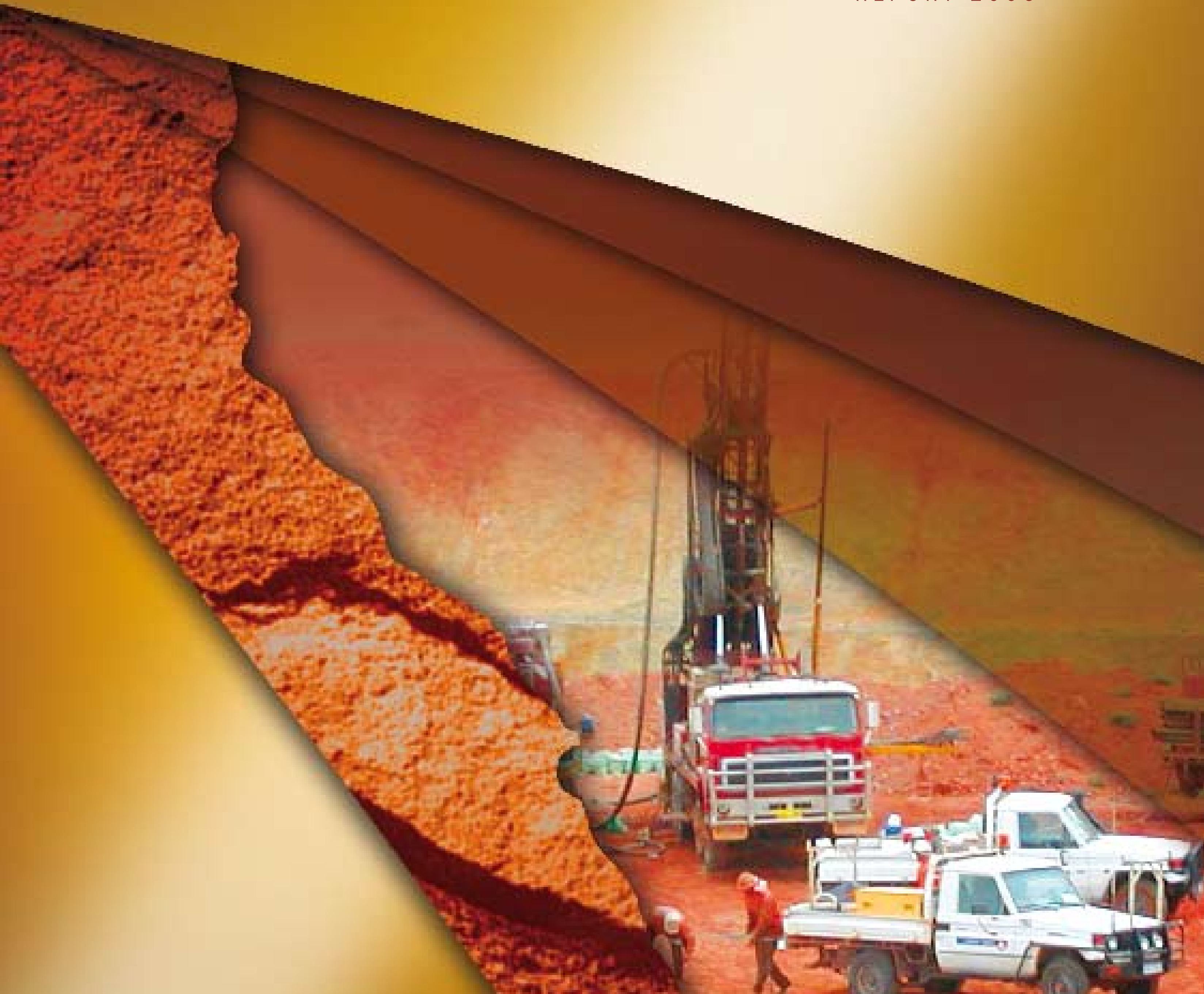
TERRAIN MINERALS

ANNUAL REPORT 2006



TERRAIN MINERALS LTD
ACN: 116 153 514

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CHAIRMAN'S LETTER

Dear Fellow Shareholder,

It is with great pleasure that I present to you the first Annual Report for Terrain Minerals Ltd for the 2005-2006 financial year

The past year has been a very significant one in the development of Terrain Minerals Ltd, with the ASX listing of the Company taking place on 23 March 2006. Within one week of listing Terrain commenced exploration on a number of its project areas and in the three months to the end of the financial year completed a RC drilling program at Bundarra (Celtic), a TEM geophysical survey and mine optimisation study at East Kambalda (Coogee) and a geological mapping and rock chip sampling program at Redcastle. Details of the work completed are covered in the Review of Projects in this report.

As a junior company, we are at all times conscious of our ability to fund our activities and, to this end, all of our project budgets are "success" based; which means that at every stage of a program we review results to date and consider the best course of action to take with a specific project. Exploration success requires dedication, persistence, patience and the ability to adapt. The encouraging results received from the first round of programs has prompted the Board to accelerate the exploration programs originally proposed in the prospectus; with the greatest focus being directed towards significantly increasing the known resources on the Bundarra project. The Board expects total expenditures at the end of the calendar year to be in the vicinity of $2 million.

I take this opportunity to thank my fellow directors and Terrain's management team for their efforts, both before and since the ASX listing, together with those who have supported the company throughout.

With exploration on a number of our projects reaching a more advanced stage, over the coming months, I am confident that shareholders will see the merit of their investment in Terrain Minerals Ltd.

The Board looks forward to meeting with as many shareholders as possible at our Annual General Meeting, details of which are included in the enclosed Notice of Meeting.

Yours sincerely,

Daniel Tucker

Chairman

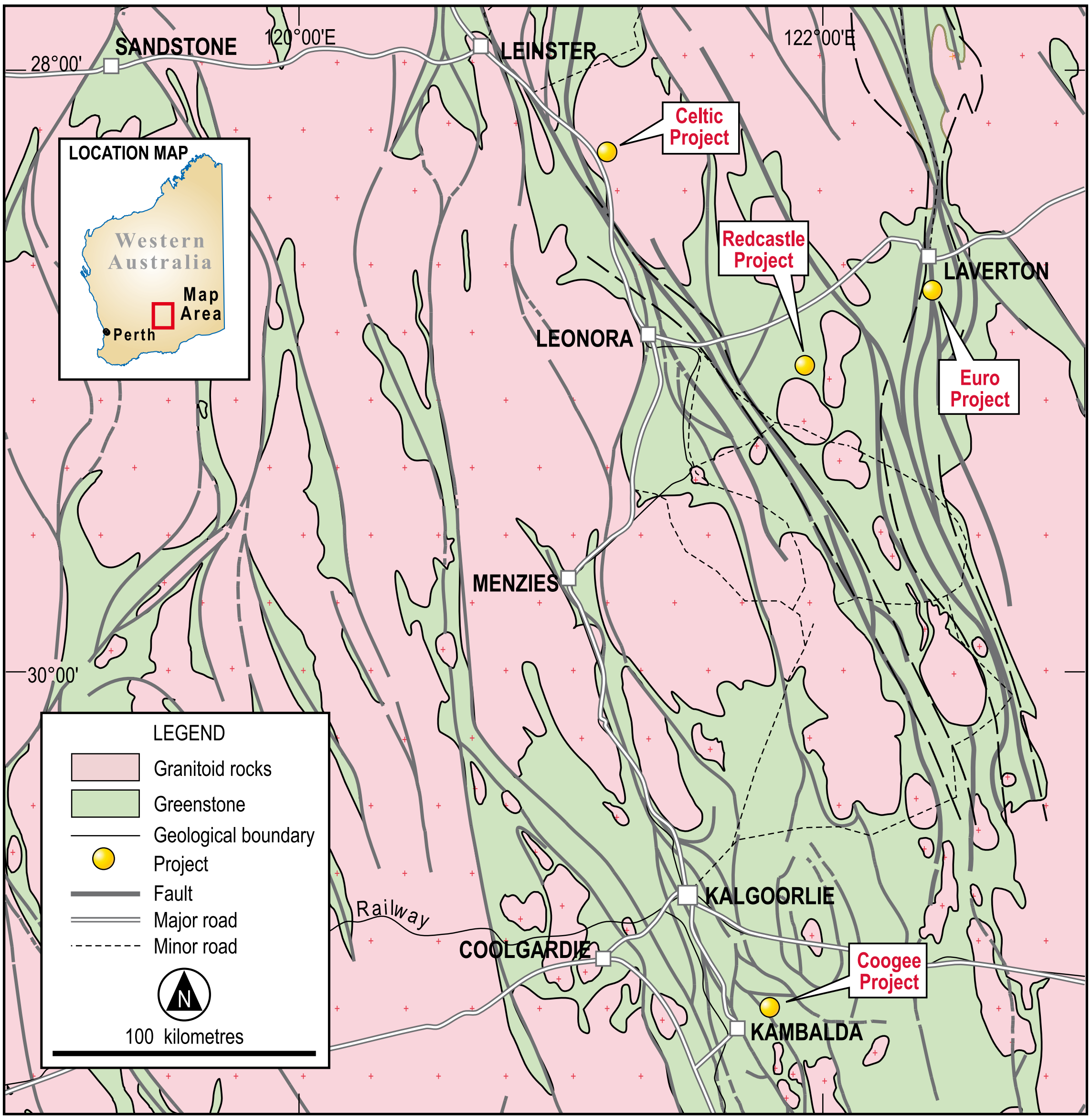
REVIEW OF PROJECTS

At listing on the ASX on 23 March 2006 Terrain Minerals Ltd held four projects:

- Bundarra (Celtic)
- East Kambalda (Coogee)
- Redcastle
- Euro

All four projects host known gold mineralisation and offered immediate drilling targets.

Field Operations commenced within one week of listing and by 30 June 2006 the first round of exploration had been completed on Bundarra, East Kambalda and Redcastle. This first round of exploration activity was designed to be the foundation for larger, more comprehensive programs scheduled for 2006-07.



