

Terrain Minerals Limited

Interim Financial Report

For the Period Ended 31 December 2010

Terrain Minerals Limited

For the Period Ended 31 December 2010

CONTENTS

	<u>Page</u>
<i>Interim Financial Statements</i>	
Directors' Report	1
Auditors Independence Declaration	2
Statement of Comprehensive Income	3
Statement of Financial Position	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7
Directors' Declaration	12
Independent Auditor's Report	13

Terrain Minerals Limited

Directors' Report

31 December 2010

Your directors present their report, together with the interim financial statements of the company, for the half-year ended 31 December 2010.

Directors

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

Names	Position	Resigned
Richard Sandner	Chairman	
Jonathan Lim	Vice Chairman	
Chris Tomich	Managing Director	
Paul Dickson	Non-executive Director	
Keith Wells	Non-executive Director	29 November 2010

Review of operations

A review of the operations of the company during the financial period and the results of those operations show that considerable effort has been directed towards mining preparations at the Celtic Pit, in the Bundarra region of Western Australia, as well as small scale drilling programs at the Bluebush deposit (Bundarra) and the Dodgers Well Project, and a review of all of the company's gold and nickel portfolio. Celtic Pit mining preparation activities have included mining studies, mobilisation of personnel and equipment to site, pit clean up, RC drilling and sample assaying, surveying, interpretation of drilling results, block modelling, and pit redesign with a view to completing open pit mining in 2011. First pass drilling at the Dodgers Well Project returned positive results which require followup work. Limited infill drilling at the Bluebush deposit will result in a resource update in 2011. The review of the company's gold and nickel assets by an independent consultant has confirmed the prospectivity of all of the company's projects..

Auditor's Independence Declaration

The lead auditors independence declaration as required under S.307C of the Corporations Act 2001 can be found on page 2 of the financial report.

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



Chris Tomich
Director
Dated 11 March 2011

11 March 2011

Terrain Minerals Limited
Suite 4, 230 Rokeby Road
Subiaco WA 6008

Dear Sirs,

DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF
TERRAIN MINERALS LIMITED

As lead auditor of Terrain Minerals Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- No contraventions of any applicable code of professional conduct in relation to the review.



Chris Burton
Director



BDO Audit (WA) Pty Ltd
Perth, Western Australia

Terrain Minerals Limited
Statement of Comprehensive Income
For the Half-Year Ended 31 December 2010

	31 December	31 December
	2010	2009
	\$	\$
Other revenue	34,152	17,206
Occupancy expense	(21,146)	(50,169)
Administrative expense	(446,388)	(827,654)
Interest paid	(30,869)	(9,975)
Loan Fee	(97,500)	-
	<hr/>	<hr/>
Loss before income taxes	(561,751)	(870,592)
Income tax expense	-	-
	<hr/>	<hr/>
Loss for the year attributable to members of Terrain Minerals Limited	(561,751)	(870,592)
	<hr/>	<hr/>
Other comprehensive income	-	-
	<hr/>	<hr/>
Total comprehensive income for the year attributable to members of Terrain Minerals Limited	(561,751)	(870,592)
	<hr/> <hr/>	<hr/> <hr/>
Loss per share		
Basic loss per share (cents)	0.33	0.72

The accompanying notes form part of these financial statements.

Terrain Minerals Limited
Statement of Financial Position
As At 31 December 2010

	31 December	30 June
	2010	2010
Note	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	631,599	1,071,622
Trade and other receivables	511,754	382,671
Non-current assets held for sale	426,977	426,977
TOTAL CURRENT ASSETS	<u>1,570,330</u>	<u>1,881,270</u>
NON-CURRENT ASSETS		
Property, plant and equipment	35,223	35,223
Exploration expenditure	2 10,138,902	8,526,008
TOTAL NON-CURRENT ASSETS	<u>10,174,125</u>	<u>8,561,231</u>
TOTAL ASSETS	<u>11,744,455</u>	<u>10,442,501</u>
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	477,276	146,747
Borrowings	3 1,500,000	-
Other liabilities	120,000	100,000
TOTAL CURRENT LIABILITIES	<u>2,097,276</u>	<u>246,747</u>
TOTAL LIABILITIES	<u>2,097,276</u>	<u>246,747</u>
NET ASSETS	<u>9,647,179</u>	<u>10,195,754</u>
EQUITY		
Contributed equity	15,294,265	15,319,307
Reserves	1,242,479	1,204,261
Accumulated losses	(6,889,565)	(6,327,814)
TOTAL EQUITY	<u>9,647,179</u>	<u>10,195,754</u>

The accompanying notes form part of these financial statements.

