

Directors' report

The Directors present their report together with the accounts of Shield Mining Limited ("the Company") and the consolidated entity for the year ended 30 June 2009 and the independent audit report thereon. A copy of the reports and the accounts is also available on the Company's website at www.shieldmining.com.

DIRECTORS

The following people were the Directors of Shield Mining Ltd during the financial year and at the date of this report:

Alexander Burns – Non-executive Chairman (Independent)
David Netherway – Managing Director (Non Independent)
Schalk van der Merwe – Non-executive Director (Independent)
Robert (Bob) Cornelius – Non-executive Director (Independent)

PRINCIPAL ACTIVITIES

The Company is an African-focused gold and base metals exploration and resource development company, with exploration permits in Mauritania. Further details of the Company's activities can be found in the Exploration Report included in this report.

REVIEW OF OPERATIONS

OPERATING RESULTS

The loss from ordinary activities after income tax was \$4,310,815 (30 June 2008: \$2,060,886).

DIVIDENDS

No dividends were declared or paid at the time of this report.

ENVIRONMENTAL REGULATION

The Company is not currently subject to significant environmental regulation in respect of its activities. The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007, which requires entities to report annual greenhouse gas emissions and energy use. For the first measurement period – 1 July 2008 to 30 June 2009 – the Directors have assessed that the Company has no current reporting requirements, but may be required to report in the future.



DIRECTORS' AND OFFICERS' QUALIFICATIONS AND EXPERIENCE

Alexander Burns, MBA – Non-executive Chairman (age 44)

Mr Burns has over 20 years of experience in the management of private and publicly listed companies in the industrial and resource sectors in Australia, Malaysia, Japan, Russia, West Africa (Mauritania and Mali) and the Middle East. Since 27 November 1998, Mr Burns has been Managing Director of Sphere Investments Ltd. He was instrumental in taking Sphere into the iron ore sector in an innovative joint venture agreement with Société Nationale Industrielle et Minière (SNIM) in 2001 for the development of the Guelb el Aouj iron ore pellet project in Mauritania, West Africa.

Mr Burns also played a key role in expanding Sphere's portfolio of resource projects in West Africa, including gold and base metals exploration projects in Mauritania which led to the spin-off of Shield from Sphere.

Mr Burns has been a Director of Shield Mining Limited for five years.

David Netherway, BE (Mining), CDipAF, FAusIMM(CP), FIMMM(CEng) – Managing Director and Chief Executive Officer (age 56)

Mr Netherway is a mining engineer with over 30 years of experience in the mining industry. From April 2002 until the completion of its takeover by Eldorado Gold Corporation in 2005, Mr Netherway served as the President and Chief Executive Officer of Toronto-listed Afcan Mining Corporation, a China-focused gold mining company which was constructing a gold mine in western China. Prior to joining Afcan, Mr Netherway held senior management positions in a number of mining companies, including Golden Shamrock Mines, Ashanti Goldfields and Semafo Inc.

Mr Netherway is a mine developer and operator who was involved in the construction and development of the Iduapriem, Siguiri, Samira Hill and Kiniero gold mines in West Africa and has mining experience in Australia, India, Nepal, Oman and Malaysia. He received a BE in Mining Engineering from the University of Melbourne in 1975 and a Certified Diploma in Accounting and Finance from the Chartered Association of Certified Accountants in the United Kingdom in 1985.

Mr Netherway is a non-executive Director of GMA Resources plc (AIM : GMA) (from 1 December 2005), KazakhGold Group Limited (LSE : KZG) (from 1 September 2005), African Aura Resources Limited (TSX-V : AAZ) (from 1 June 2006) and Altus Resource Capital Limited (AIM : ARCL) (since 1 April 2009). He was previously a non-executive Director of Equigold NL (ASX : EQI) (from 28 April 2006 to 15 June 2008) and Orezone Resources Inc. (TSX & AMEX : ORN) (from 18 July 2002 to 25 February 2009).

Mr Netherway has been a Director of Shield Mining Limited for three years.

Schalk van der Merwe, PhD – Non-executive Director (age 56)

Dr van der Merwe is a geologist with 30 years of experience in African geology and exploration in Africa. He is currently the Exploration Manager of Sphere Investments Ltd. Prior to joining Sphere in 2005, Dr van der Merwe was working as a geological consultant for various companies in Africa and South America. From 1986 to 1999, Dr van der Merwe taught Exploration Geology at the University of the Free State in South Africa. He is a member of the South African Council for Natural Scientific Professionals (SACNASP).

Dr van der Merwe does not hold any directorship in any other listed companies.

Dr van der Merwe has been a Director of Shield Mining Limited for three years.