Project Location Map

Bundarra (Celtic)

Gold mineralisation at Bundarra is associated with a number of northwest – southeast trending shear zones, particularly with the two major shears that host the Celtic and Wonder North gold deposits. Open cut mining operations between 2001 and 2003 extracted ~50,000 oz of gold from both deposits. The remaining resources, located down dip and along strike from the two open cuts, amount to:

Bundarra Resources

Deposit	Tonnes	Grade (g/t gold)	Ounces
Celtic	1,087,677	1.66	58,050
Wonder North	1,978,328	2.13	136,541
TOTALS	**3,066,005**	**1.96**	**194,591**

The ore zones are not closed off and in April 2006 Terrain undertook a twelve hole, 1910m RC drilling program; principally to test for continuity and depth extensions of the ore, beneath the Wonder North open cut. Ten of the twelve holes drilled intersected >1g/t gold and four holes stopped in mineralisation due to drill rig problems.

Significant Drill Results – Celtic/Wonder North Project

Hole No	East	North	Length (m)	From # (m)	To (m)	Interval (m)	Grade (g/t Au)	Lode
Celtic CERC 045	319500	62685	180	137	140	3	3.16	Zone A
Wonder N WNRC 198 including	32165	63600	204	163 181	187 185	**24** **4**	**2.15** **4.29**	Main Lode
WNRC 199* including	321825	63500	216	162 162	216 167	**54** **5**	**1.26** **3.51**	Main Lode
WNRC 200**	321850	63478	162	150	162	**12**	**2.78**	Main Lode
WNRC 201*	321875	63408	180	134 143	136 180	2 **37**	1.40 **1.00**	HW Lode Main Lode
WNRC 202	321925	63359	202	110	112	2	1.42	HW Lode
WNRC 204 including	321900	63408	186	136 150 165 174	139 169 167 176	3 **19** **2** 2	1.01 **2.43** **5.28** 2.13	HW Lode Main Lode FW Lode
WNRC 205**	321575	63640	138	130	138	5	1.05	Main Lode
WNRC 206	321550	63635	140	118	124	6	1.66	Main Lode
WNRC 208	321400	63710	168	146	147	1	1.12	Main Lode?

Notes to Table:

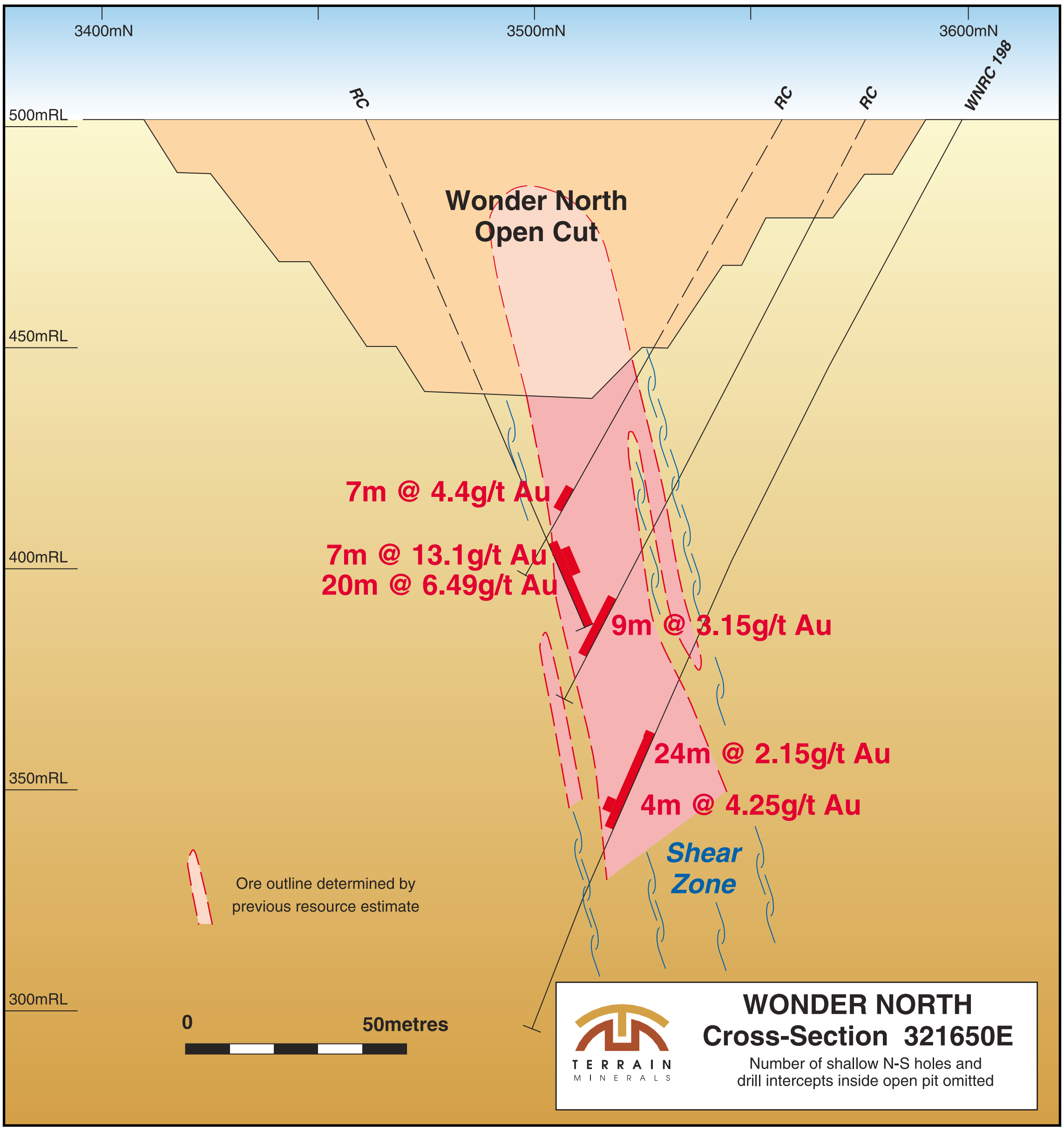
1. All holes drilled by RC.
2. Celtic hole drilled towards 90°magnetic, Wonder N holes drilled towards 180° magnetic. Inclinations -60°.
3. All intercepts are quoted using a 1.00 g/t gold lower cut off, no upper cut off.
4. Holes designated * or ** terminated in mineralization due to either rig capacity (*) and/or drilling difficulties (**).
5. # Hole Depth X 0.86 = Vertical Depth.

Within the mineralised envelope at Wonder North higher grade ore shoots (+3g/t gold) have been recognised, with plunges of ~20° towards the southeast;

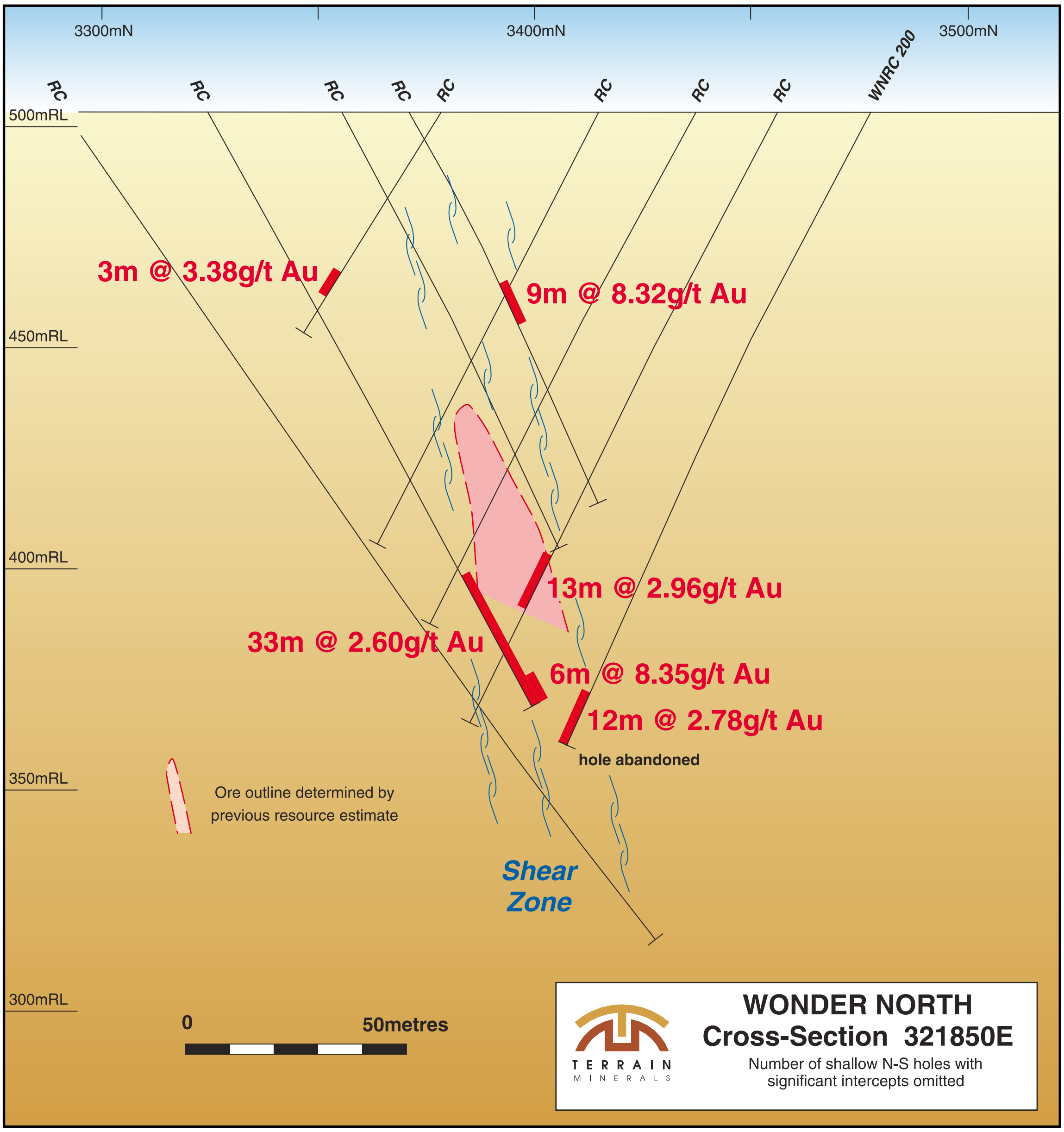
Evaluation of the drill results together with analysis of the large amount of inherited data point to extensions of the Celtic, Wonder West and Wonder North deposits as being immediate drill targets.