Terrain Minerals Limited
Statement of Changes in Equity
For the Half-Year Ended 31 December 2010

31 December

2010

	Contributed Equity	Accumulated Losses	Share Based Payment Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2010	15,319,307	(6,327,814)	1,204,261	10,195,754
Profit or loss attributable to members	-	(561,751)	-	(561,751)
Total comprehensive income for the period	-	(561,751)	-	(561,751)
Shares issued during the year	19,570	-	-	19,570
Transaction costs	(44,612)	-	-	(44,612)
Issue of options	-	-	38,218	38,218
Sub-total	(25,042)	(561,751)	38,218	(548,575)
Balance at 31 December 2010	<u>15,294,265</u>	<u>(6,889,565)</u>	<u>1,242,479</u>	<u>9,647,179</u>

31 December

2009

	Contributed Equity	Accumulated Losses	Share Based Payment Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2009	13,110,389	(4,694,050)	707,401	9,123,740
Profit or loss attributable	-	(870,592)	-	(870,592)
Total comprehensive income for the period	-	(870,592)	-	(870,592)
Shares issued during the year	1,064,093	-	-	1,064,093
Transaction costs	(44,846)	-	-	(44,846)
Issue of options	-	-	436,272	436,272
Sub-total	1,019,247	(870,592)	436,272	584,927
Balance at 31 December 2009	<u>14,129,636</u>	<u>(5,564,642)</u>	<u>1,143,673</u>	<u>9,708,667</u>

The accompanying notes form part of these financial statements.

Terrain Minerals Limited

Statement of Cash Flows

For the Half-Year Ended 31 December 2010

	31 December	31 December
	2010	2009
	\$	\$
CASH FROM OPERATING ACTIVITIES:		
Payments to suppliers and employees	(491,389)	(575,094)
Other receipts	-	1,935
Interest received	34,152	15,272
Interest paid	-	(9,975)
Net cash provided by used in operating activities	<u>(457,237)</u>	<u>(567,862)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	-	(10,080)
Payment for exploration expenditure	(1,404,856)	(748,231)
Net cash used in investing activities	<u>(1,404,856)</u>	<u>(758,311)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issue of shares	19,570	1,043,423
Proceeds from borrowings	1,402,500	-
Payment of transaction costs	-	(44,846)
Net cash provided by financing activities	<u>1,422,070</u>	<u>998,577</u>
OTHER ACTIVITIES:		
Net decrease in cash held	(440,023)	(327,596)
Cash and cash equivalents at beginning of year	<u>1,071,622</u>	<u>1,310,523</u>
Cash and cash equivalents at end of financial year	<u><u>631,599</u></u>	<u><u>982,927</u></u>

The accompanying notes form part of these financial statements.

Terrain Minerals Limited

Notes to the Financial Statements

For the Period Ended 31 December 2010

1 Summary of Significant Accounting Policies

(a) Basis of Preparation

The interim financial statements are general purpose financial statements prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting.

It is recommended that these financial statements be read in conjunction with the annual financial statements for the year ended 30 June 2010 and any public announcements made by Terrain Minerals Limited during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The same accounting policies and methods of computation have been followed in these interim financial statements as were applied in the most recent annual financial statements.

The half-year financial statements do not include full disclosures of the type normally included in the annual financial statements.

(b) Going Concern

For the period ended 31 December 2010, the Group recorded a loss of \$561,751. At 31 December 2010, the cash balance was \$631,599.

These financial statements have been prepared on a going concern basis. The Directors have determined that future capital raisings or asset sales will be required in order to continue the exploration and development of the company's mining tenements (some subject an option payment) to achieve a position where they can prove exploration reserves.

The ability of the company to continue as a going concern is dependent upon the company raising further capital or realising funds from the sale of assets sufficient to meet the company's expenditure commitments.

The Directors have prepared a cash flow forecast for the foreseeable future reflecting the above mentioned expectations and their effect upon Terrain Minerals Ltd. The achievement of the forecast is dependent upon the future capital raising and/or sale of assets, the outcome of which is uncertain.

In the event that sufficient capital raising or asset sales at an amount and timing necessary to meet the future budgeted operational and investing activities of the company is unfavourable the Directors believe that they will be able to contain the operating and investment activities sufficiently to ensure that Terrain Minerals Ltd can meet its debts as and when they become due and payable.

In the event that the events referred to above result in a negative outcome, then the going concern basis of accounting may not be appropriate with the result that the company may have to realise its assets and extinguish its liabilities other than in the normal course of business and in amounts different from that stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded amounts or classification of liabilities that might be necessary should Terrain Minerals Ltd not be able to continue as a going concern.

Terrain Minerals Limited

Notes to the Financial Statements

For the Period Ended 31 December 2010

2 Deferred exploration and evaluation expenditure

The following table details the movement in deferred exploration and evaluation expenditure reported in the statement of financial position during the period.

	31 December	30 June
	2010	2010
	\$	\$
Carrying amount at beginning of the reporting period	8,526,008	7,817,217
Expenditure	1,612,894	1,163,072
Disposals	-	(27,304)
Transfers to Non Current Assets Held for Sale	-	(426,977)
	<u>10,138,902</u>	<u>8,526,008</u>

The recoupment of deferred exploration and evaluation costs carried forward is dependent upon the successful development and commercialisation or sale of the areas of interests being explored and evaluated.

3 Borrowings

During the period the company raised \$1.5 million from Zulu Capital Limited, via a convertible note, for funding gold mining at the Celtic Pit. The amount can be repaid in cash, shares or a combination of both. The loan is payable 6 months from draw down with interest accrued and capitalised at 12% p.a.