Robert (Bob) Cornelius, B.Met E, MEng Sc, F AusIMM – Non-executive Director (age 77)

Mr Robert (Bob) Cornelius spent 35 years with the CRA Group (now Rio Tinto Limited) prior to his retirement in 1994. During his time with CRA, Mr Cornelius spent 16 years with CRA's iron ore division in various operating roles at the Hamersley Iron operations in the Pilbara region of Western Australia. In 1982, Mr Cornelius moved to Bougainville Copper Limited as Executive Manager of the Concentrator, before becoming Managing Director of Bougainville Copper Limited from 1987-1990. Following the closure of Bougainville operations, Mr Cornelius became President of CRA Japan and was based in Tokyo from 1991-1993, before returning to CRA's head office in Melbourne in 1994.

Mr Cornelius is also a non-executive Director of Sphere Investments Limited.

Mr Cornelius has been a Director of Shield Mining Limited for three years.

Lexton Graefe, BEc, CPA – Chief Financial Officer, Company Secretary (age 53)

Mr Graefe has extensive management and commercial experience in the mining industry acquired over the last 25 years. Most of the last 12 years have been spent in overseas postings in developing countries. Prior to joining Shield, Mr Graefe was Managing Director of Resolute Tanzania Limited's gold operations. He was also President Director of Rio Tinto, Indonesia and General Manager Finance for Rio Tinto in India. Before working offshore with Rio Tinto Limited, Mr Graefe held management, financial and commercial roles within Hamersley Iron Pty Limited.

He is also the current Chief Financial Officer and Company Secretary of Sphere Investments Limited.

DIRECTORS' INTERESTS

As at the date of this report, the direct and indirect interests of the Directors in the Company were:

DIRECTOR	FULLY PAID ORDINARY SHARES	CLASS SHXAM UNLISTED OPTIONS (expiry 30 June 2011)	CLASS SHXAU UNLISTED OPTIONS (expiry 31 August 2011)
Alexander Burns	3,933,238	625,000	–
David Netherway	5,084,748	1,250,000	1,271,187
Schalk van der Merwe	–	625,000	–
Robert (Bob) Cornelius	540,000	125,000	100,000

DIRECTORS' MEETINGS

The number of meetings of the Company's Board of directors held during the year and the number of meetings attended by each director were:

DIRECTOR	NUMBER OF MEETINGS ATTENDED	ENTITLED TO ATTEND
Alexander Burns	5	5
David Netherway	5	5
Schalk van der Merwe	5	5
Robert (Bob) Cornelius	5	5

In addition to the above, a total of four resolutions were passed by circular resolution during the year.

REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

- A** Principles used to determine the nature and amount of remuneration
- B** Details of remuneration
- C** Service agreements
- D** Share-based compensation

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The Remuneration Policy of Shield Mining Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and also, where appropriate, offering specific long-term incentives related to the company's results. The Board of Shield Mining 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 company, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the economic entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed and approved by the Board after seeking professional advice from independent external consultants.
- All executives receive a base salary which is based on factors such as length of service and experience and may be granted options as long-term incentives.
- The Board reviews executive packages annually, considering factors including the economic entity's performance, executive performance and comparable information from industry sectors.

The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options given to directors and executives are valued using the Black-Scholes methodology.

Non-executive directors

The Board policy is to remunerate non-executive directors at market rates 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 fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Directors' fees

The current base remuneration was last reviewed with effect from 1 January 2009 and in light of the downturn in the world economy, the directors agreed to a 25% fee reduction from that date.



Non-executive directors' fees are determined within an aggregate director's fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$250,000 per annum and was approved by shareholders at the Annual General Meeting on 20 June 2006.

The following fees have applied:

	FROM 1 JULY 2008 TO 30 JUNE 2009	FROM 1 JULY 2007 TO 30 JUNE 2008
Fees (including superannuation)		
Chairman	\$48,913	\$54,500
Other non-executives (in aggregate)	\$38,150	\$43,600

Company performance, shareholder wealth and director and executive remuneration

The Remuneration Policy has been tailored to increase goal congruence between shareholders, directors and executives. The main method used is the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. Director's remuneration is not linked to performance.

B. DETAILS OF REMUNERATION

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Shield and its subsidiaries are set out in the following tables.

The key management personnel of Shield Mining Limited (Parent) includes the directors and the executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity, and report directly to the Managing Director. All personnel held the positions for the full financial year unless stated otherwise.