Drilling programs totalling 20,000m are planned for 2006-07 to confirm these ore extensions. The objective of the drilling will be to double the known resources to 400,000 ounces by the middle of 2007.

Other medium – longer term targets exist within the tenement block and a detailed aeromagnetic survey has been flown in the second half of 2006 to assist with drill target development.



Drill Cross-Section 321650E – Beneath Wonder North Open Cut

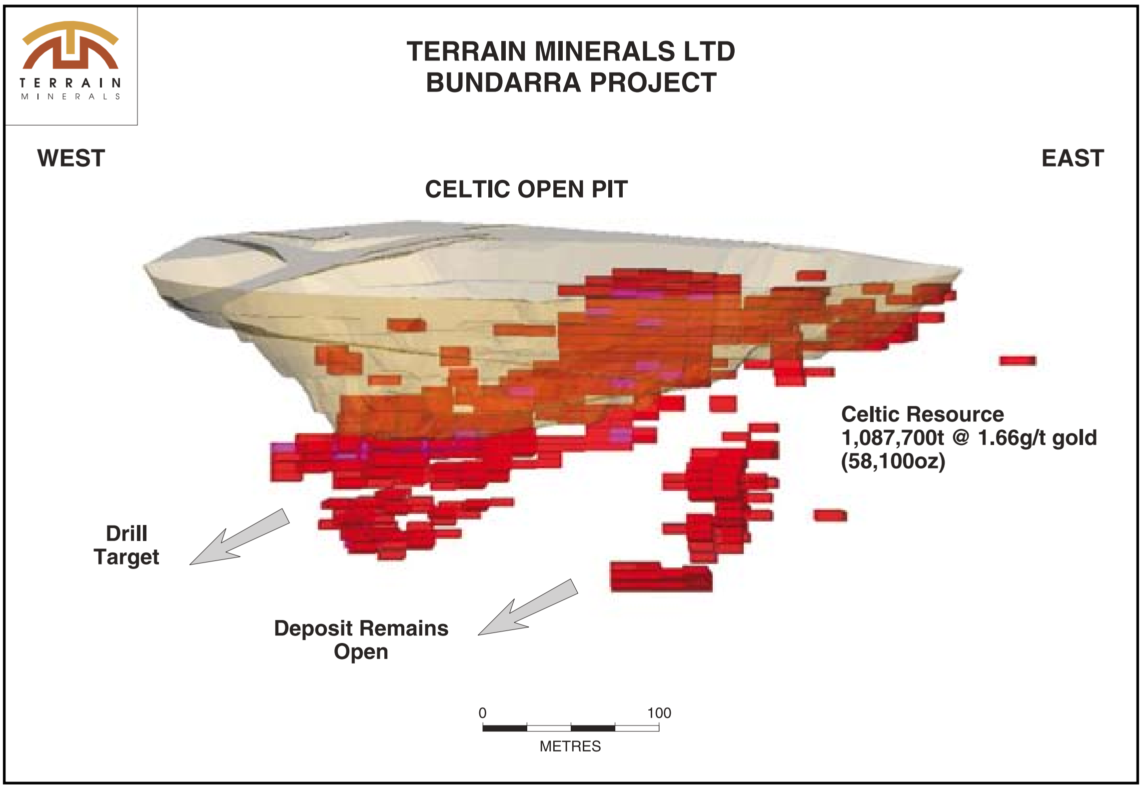


Drill Cross-Section 321850E – South East of Open Cut

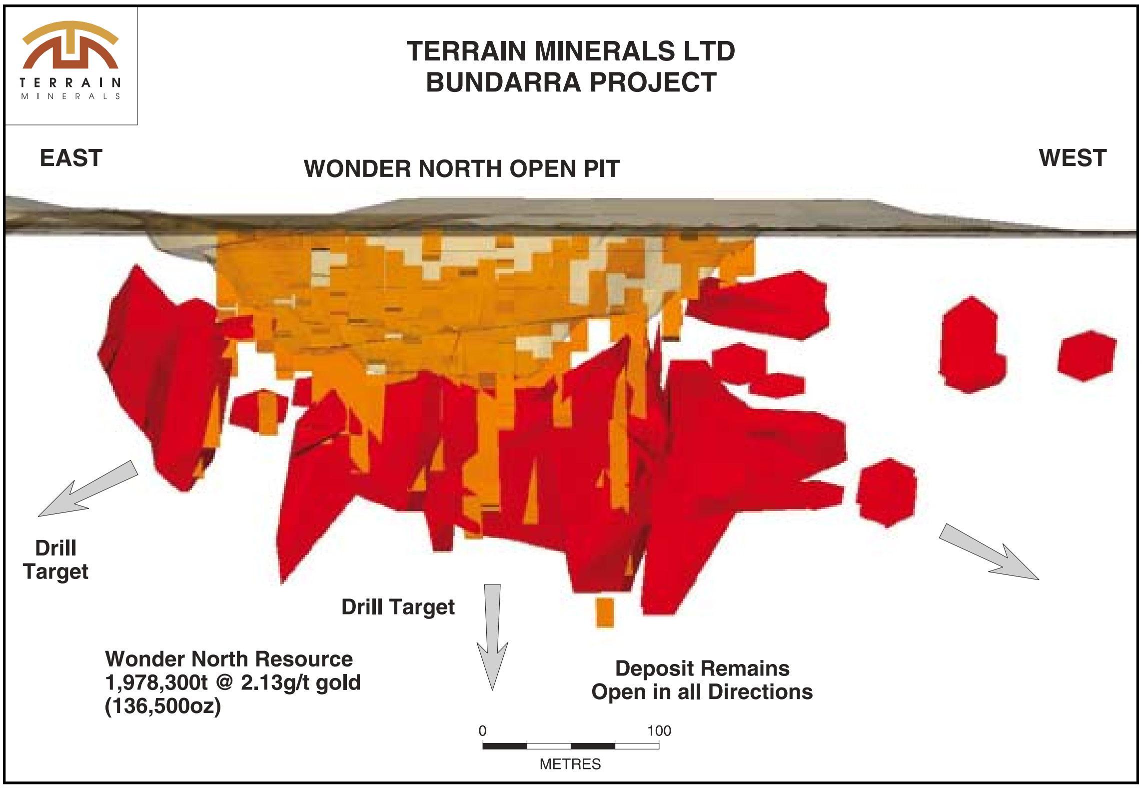
East Kambalda (Coogee)

The East Kambalda project encompasses two target types; gold mineralisation predominantly in the East and nickel targets in the West.

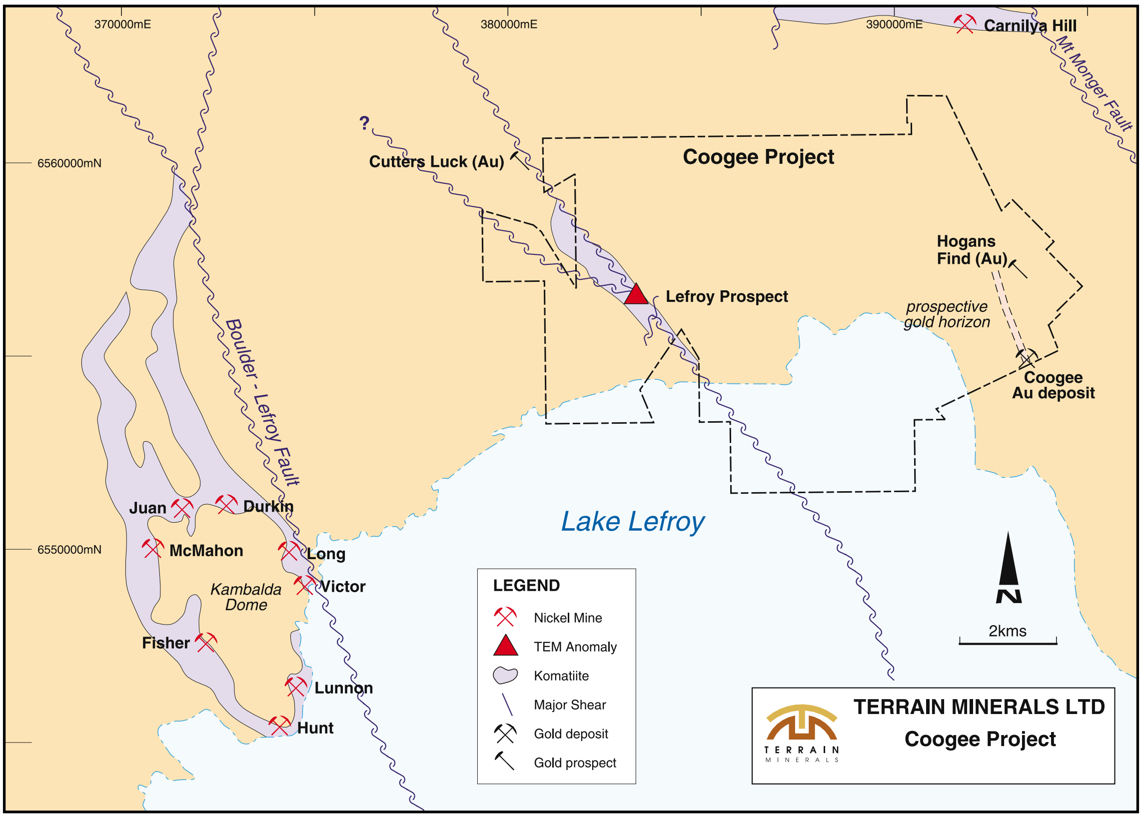
Along the Eastern side of the tenement block, an area of gold mineralisation includes a number of gold prospects including the Coogee deposit, which has a previously estimated resource of 277,500 tonnes @ 3.91g/t gold (35,000 oz). A mine optimisation study of the Coogee deposit undertaken in April 2006 identified, at A$800 per oz, a mineable reserve of 114,000 tonnes @ 3.86g/t gold (14,000 oz); but the study also highlighted a number of gaps in the mineralised zone. Subsequent drill testing has demonstrated that the known gold deposits are constrained by faulting and the “ore horizon” appears to be offset to the northwest. An evaluation of the detailed magnetic data will be undertaken before the next round of drill testing.