Terrain Minerals Limited
Notes to the Financial Statements
For the Period Ended 31 December 2010

4 Issued Capital

	31 December	30 June
	2010	2010
	\$	\$
171,738,875 (2010: 171,228,249) Ordinary	16,593,903	16,574,333
Share Issue costs	(1,397,138)	(1,255,026)
	<u>15,196,765</u>	<u>15,319,307</u>

Movement in Ordinary Shares

	No.	\$
At 1 July 2010	171,228,249	15,319,307
Shares issued during the year		
- 17 August 2010 issued at 3.8 cents	506,668	19,253
- 17 August 2010 exercised at 8 cents	3,958	317
Costs of raising capital	-	(142,112)
At reporting date	<u>171,738,875</u>	<u>15,196,765</u>

5 Share-based Payments

On 23 December 2010, the company issued 2,500,000 options to 5 directors in line with the company's policy of performance based remuneration. Using the Black and Scholes Option valuation methodology, the fair value of the options issued were calculated using the following inputs.

Number of options:	2,500,000	Risk free interest rate:	4.71%
Exercise price:	\$0.045	Share price at date of issue:	\$0.03
Expected exercise price:	31 December 2012	Expected volatility	100%

Each option was valued at \$0.0137

On the same date, an additional 500,000 options were issued to Chris Tomich. These options were identical to those detailed above except that carried an exercise price of \$0.08 and were valued at \$0.0095. These options were issued to honour the contractual obligations entered by the company upon engaging Mr Tomich.

Total expenses arising from share based payments to directors during the half year was \$38,218 (2009: 436,272).

Terrain Minerals Limited
Notes to the Financial Statements
For the Period Ended 31 December 2010

5 Share-based Payments (continued)

A summary of the movements of all company options issued is as follows:

	Number	Weighted Average Exercised Price
Options outstanding as at 30 June 2009	3,100,000	\$ 0.20
Granted	9,400,000	\$ 0.17
Options outstanding as at 30 June 2010	12,500,000	\$ 0.17
Granted	3,000,000	\$ 0.05
Options outstanding as at 31 December 2010	15,500,000	\$ 0.15

As at the date of exercise, the weighted average share price of options exercised during the period was \$0.08.

The weighted average remaining contractual life of options outstanding at period end was 4.34 years.

6 Segment Reporting

Management has determined that the company has one reportable segment, being mineral exploration in Western Australia. As the company is focussed on mineral exploration, the Board monitors the company based on actual versus budgeted exploration expenditure incurred by the company as a whole. This reporting framework is the most relevant to assist the Board with making decisions regarding the company and its ongoing exploration activities, while also taking into consideration the results of exploration work that has been performed to date.

7 Contingent Liabilities and Contingent Assets

There has been no change in contingent liabilities since the last annual reporting date.

Terrain Minerals Limited

Notes to the Financial Statements

For the Period Ended 31 December 2010

5 Share-based Payments (continued)

8 Events After the End of the Reporting Period

On 16 February 2011, the company completed a placement of 24,500,000 shares at 2.3 cents per share to raise \$563,500. A notice of general meeting has been issued to seek shareholder approval to:

Resolution 1: Ratify Issue of Shares

That for the purposes of ASX Listing Rule 7.4 and for all purposes, Shareholders ratify the allotment and issue of 24,500,000 Shares to sophisticated investors made on 16 February 2011, for the purposes and on the terms set out in the Explanatory Statement.

Resolution 2: Approve Grant of Options

That for the purposes of ASX Listing Rule 7.1 and for all other purposes, Shareholders approve the grant of 24,500,000 Options to the parties, for the purposes and on the terms set out in the Explanatory Statement.

Resolution 3: Approve Issue of Shares and Options

That for the purposes of ASX Listing Rule 7.1 and for all other purposes, Shareholders approve the allotment and issue of up to 21,739,130 Shares and up to 21,739,130 Options to the parties, for the purposes and on the terms set out in the Explanatory Statement.

Terrain Minerals Limited

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 3 to 11, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Australian Accounting Standards 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 31 December 2010 and of the performance for the half-year ended on that date of the company;

2. In the directors' 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.



Chris Tomich
Director

Dated 11 March 2011

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF TERRAIN MINERALS LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Terrain Minerals Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Terrain Minerals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Terrain Minerals Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



Conclusion


Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Terrain Minerals Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the disclosing entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 1(b) in the half-year financial report which indicates that Terrain Minerals Limited incurred a net loss of \$561,751 during the half-year ended 31 December 2010. These conditions, along with other matters as set forth in Note 1 (b), indicate the existence of a material uncertainty which may cast significant doubt about the disclosing entity's ability to continue as a going concern and therefore, whether the disclosing entity can realise its assets and discharge its liabilities in the normal course of business at amounts stated in the half yearly report.

BDO Audit (WA) Pty Ltd

Bdo Audit


Chris Burton
Director

Signed in Perth, Western Australia
Dated this 11th day of March 2011