) The interests of each director and/or associate are listed in the Directors Report.

(h) i) The name of the Company Secretary is Wayne Kernaghan

ii) The business and registered office address is
Level 10
Gold Fields House
1 Alfred Street
Sydney NSW 2000
Telephone (02) 8247 5333
Facsimile (02) 9247 7722

iii) Gulf Resources Limited is listed on the Australian Stock Exchange.
ASX Code: GLF – Fully Paid Shares
GLFOA option expiring 31 December 2009
GLFO option expiring 30 June 2011

iv) Share registry is located at
Security Transfer Registrars Pty Limited
770 Canning Highway
Applecross WA 6153
Telephone (08) 9315 2333
Facsimile (08) 9315 2233

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