Drill Cross-Section 321650E – Beneath Wonder North Open Cut



Drill Cross-Section 321650E – Beneath Wonder North Open Cut



Drill Cross-Section 321850E – South East of Open Cut

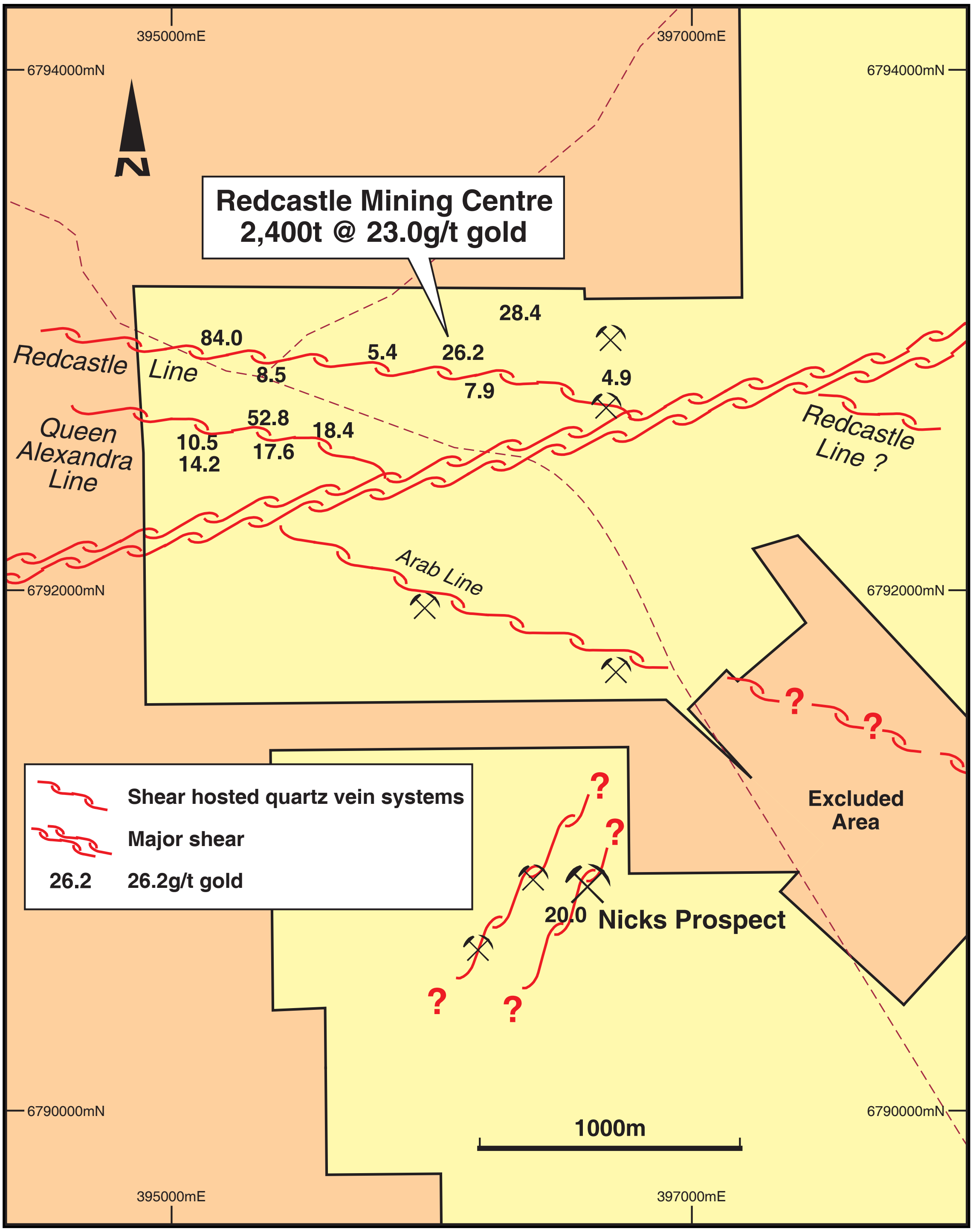
In the Western part of the area, at the Lefroy prospect, a TEM geophysical survey outlined two strong conductive anomalies, associated with a zone of komatiitic, ultramafic rocks along a major shear. An attempt to RC drill test these nickel targets encountered high water inflows and/or swelling clays and three of the four holes drilled did not reach the target depth. Further testing will require a diamond drill rig.

Redcastle

The Redcastle project was created by combining a number of different tenements, held by a variety of different prospectors, into a single project for the first time. There are widespread historical workings, with a recorded production of 3,000 tonnes @ 24.0g/t gold (2,250 oz); but subsequent work has largely been confined to prospecting activities; in recent years mainly metal detecting. Only a limited amount of company work has been undertaken, in the 1980s, on a few of the tenements.

To draw all the fragmented data together and provide a robust framework for future exploration planning and work programs, including drilling; a comprehensive geological mapping and rock chip sampling program has been undertaken. The sampling has revealed high grade gold mineralisation: Assays from shear hosted quartz veins include 84.0g/t gold, 52.8g/t gold and 28.4g/t gold.

The geological mapping has identified a number of features, previously unrecognised, which explain the distribution of the known mineralisation. The mapping combined with the results of the aeromagnetic survey flown in August 2006 has identified a number of drill targets, which will be tested in 2007.



Redcastle Project: Rock Chip Sampling Results

Euro

An Aboriginal Heritage Survey has been undertaken and identified no sites within the tenement area. Negotiations with the Native Title Claimants were successfully concluded in September 2006 and it is hoped to have the tenement granted before the end of the calendar year.

Your directors present their report on the consolidated entity ("Group") consisting of Terrain Minerals Ltd ("Terrain" or "Company") and the entities it controlled at the end of, or during, the period ended 30 June 2006.

Directors

The following persons were directors of Terrain Minerals Ltd from incorporation on 8 September 2005 and up to the date of this report, unless otherwise stated:

D Tucker
K Wells
J K L Lee

Mr C Brown was appointed a director on 3 January 2006.

Principal activities

During the period the principal activities of the consolidated Entity consisted of exploration for gold and other mineral resources.

Dividends

No dividends were paid to members during the financial period and the directors do not recommend the payment of a dividend.

Review of operations

A summary of consolidated revenues and results is set out below:

	Revenues 2006 $	Results 2006 $
Revenue from continuing operations	73,822	-
Loss before income tax expense		(283,971)
Income tax expense		-
Loss attributable to members of Terrain Minerals Ltd		(283,971)

Financial Position

During the period the Company had a net increase in contributed equity of $7,289,166 (from $Nil to $7,289,166) as a result of:

- a placement of founders stock to raise $154,000;
- a placement of seed capital to raise $915,000;
- proceeds of an initial public offering of $5,000,000;
- a placement of 8,600,000 ordinary shares at a deemed value of 20 cents each, as consideration for the purchase of mineral tenements; and
- payment of capital raising and share issue costs of $499,834.

At the end of the financial period the consolidated entity had net cash balances of $4,334,037 and net assets of $7,077,915.

Total liabilities amounted to $273,969 and were limited to trade and other creditors and employee entitlements.

Exploration

Terrain Minerals Ltd secured the terms of purchase of Western Australian mineral tenements in the first half of the financial period. The Company acquired the Bundarra, East Kambalda, Redcastle and Euro Projects in the north eastern goldfields.

Exploration began on the Company's projects in March 2006 and the first drilling program was completed at Bundarra in April 2006.

Encouraging exploration results, from all the projects, has resulted in a Board decision to accelerate all the planned programs.

Review of operations (continued)

Corporate

Terrain Minerals Ltd was incorporated on 8 September 2005.

On 8 September 2005 the Company issued 10,000,000 ordinary shares and 4,500,000 free attaching options over ordinary shares as founders stock to raise a total of $154,000.

In November 2005 the Company issued 9,150,000 ordinary shares and 4,575,000 free attaching options as seed capital to raise a total of $915,000.

In November and December 2005 the Company paid $420,000 to View Resources Ltd as consideration for the purchase of mineral tenements.

On 6 February 2006 the Company issued a Prospectus for an Initial Public Offering the raise up to $5,000,000. The offering closed over-subscribed. 25,000,000 ordinary shares were issued pursuant to the Prospectus.

On 22 March 2006, 8,600,000 ordinary shares and 250,000 options over ordinary shares were issued to vendors as consideration for the purchase of mineral tenements.

On 22 March 2006, 200,000 options over ordinary shares were issued to a director as part of reasonable compensation for his duties.

On 23 March 2006 the Company listed on the Australian Stock Exchange.

On 24 March 2006, 600,000 options over ordinary shares were allotted under the Terrain Minerals Ltd Employee Share Option Scheme as incentives to the Company Secretary, Exploration Manager and other staff.

Earnings per share	2006 Cents
Basic and diluted earnings per share	**(0.99)**

Significant changes in the state of affairs

Other than those matters shown above, no significant changes in the state of affairs of the consolidated Entity occurred during the financial period.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2006 that has significantly affected, or may significantly affect:

(a) the consolidated entity's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Other than likely developments contained in the "Review of Projects", further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is subject to the environmental laws and regulations imposed under the Mining Act 1978 (Western Australia), depending on the activities being undertaken. The group is currently engaged in exploration activities which are governed by conditions or recommendations imposed through the granting of a licence or permit to explore. Compliance with these laws and regulations is regarded as a minimum standard for the consolidated entity to achieve. There were no known breaches of any environmental laws or regulations during the year.