Key management personnel Shield Mining Limited

Name	Salary and Fees	Superannuation	Options	Total
	\$	\$	\$	\$
30 June 2009				
Directors				
David Netherway – Executive Director	230,031	–	–	230,031
Alexander Burns – Non-executive	43,750	5,163	–	48,913
Schalk van der Merwe – Non-executive	19,075	–	–	19,075
Robert (Bob) Cornelius – Non-executive	17,500	1,575	–	19,075
Total directors	310,356	6,738	–	317,094
Other key management personnel				
Lex Graefe – Chief Financial Officer (a)(e)	58,171	1,088	–	59,259
Robert (Sam) Middlemas – Company Secretary (b)	59,910	–	–	59,910
Bill Brodie Good – Exploration Manager (c)	28,023	–	–	28,023
Joao Beckel – Exploration Manager (d)	66,444	–	–	66,444
Total other key management personnel	212,548	1,088	–	213,636
Total Remuneration	522,904	7,826	–	530,730
30 June 2008				
Directors				
David Netherway – Executive Director	259,384	–	–	259,384
Alexander Burns – Non-executive	50,000	4,500	–	54,500
Schalk van der Merwe – Non-executive	21,800	–	–	21,800
Robert (Bob) Cornelius – Non-executive	20,000	1,800	–	21,800
Total directors	351,184	6,300	–	357,484
Other key management personnel				
Lex Graefe – Chief Financial Officer (e)	64,319	–	–	64,319
Bill Brodie Good – Exploration Manager	160,672	–	–	160,672
Katina Gunellas – Company Secretary (e)	24,880	–	–	24,880
Total other key management personnel	249,871	–	–	249,871
Total Remuneration	601,055	6,300	–	607,355

(a) Appointed Company Secretary 1 April 2009.

(b) Appointed on 23 May 2008, contract terminated 31 March 2009. Mr Middlemas received fees via his consulting company Sparkling Investments Pty Ltd.

(c) Employment terminated 30 September 2008.

(d) Appointed 1 September 2008, terminated 31 December 2008.

(e) Fees paid to Sphere Investments Limited to cover executives' costs.

C. SERVICE AGREEMENTS

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a Letter of Appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of employment for the Managing Director are formalised in service agreements.

The contract with the Managing Director may be terminated early by either party with three months' notice, subject to termination payments as detailed below:

- Term of agreement – three years commencing 1 June 2009.
- Base salary for the year ended 30 June 2009 of £90,000 is to be reviewed annually.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 12 months' base salary plus an additional one month's salary for every year of service.

D. SHARE-BASED COMPENSATION

Options

Options over shares in Shield Mining Limited are granted under the Shield Mining Limited Employee Option Plan. The Employee Option Plan is designed to provide long-term incentives for executives to deliver long-term shareholder returns. Under the plan, participants are granted options for no issue price and the exercise prices will be such price as determined by the Board (in its discretion) on or before the date of issue. Options are granted under the plan for no consideration.

There were no options granted in the financial years ended 30 June 2009 and 30 June 2008. No directors or executives received any remuneration from options in 2009 or 2008. One hundred thousand (100,000) options, valued at \$4,645 at date of grant, were forfeited during the year due to a staff resignation, with value being nil at date of forfeiture. Three million (3,000,000) options expired at 30 June 2009. No options were exercised during 2009, or subsequent to the end of the financial year.

This is the end of the Audited Remuneration Report.

Loans to Directors and Executives

There were no loans to directors and executives during the financial year.



Shares under option

Unissued ordinary shares of Shield Mining Limited under option at 30 June 2009 are as follows:

DATE OPTIONS GRANTED	EXPIRY DATE	ISSUE PRICE OF SHARES	NUMBER UNDER OPTION
1 September 2006	30 June 2011	0.400	3,000,000

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

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

On 13 August 2009, the Company allotted and issued 21,313,143 ordinary shares, and 21,313,143 unquoted options, exercisable at 20 cents pursuant to its rights issue under the Prospectus dated 22 June 2009 and a concurrent private placement to institutional and sophisticated investors. The company raised \$2,131,314 prior to costs associated with the issue and the placement.

The total of shares on issue now stands at 73,223,476, and there are 24,313,143 unquoted options on issue.

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company has put in place appropriate insurance arrangements in respect of Directors' and Officers' Liability Insurance. The insurance policy precludes us from disclosing the amount of the coverage. These insurance premiums relate to insurance of directors and executive officers of the Company. The policy does not specify the premium for individual directors and executive officers.

The Directors' and Officers' Liability Insurance provides cover against costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company or a related body corporate) incurred in their position as director or executive officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

No liability has arisen under this indemnity as at the date of this report.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company, nor was the Company party to any such proceedings during the year.



NON-AUDIT SERVICES

There were no non-audit services provided by the auditors during 2009 and 2008, and consequently there were no fees paid for non-audit services to the external auditors in either financial year.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2009 has been received in accordance with section 307C of the *Corporations Act 2001* and can be found following this Directors' Report.

David Netherway

Chief Executive Officer/Managing Director

21 September 2009