Information on directors

DANIEL TUCKER *Chairman – Non-executive*

Experience and expertise

Daniel Tucker is a qualified mechanical fitter, has studied geology at Curtin University and accumulated over 20 years' experience in the mining industry. He is a non-executive director of View Resources Ltd and the managing director of Carey Mining Pty Ltd, a contract mining company which he founded in 1995. He won the Outstanding Manager award in the 2003 Corporate Leaders for Indigenous Employment Awards, presented in Canberra by the Hon. Kevin Andrews MP. This award is an initiative of the Commonwealth Department of Employment and Workplace Relations, in partnership with a number of Australia's leading businesses and Indigenous leaders, to improve the employment prospects of Indigenous and Torres Strait Islander people.

Other directorships

Mr Tucker is a director of View Resources Ltd, an ASX listed company. Mr Tucker has held no other directorships of ASX listed companies in the last three years.

KEITH WELLS BSc, MSc, Grad Dip Bus, MAIG *Managing Director*

Experience and expertise

Keith Wells is a geologist with over thirty years experience in the mining industry, including over twenty years at senior management level. He also worked extensively as a consultant. He has worked in most states of Australia as well as overseas and has been involved with a number of successful exploration finds including: Henty gold deposit, Tasmania, Mt Coolon gold deposit, Queensland, Hamata gold deposit, PNG and Magellan lead deposit, WA.

Other directorships

Mr Wells held no other directorships of ASX listed companies during the last three years

(JIMMY) KONG LENG LEE *Director – Non-executive*

Experience and expertise

Jimmy Lee is a mining engineer with over 25 years experience in the mining industry and is currently the General Manager of Carey Mining Pty Ltd. He has previously held senior positions with a number of leading mining companies, including North, WMC Resources and Dominion Mining, and is a former board member of the Northern Territory Mining Board and Northern Territory Chamber of Mines. Jimmy has a wealth of knowledge and experience in business development, contract management, and strategic planning in the resources industry. He is a current member of the Australasian Institute of Mining and Metallurgy and holds First Class Mine Manager's and Quarry Manager's Certificates of Competency.

Other directorships

Mr Lee held no other directorships of ASX listed companies during the last three years.

CLIVE BROWN *Director – Non-executive*

Experience and expertise

Clive Brown was the Western Australian Minister for State Development from 2001-2005. He was responsible for the most significant changes to the Mining Act in twenty five years, changes supported by both the mining industry and Aboriginal groups. He also developed good working relationships with the Chamber of Commerce & Industry and the Chamber of Minerals & Energy. He presently consults to a number of mining companies providing strategic advice on business-government relations and chairs a national steering committee for Australian governments on developing a national framework for occupation health and safety in the mining industry.

Other directorships

Mr Brown held no other directorships of ASX listed companies during the last three years.

Company secretary

DESMOND KELLY BComm, CPA, MAICD *Company Secretary*

Des Kelly has over 30 years financial and corporate management experience focused mainly in the resources sector. He was Dominion Mining's Group Chief Accountant in that company's key growth phase in the mid-eighties and, between 1994 and 1998 held the roles of Finance Director and Managing Director of Horizon Mining NL before establishing his own corporate management consulting business. Mr Kelly now contributes corporate and administration management expertise to several listed groups including Universal Resources, Midwest Corporation, Nylex Limited and Glengarry Resources Limited.

Directors' interests in shares and options

As at the date of this report the interests of the Directors in the shares and options of the company were:

	Ordinary Shares		Options over Ordinary Shares	
	Direct	**Indirect**	**Direct**	**Indirect**
D Tucker	-	4,030,000	-	1,500,000
K Wells	-	3,120,000	-	1,500,000
J Lee	-	3,030,000	-	1,500,000
C Brown	-	-	200,000	-

Meetings of directors

The number of meetings of the company's board of directors held during the period ended 30 June 2006 and the number of meetings attended by each director were:

	Full meetings of Directors	
	Held	**Attended**
D Tucker	6	6
K Wells	6	6
J Lee	6	6
C Brown	4	4

Held – denoted the number of meetings held during the time the director held office.

Retirement, election and continuation in office of directors

Mr D Tucker was appointed as a director on 8 September 2005. In accordance with the Constitution Mr Tucker will retire as a director at the first Annual General Meeting to be held on 23 November 2006 and, being eligible, will offer himself for re-election.

Mr K Wells was appointed as a director on 8 September 2005. In accordance with the Constitution Mr Wells will retire as a director at the first Annual General Meeting to be held on 23 November 2006 and, being eligible, will offer himself for re-election.

Mr J Lee was appointed as a director on 8 September 2005. In accordance with the Constitution Mr Lee will retire as a director at the first Annual General Meeting to be held on 23 November 2006 and, being eligible, will offer himself for re-election.

Mr C Brown was appointed as a director on 3 January 2006. In accordance with the Constitution Mr Brown will retire as a director at the first Annual General Meeting to be held on 23 November 2006 and, being eligible, will offer himself for re-election.

Remuneration report

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
- E Additional information

The information provided under headings A to D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in section E are additional disclosures required by the *Corporations Act 2001* which have not been audited.

Remuneration report (continued)

A Principles used to determine the nature and amount of remuneration (audited)

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management

The consolidated entity has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- focuses on exploration success as the creation of shareholder value and returns
- attracts and retains high calibre executives

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution

The framework currently consists of fixed salaries.

The overall level of executive reward takes into account the performance of the consolidated entity. The consolidated entity is involved in mineral exploration and did not derive a profit and therefore growth in earnings is not considered relevant. Shareholder wealth is dependent upon exploration success and has fluctuated accordingly. During the same period, average executive remuneration has been maintained in accordance with industry standards.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also has agreed to the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' fees

The current base remuneration was last reviewed with effect from 6 July 2006. Directors' remuneration is inclusive of committee fees.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The total maximum currently stands at $200,000.

Retirement allowances for directors

There is no provision for retirement allowances for non-executive directors.

Remuneration report (continued)

Executive pay

The executive pay and reward framework has three components:

- base pay and benefits
- long-term incentives through participation in the Employee Share Option Scheme and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

- *Base pay*

  Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

  Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

  There are no guaranteed base pay increases included in any senior executives' contracts.

- *Benefits*

  Executives may receive benefits including memberships, car allowances and reasonable entertainment.

- *Retirement benefits*

  Directors and employees are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.

- *Employee Share Option Scheme*

  Information on the Employee Share Option Scheme is set out on pages 42 – 43.

B Details of remuneration (audited)

Details of the remuneration of the directors and the key management personnel of Terrain Minerals Ltd are set out in the following tables.

2006	**Short-term benefits**		**Post-employment benefits**	**Share-based payments**	
Name	**Cash salary and fees $**	**Non-monetary benefits $**	**Superannuation $**	**Options $**	**Total $**
Directors of Terrain Minerals Ltd					
D Tucker*	6,881	516	619	-	8,016
K Wells**	58,865	5,516	17,802	-	82,183
J Lee***	-	516	6,250	-	6,766
C Brown****	5,733	516	517	12,560	19,326
Other key management personnel					
D J Kelly*****	40,925	516	-	7,410	48,851
C Tomich******	40,833	-	5,492	14,820	61,145
Total	**153,237**	**7,580**	**30,680**	**34,790**	**226,287**

* Mr D Tucker was appointed a director on 8 September 2005. Directors fees were paid from 1 April 2006.

** Mr K Wells was appointed a director on 8 September 2005. Mr Wells received nominal consulting fees until the Company listed on 23 March 2006 at which time he became salaried.

*** Mr J Lee was appointed a director on 8 September 2005. Directors fees were paid from 1 April 2006.

**** Mr C Brown was appointed a director on 3 January 2006. Directors fees were paid from 1 April 2006.

***** Mr D Kelly was appointed Company Secretary on 8 September 2005.

****** Mr Tomich was appointed Exploration Manager on 28 January 2006.

Remuneration report (continued)

C Service Agreements (audited)

Remuneration and other terms of employment for the Managing Director, Exploration Manager and the Company Secretaries are formalised in service agreements.

The agreements for the Managing Director and Exploration Director provide for the provision of other benefits including car allowances and participation, when eligible, in the Employee Share Option Scheme.

The agreement for the Company Secretary provides for the provision of consulting fees and participation, when eligible, in the Employee Share Option Scheme.

Other major provisions of the agreements relating to remuneration are set out below.

K Wells, Managing Director

- Term of agreement – For a period of 3 years with a notice period of the remainder of the term.
- Base salary, inclusive of superannuation and other benefits, for the year ended 30 June 2006 of $165,000, to be reviewed annually. Provision of four weeks annual leave.

C Tomich, Exploration Manager

- Term of agreement – For a period of 3 years with a notice period of the remainder of the term.
- Base salary, inclusive of superannuation and other benefits, for the year ended 30 June 2006 of $109,000, to be reviewed annually. Provision of four weeks annual leave.

D Kelly, Company Secretary

- Term of agreement – twelve months, notice period of two months
- Annual consulting fees of $42,000 for the 12 months from 8 September 2005, renegotiable at the end of the contract period.

D Share-based compensation (audited)

Options are granted under the Employee Share Option Scheme. All staff are eligible to participate in the scheme (including executive directors) at the absolute discretion of the directors.

Options are granted under the scheme for no consideration. Options are granted for a period of up to 5 years. Entitlements to the options are vested as soon as they become exercisable.

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
22 March 2006	8 September 2008	20 cents	$0.062	At any time during the option period
24 March 2006	24 March 2011	20 cents	$0.074	At any time during the option period

Options granted under the scheme carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is determined by the directors which shall be not less than 80% of market price on the date upon which the directors first resolved to grant the options.

The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date of options granted to directors and other key management personnel, allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Remuneration report (continued)

The model inputs for options granted during the period ended 30 June 2006 included:

Director's options

Grant date	22 March 2006
Expiry date	8 September 2008
Quantity	200,000
Exercise price	$0.20
Consideration	Nil
Share price at grant date	20 cents
Expected price volatility of the company's shares	70%
Expected dividend yield	Nil
Risk-free interest rate	5.65%

Further details relating to options are set out below.

Name	A Remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Value at lapse date $	E Total of columns B-D $
C Brown	64.99%	12,560	-	-	12,560
D Kelly	15.16%	7,410	-	-	7,410
C Tomich	24.23%	14,820	-	-	14,820

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

	Number of Options Granted During the period 2006	Number of Options Vested During the period 2006
Directors of Terrain Minerals Ltd		
D Tucker	-	-
K Wells	-	-
J Lee	-	-
C Brown	200,000	200,000
Other key management personnel		
D J Kelly	100,000	100,000
C Tomich	200,000	200,000

There were no ordinary shares issued as a result of the exercise of options.

E Additional information (unaudited)

Given Terrain Minerals Ltd is involved in mineral exploration and performance is measured by exploration success, the remuneration of the persons referred to above is not dependent on the satisfaction of a performance condition.

Loans to directors and executives

There are no loans to directors or executives.

Share options granted to directors and the most highly remunerated officers

Options over unissued ordinary shares of Terrain Minerals Ltd granted during or since the end of the financial period under the Employee Share Option Scheme to any of the directors and the most highly remunerated officers of the consolidated entity as part of their remuneration were as follows:

	Date of grant	Options granted
Directors		
C Brown, *Non-executive director*	22 March 2006	200,000
Other key management personnel of Terrain Minerals Ltd		
D Kelly, *Company Secretary*	24 March 2006	100,000
C Tomich, *Exploration Manager*	24 March 2006	200,000

Shares under option

Unissued ordinary shares of Terrain Minerals Ltd under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
8 September 2005	8 September 2008	20 Cents	4,500,000
4 November 2005	8 September 2008	20 cents	2,550,000
17 November 2005	8 September 2008	20 cents	1,000,000
18 November 2005	8 September 2008	20 cents	1,000,000
28 November 2005	8 September 2008	20 cents	50,000
22 March 2006	8 September 2008	20 cents	450,000
24 March 2006	24 March 2011	20 cents	600,000
			10,150,000

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

Shares issued on the exercise of options

Their were no ordinary shares of Terrain Minerals Ltd issued during the period ended 30 June 2006 on the exercise of options granted under the Terrain Minerals Ltd Employee Share Option Scheme.

Insurance of officers

During the period the Company paid a premium to insure the directors and officers of the Company. Under the terms of the policy the Company cannot publish amounts paid for premiums or the extent of the liabilities insured.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

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

Non-audit services

The consolidated entity may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the consolidated entity are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the period are set out below.

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the board to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the consolidated entity, acting as advocate for the consolidated entity or jointly sharing economic risk and rewards.

	2006
	$
During the period the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms.	
Assurance services	
Audit services	
Horwath Audit (WA) Pty Ltd:	
Audit and review of financial report and other audit work under the *Corporations Act 2001*	9,000
Other services	
Horwath Securities (WA) Pty Ltd:	
Preparation of Investigating Accountant's Report	7,177
	16,177

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

Auditor

Horwath Audit (WA) Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the directors.

K Wells
Managing Director
Perth, Western Australia

29 September 2006

Horwath

Horwath Audit (WA) Pty Ltd
ABN 79 112 284 787
Chartered Accountants
A member of Horwath International
128 Hay Street Subiaco WA 6008
PO Box 700 West Perth WA 6872
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29 September 2006

Private and Confidential

The Board of Directors
Terrain MInerals Limited
Suite 5
1327 Hay Street
WEST PERTH WA 6005

AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with my audit of the financial report of Terrain Minerals Limited for the period ended 30 June 2006 and in accordance with the provisions of the Corporations Act 2001.

As lead auditor 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 this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

Yours sincerely
HORWATH AUDIT (WA) PTY LTD

Horwath
Peter Toll

PETER TOLL
Director

Horwath Audit (WA) Pty Ltd conducts its practice independently of all other firms of chartered accountants who are members of Horwath International in Australia

FINANCIAL REPORT 30 JUNE 2006

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Terrain Minerals Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Terrain Minerals Ltd
1327 Hay Street
West Perth WA 6005

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 29 September 2006. The consolidated entity has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the consolidated entity. All press releases, financial reports and other information are available on our website: www.terrainminerals.com.au

For queries in relation to our reporting please call +61 8 9481 2455 or e-mail **info@terrainminerals.com.au**

INCOME STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2006

	Notes	Consolidated 2006 $	Parent entity 2006 $
Revenue from continuing operations	5	73,822	73,822
Employee benefits expense	6	(154,524)	(154,524)
Depreciation expense	6	(5,752)	(5,752)
Consultancy costs		(84,092)	(84,092)
Insurance costs		(6,377)	(6,377)
Office accommodation expenses	6	(21,134)	(21,134)
Travel expenses		(14,681)	(14,681)
Other expenses from ordinary activities		(71,233)	(71,233)
Loss before income tax		(283,971)	(283,971)
Income tax expense	7	-	-
Loss attributable to members of Terrain Minerals Ltd	17	(283,971)	(283,971)
Earnings per share for loss attributable to the ordinary equity Holders of the company:		**Cents**	
Basic and diluted earnings per share	28	(0.99)	

The above Income Statements should be read in conjunction with the Notes to the Financial Statements

BALANCE SHEETS

AS AT 30 JUNE 2006

	Notes	Consolidated 2006 $	Parent entity 2006 $
Current assets			
Cash and cash equivalents	8	4,369,620	4,369,618
Trade and other receivables	9	138,685	138,685
Total current assets		4,508,305	4,508,303
Non-current assets			
Other financial assets	10	-	420,000
Plant and equipment	11	66,512	66,512
Exploration and evaluation	12	2,777,067	2,357,069
Total non-current assets		2,843,579	2,843,581
Total assets		7,351,884	7,351,884
Current liabilities			
Trade and other payables	13	238,386	238,386
Borrowings	14	35,583	35,583
Total current liabilities		273,969	273,969
Total liabilities		273,969	273,969
Net assets		7,077,915	7,077,915
Equity			
Contributed equity	15	7,289,166	7,289,166
Reserves	16	72,720	72,720
Accumulated losses	17	(283,971)	(283,971)
Total equity		7,077,915	7,077,915

The above Balance Sheets should be read in conjunction with the Notes to the Financial Statements

STATEMENTS OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2006

	Notes	Consolidated 2006 $	Parent entity 2006 $
Total equity at the beginning of the financial period		-	-
Loss for the year	17	(283,971)	(283,971)
Total recognised income and expense for the period		(283,971)	(283,971)
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity net of transaction costs		7,289,166	7,289,166
Issues of options as purchase consideration		16,700	16,700
Director's and staff options		56,020	56,020
Total equity at the end of the financial period		7,077,915	7,077,915

The above Statements of Changes in Equity should be read in conjunction with the Notes to the Financial Statements

CASH FLOW STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2006

	Notes	Consolidated 2006 $	Parent entity 2006 $
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		(301,259)	(301,259)
Other – security deposits		(45,000)	(45,000)
Interest received		45,160	45,160
Net cash outflows from operating activities		(301,099)	(301,099)
Cash flows from investing activities			
Payments for other financial assets		-	(420,000)
Payments for plant & equipment		(69,557)	(69,557)
Payments for exploration properties		(498,537)	(78,537)
Exploration and evaluation expenditure		(365,936)	(365,938)
Net cash outflows from investing activities		(934,030)	(934,032)
Cash flows from financing activities			
Proceeds from issues of securities	15(b)	6,069,000	6,069,000
Costs of share issues	15(b)	(499,834)	(499,834)
Net cash inflows from financing activities		5,569,166	5,569,166
Net increase in cash and cash equivalents held		4,334,037	4,334,035
Cash at the beginning of the financial period		-	-
Cash at the end of the financial period	27	4,334,037	4,334,035

The above Cash Flow Statements should be read in conjunction with the Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to the period from incorporation being 8 September 2005 to 30 June 2006, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Equivalents to International Financial Accounting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issued Group Interpretations and the Corporations Act 2001.

Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the financial statements and notes of Terrain Minerals Ltd comply with International Financial Reporting Standards (IFRSs).

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Terrain Minerals Ltd financial statements to be prepared in accordance with AIFRSs. AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit and loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

(d) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Note 1. Summary of Significant Accounting Policies (continued)

(e) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease (refer to note 21).

(f) Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the consolidated entity's identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(g) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 120 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Note 1. Summary of Significant Accounting Policies (continued)

(j) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(k) Investments and other financial assets

The consolidated entity classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(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. They arise when the consolidated entity provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the consolidated entity's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the consolidated entity commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Note 1. Summary of Significant Accounting Policies (continued)

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the consolidated entity establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The consolidated entity assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(l) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the consolidated entity is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

(m) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 consolidated entity 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 is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Exploration equipment	5 years
- Vehicles	5 years
- Furniture, fittings and equipment	5 years
- Computer and electronic equipment	3 years

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 are included in the income statement.

Note 1. Summary of Significant Accounting Policies (continued)

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Provisions

Provisions for legal claims are recognised when: the consolidated entity has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

(p) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Retirement benefit obligations

The consolidated entity contributes to various defined contribution funds for its employees.

Contributions to the defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the Employee Share Option Scheme.

The fair value of options granted under the Employee Share Option Scheme is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(q) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 1. Summary of Significant Accounting Policies (continued)

(r) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the consolidated entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the half-year, adjusted for bonus elements in ordinary shares issued during the half-year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by or on behalf of the consolidated entity is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation.

Exploration and evaluation expenditure for each area of interest, other than that acquired from the purchase of another mining consolidated entity, is carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Expenditure which fails to meet at least one of the conditions outlined above is written off, furthermore, the directors regularly review the carrying value of exploration and evaluation expenditure and make write downs if the values are not expected to be recoverable.

Identifiable exploration assets acquired from another mining consolidated entity are recognised as assets at their cost of acquisition, as determined by the requirements of AASB 6 Exploration for and evaluation of mineral resources. Exploration assets acquired are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions referred to in AASB 6 is met.

Exploration and evaluation expenditure incurred subsequent to acquisition in respect of an exploration asset acquired, is accounted for in accordance with the policy outlined above for exploration expenditure incurred by or on behalf of the entity.

Acquired exploration assets are not written down below acquisition cost until such time as the acquisition cost is not expected to be recovered.

When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off.

Expenditure is not carried forward in respect of any area of interest/mineral resource unless the consolidated entity's rights of tenure to that area of interest are current.

Note 1. Summary of Significant Accounting Policies (continued)

(t) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the Australian Taxation Office, are presented as operating cash flow.

(u) New accounting standards and UIG interpretations

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006. There are no anticipated changes to Terrain Minerals Limited's accounting policies in future periods as a result of these changes. Below is a summary of recently amended or issued Accounting Standards relevant to Terrain Minerals Limited:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for consolidated entity
2005-1	AASB 139: *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-4	AASB 139: *Financial Instruments: Recognition and Measurement*, AASB 132: *Financial Instruments: Disclosure and Presentation*, AASB 1: *First-time adoption of AIFRS*, AASB 1023: *General Insurance Contracts*, AASB 1028: *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-5	AASB 1: *First-time adoption of AIFRS*, AASB 139: *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132: *Financial Instruments: Disclosure and Presentation*, AASB 101: *Presentation of Financial Statements*, AASB 114: *Segment Reporting*, AASB 117: *Leases*, AASB 133: *Earnings Per Share*, AASB 139: *Financial Instruments: Recognition and Measurement*, AASB 1: *First-time adoption of AIFRS*	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
New standard	AASB 7: *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

Note 1. Summary of Significant Accounting Policies (continued)

(v) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Terrain Minerals Limited ("company" or "parent entity") as at 30 June 2006 and the results of all the subsidiaries for the financial period then ended.

Terrain Minerals Limited and its subsidiaries together are referred to in this financial report as the Group or consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(w) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

(x) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the income statement over the period of the borrowing using the effective interest rate method.

Borrowings are classified as current liabilities, unless the entity has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings. Borrowing costs are expensed as incurred.

Note 2. Financial risk management

The consolidated entity's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

Risk management is carried out by the full Board of Directors. The board identifies and evaluates financial risks in close co-operation with management and provides written principles for overall risk management.

(i) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, prudent oversight of future funding requirements and maintaining ongoing contact to facilitators of further funding.

(ii) Cash flow and fair value interest rate risk

As the consolidated entity's major assets are cash deposits held in fixed interest rate deposits, the consolidated entity's income and operating cash flows are materially exposed to changes in market interest rates. The consolidated entity manages this risk by only investing in AAA rated institutions.

Note 3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the consolidated entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There were no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Exploration and evaluation expenditure

The Consolidated Entity has carrying balances for exploration and evaluation. Each year the Group assesses whether these balances have suffered any impairment, in accordance with the accounting policy stated in Note 1(g). The recoverable amounts are based on the assumption that the assets will either become economic mining properties or will be sold to a third party.

Note 4. Segment information

(a) Business segments

The consolidated entity operates predominantly in one industry. Its principal activities are those of prospecting and mineral exploration.

(b) Geographical segments

The consolidated entity operates only in Australia.

	Consolidated 2006 $	Parent entity 2006 $
Note 5. Revenue		
Revenue from continuing operations		
Other revenue		
Interest received	73,822	73,822
Note 6. Expenses		
Loss before income tax includes the following specific expenses		
Employee benefits expense		
Salaries, fees and other benefits	271,411	271,411
Amount capitalised	(125,887)	(125,887)
Net employee benefits expense	154,524	154,524
Depreciation		
Plant & equipment	5,752	5,752
Rental expense relating to operating leases	21,134	21,134
Note 7. Income tax		
(a) Income tax expense	-	-
(b) Loss from continuing operations before income tax	(283,971)	(283,971)
Tax at the Australian tax rate of 30%	(85,191)	(85,191)
Tax effect of amounts that are not tax deductible (taxable) in calculating taxable income:		
Employee share scheme	17,106	17,106
Exploration expenditure	(167,559)	(167,614)
Other items	849	849
Deferred tax assets relating to tax losses and temporary differences not recognised	234,795	234,850
Income tax expense	-	-

The franking account balance at year end was nil.

(c) Deferred tax assets and liabilities not recognised relate to the following:

	Consolidated 2006 $	Parent entity 2006 $
Deferred tax assets		
Tax losses	223,109	223,164
Other temporary differences	11,686	11,686
Deferred tax liabilities		
Other temporary differences	-	-
Net deferred tax assets	234,795	234,850

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

	Consolidated 2006 $	Parent entity 2006 $

Note 8. Current assets – Cash and cash equivalents

Cash at bank and on hand	226,428	226,428
Deposits at call	4,143,192	4,143,190
	4,369,620	4,369,618

Note 9. Current assets – Trade and other receivables

Other receivables	77,825	77,825
Security deposits	45,000	45,000
Prepayments	15,860	15,860
	138,685	138,685

Note 10. Non-current assets – Other financial assets

Investment in controlled entity (see notes 25 and 26)	-	420,000

Note 11. Non-current assets – Plant and equipment

Plant & equipment

Plant & equipment – at cost	72,264	72,264
Less: Accumulated depreciation	(5,752)	(5,752)
	66,512	66,512

Reconciliation

Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the current financial period is set out below.

Plant & equipment

At the beginning of the financial period	-	-
Additions	72,264	72,264
Depreciation expense (note 6)	(5,752)	(5,752)
Closing net book amount	66,512	66,512

Note 12. Non-current assets – Exploration and evaluation

Exploration and evaluation

Exploration and evaluation – at cost less amounts written off	2,777,067	2,357,069

Reconciliation

At the beginning of the financial period	-	-
Purchases of mineral tenements	2,234,237	1,814,237
Expenditure during the financial period	542,830	542,832
At the end of the financial period	2,777,067	2,357,069

The ultimate recoupment of exploration and evaluation costs carried forward is dependent upon the successful development and/or commercial exploitation, or alternatively sale, of the respective areas of interest.

	Consolidated 2006 $	Parent entity 2006 $
Note 13. Current liabilities – Trade and other payables		
Trade payables	224,634	224,634
Other payables	13,752	13,752
	238,386	238,386
Note 14. Current liabilities – Borrowings		
Unsecured		
Bank overdraft	35,583	35,583

Note 15. Contributed equity

	Number of shares	$
(a) Share capital		
Ordinary shares – fully paid	52,750,000	7,289,166

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price $	$
8 September 2005	Placement of shares	4,000,000	0.013	52,000
8 September 2005	Placement of shares	6,000,000	0.017	102,000
4 November 2005	Placement of shares	5,100,000	0.10	510,000
17 November 2005	Placement of shares	2,000,000	0.10	200,000
18 November 2005	Placement of shares	2,000,000	0.10	200,000
28 November 2005	Placement of shares	50,000	0.10	5,000
22 March 2006	Issue of shares pursuant to a prospectus	25,000,000	0.20	5,000,000
22 March 2006	Shares issued pursuant to tenement purchase agreements	8,600,000	0.20	1,720,000
	Less: Transaction costs arising on placement of shares			(499,834)
		52,750,000		7,289,166

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Employee share option scheme

Information relating to the Employee Share Option Scheme, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 22.

(e) Options

At the end of the financial year, options over ordinary shares on issue are as shown below:

- 9,525,000 options exercisable at 20 cents and expiring 8 September 2009; and
- 600,000 options exercisable at 20 cents and expiring 24 March 2011.

Note 15. Contributed equity (continued)

(f) Movements in options

Date	Details	Number of options
8 September 2005	Allotment of options	4,500,000
4 November 2005	Allotment of options	2,550,000
17 November 2005	Allotment of options	1,000,000
18 November 2005	Allotment of options	1,000,000
28 November 2005	Allotment of options	25,000
22 March 2006	Options allotted pursuant to a tenement purchase agreement	250,000
22 March 2006	Options allotted to a director	200,000
24 March 2006	Options allotted under the Terrain Minerals Limited ESOP	600,000
		10,125,000

	Consolidated 2006 $	Parent entity 2006 $
Note 16. Reserves		
Share-based payments reserve	72,720	72,720
Movements in reserves		
Share-based payments reserve		
Balance at the beginning of the financial period	-	-
Option expense	72,720	72,720
Balance at the end of the financial period	72,720	72,720

Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued and not exercised.

Note 17. Accumulated losses

	Consolidated 2006 $	Parent entity 2006 $
Accumulated losses at the beginning of the financial period	-	-
Net loss attributable to members of Terrain Minerals Ltd	(283,971)	(283,971)
Accumulated losses at the end of the financial period	(283,971)	(283,971)

Note 18. Key management personnel disclosures

(a) Directors

The following persons were directors of Terrain Minerals Ltd during the financial period:

Chairman - non-executive
D Tucker (from 8 September 2005 to 30 June 2006)

Executive directors
K Wells, Managing Director (from 8 September 2005 to 30 June 2006)

Non-executive directors
J Lee (from 8 September 2005 to 30 June 2006)
C Brown (from 3 January to 30 June 2006)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, during the financial period:

Name	**Position**
D J Kelly	Company Secretary/Chief Financial Officer (appointed 8 September 2006)
C Tomich	Exploration Manager (appointed 30 January 2006)

(c) Key management personnel compensation

	Consolidated 2006 $	**Parent entity 2006 $**
Short term employee benefits	160,817	160,817
Post employment benefits	30,680	30,680
Share-based payments	34,790	34,790
	226,287	226,287

The consolidated entity has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found on pages 12 to 17.

Note 18. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel

Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report on pages 15 to 17.

Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Terrain Minerals Limited and other key management personnel of the company, including their personally-related parties, are set out below.

2006 Name	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period	Balance at the end of the period	Vested and exercisable at the end of the period
Directors of Terrain Minerals Ltd						
D Tucker	-	-	-	1,500,000	1,500,000	1,500,000
K Wells	-	-	-	1,500,000	1,500,000	1,500,000
J Lee	-	-	-	1,500,000	1,500,000	1,500,000
C Brown	-	200,000	-	-	200,000	200,000
Other key management personnel						
D J Kelly	-	100,000	-	-	100,000	100,000
C Tomich	-	200,000	-	-	200,000	200,000

No options were vested and unexercisable at the end of the financial year.

Share holdings

The numbers of shares in the company held during the financial year by each director and the key management personnel of the consolidated entity, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2006 Name	Balance at the start of the period	Received during the period on the exercise of options	Other changes during the period	Balance at the end of the period
Directors of Terrain Minerals Ltd				
D Tucker	-	-	4,030,000	4,030,000
K Wells	-	-	3,120,000	3,120,000
J Lee	-	-	3,030,000	3,030,000
C Brown	-	-	-	-
Other key management personnel				
D J Kelly	-	-	-	-
C Tomich	-	-	80,000	80,000

(e) Loans to key management personnel

There are no loans made to directors or other key management personnel of Terrain Minerals Ltd.

Note 18. Key management personnel disclosures (continued)

(f) Other transactions with key management personnel

Directors of Terrain Minerals Ltd

During the year the Company paid $420,000 and issued 250,000 share options to secure tenure to minerals tenements. This amount was paid to View Resources Limited, a company of which Mr D Tucker is a director.

Aggregate amounts of each of the above types of other transactions with directors of Terrain Minerals Ltd:

	Consolidated 2006 $	Parent entity 2006 $
Amounts recognised as non-current assets – other financial assets		
Purchase costs	-	420,000

Note 19. Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms.

	Consolidated 2006 $	Parent entity 2006 $
Assurance services		
Audit services		
Horwath Audit (WA) Pty Ltd:		
Audit and review of financial report and other audit work under the *Corporations Act 2001*	9,000	9,000
Other services		
Horwath Securities (WA) Pty Ltd:		
Preparation of Investigating Accountant's Report	7,177	7,177
	16,177	16,177

Note 20. Contingent liabilities

Bundarra Project

Four of the tenements; M37/488, 489 and E37/251 are the subject of plaints relating to under expenditure by the previous tenement holder, St Barbara Ltd.

St Barbara is committed to defending the plaints at no cost to Terrain. The Company expects the issue to be successfully concluded and anticipates no material losses.

Note 21. Commitments for expenditure

Capital commitments

Commitments for minimum expenditure on mining tenements contracted for at the reporting date but not recognised as liabilities, payable:

	Consolidated 2006 $	Parent entity 2006 $
Within one year	510,668	483,668
Later than one year but not later than 5 years	1,959,702	1,899,702
Later than 5 years	-	-
	2,470,370	2,383,370

The above commitments may be reduced by tenement withdrawals, concessions, exemptions, reductions and joint venture arrangements with third parties.

Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable, representing non-cancellable operating leases:

	Consolidated 2006 $	Parent entity 2006 $
Within one year	5,603	5,603
Later than one year but not later than 5 years	-	-
Later than 5 years	-	-
	5,603	5,603

Note 22. Share-based payments

a) Employee Share Option Scheme

All staff (including executive directors) are eligible to participate in the scheme.

Shares and options are issued on the following terms:

- The entitlement from time to time of each Eligible Participant shall be determined by the directors in their absolute discretion based on the directors' assessment of length of service, remuneration level and the contribution the Eligible Participant will make to the long term performance of the consolidated entity, together with such other criteria as the directors consider appropriate in the circumstances.
- The maximum number of securities which may be issued pursuant to the scheme shall not be greater than 5% of the issued shares of the consolidated entity, from time to time.
- Options are granted under the plan for no consideration.
- Options granted under the plan carry no dividend or voting rights.
- When exercisable, each option is convertible into one ordinary share.

The exercise price of options is determined by the directors which is not less than 80% of market price on the date upon which the directors first resolved to grant the options. Amounts receivable on the exercise of options are recognised as share capital.

Set out below are summaries of options granted under the scheme.

Grant date	Expiry date	Exercise price	Balance at start of the period	Issued during the period	Exercised during the period	Lapsed during the period	Balance at end of the period
		$	Number	Number	Number	Number	Number
2006							
24 March 2006	24 March 2011	0.20	-	600,000	-	-	600,000
			-	600,000	-	-	600,000

There were no shares issued during the period as a result of the exercise of options.

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2006 was 7.41 cents per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the period ended 30 June 2006 included:

Grant date	24 March 2006
Expiry date	24 March 2011
Quantity	600,000
Exercise price	$0.20
Consideration	Nil
Share price at grant date	20 cents
Expected price volatility of the company's shares	70%
Expected dividend yield	Nil
Risk-free interest rate	5.65%

Note 22. Share-based payments (continued)

b) Other share-based payments

During the year 250,000 options were issued to the vendors of some Redcastle tenements as part-consideration for their purchase.

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2006 was 6.28 cents per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the period ended 30 June 2006 included:

Grant date	22 March 2006
Expiry date	8 September 2008
Quantity	250,000
Exercise price	$0.20
Consideration	Nil
Share price at grant date	20 cents
Expected price volatility of the company's shares	70%
Expected dividend yield	Nil
Risk-free interest rate	5.5%

See pages 11 – 12 of the Directors Report for details of share options issued to directors during the period.

c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period was $72,720.

Note 23. Related party transactions

Directors and other key management personnel

Disclosures relating to directors and other key management personnel are set out in note 18.

Other related party transactions

During the year an amount of $11,889 was paid to Carey Mining Limited for rental expense and office overhead expenses incurred. Daniel Tucker is the Managing Director of Carey Mining Limited.

Controlling entities

The ultimate parent entity in the wholly-owned group is Terrain Minerals Ltd

Ownership interests in related parties

Interests held in the following classes of related parties are set out in the following Notes: Controlled entities – Note 26

Note 24. Events occurring after reporting date

There are no matters or circumstances that have arisen since 30 June 2006 that has significantly affected, or may significantly affect:

(a) the consolidated entity's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the consolidated entity's state of affairs in future financial years.

	Parent entity 2006 $

Note 25. Business combination

On 1 May 2006 the Company acquired 100% of the issued share capital of Aracom Pty Ltd.

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

(a) Summary of acquisition

Purchase consideration – cash paid	420,000
Fair value of assets acquired (b)	2
Exploration goodwill	419,998

(b) Assets acquired

Cash	2

Note 26. Subsidiaries

Name of entity	Country of incorporation	Class of shares	Equity holding 2006
Arocom Pty Ltd	Australia	Ordinary	100%

This controlled entity has been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.

Note 26a. Impact on adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS)

Terrain Minerals Ltd was incorporated on 8 September 2005 and has therefore only ever reporting under AIFRSs. Therefore, there was no impact on adoption of AIFRSs.

	Consolidated 2006 $	Parent entity 2006 $

Note 27. Reconciliation of profit(loss) from ordinary activities after income tax to net cash outflow from operating activities

Cash at the end of the financial period is reconciled as follows:

	Consolidated 2006 $	Parent entity 2006 $
Cash at bank and on hand	226,428	226,428
Deposits at call	4,143,192	4,143,190
Bank overdraft	(35,583)	(35,583)
	4,334,037	4,334,035
Operating profit (loss) after income tax	(283,971)	(283,971)
Depreciation	5,752	5,752
Non-cash employee benefits expense – share based payments	57,020	57,020
Change in operating assets and liabilities		
(Increase) in other receivables	(138,579)	(138,579)
Increase in trade creditors and provisions	58,679	58,679
Net cash (outflow) from operating activities	(301,099)	(301,099)

Note 28. Earnings per share

	Consolidated 2006 $
Basic and diluted earnings per share	(0.99)

	2006 Number
Weighted average number of shares used as the denominator	
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share.	28,666,385

There were a further 10,125,000 potential ordinary shares (options) not considered to be dilutive.

	2006 $
Losses used in calculating basic and diluted losses per share	
Net loss	(283,971)

In the directors' opinion:

(a) The financial statements and notes set out on pages 21 to 45 are in accordance with the Corporations Act 2001, including:

  (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2006 and of its performance, as represented by the results of its operations, changes in equity and their cash flows, for the financial period ended on that date; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out on pages 13 to 16 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001; and

The directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A of the Corporations Act 2001.

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

Keith Wells

K Wells
Managing Director

Perth
29 September 2006

Horwath

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Independent audit report on the financial report to members of Terrain Minerals Limited

We have audited the accompanying financial report of Terrain Minerals Limited (the company) and the consolidated entity for the period ended 30 June 2006. The financial report comprises the balance sheet at 30 June 2006, and the income statement, cash flow statement, summary of significant accounting policies and other explanatory notes, and the directors' declaration for the year then ended.

We have also audited the information about the remuneration of directors and executives ("remuneration disclosures"), the company has disclosed in accordance with Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" on page 4 of the directors' report, as permitted by the Corporations Regulations 2001.

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 Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and the remuneration disclosure based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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.

Horwath Audit (WA) Pty Ltd conducts its practice independently of all other firms of chartered accountants who are members of Horwath International in Australia

Independence

We are independent of the company and the group, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditors' Independence Declaration, a copy of which is included in the Directors' Report. [In addition to our audit of the financial statements, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. The financial report of Terrain Minerals Limited is in accordance with the Corporations Act 2001, including:
   (a) giving a true and fair view of the company's and the group's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
   (b) complying with Accounting Standards in Australia including the Australian Accounting Interpretations and the Corporations Regulations 2001.
2. The remuneration disclosures that are contained on page 4 of the directors' report comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

Dated the 29th day of September 2006.

HORWATH AUDIT (WA) PTY LTD

Horwath

Peter Toll

PETER TOLL
Director

During The Consolidated Entity's financial period the Group has complied with the ASX Principles and Recommendations other than in relation to the matters specified below:

Principle Ref.	Recommendation Ref.	Notification of Departure	Explanation for Departure
2	2.1	A majority of board members are not independent directors	Only one of the four board members is considered to be independent in accordance with the ASX definition. In view of the size of the company and the nature of its activities the board considers that the current board is a cost effective and practical method of directing and managing the company.
2	2.2	The Chairman is not an independent director	The chairperson, Mr Daniel Tucker, is not independent by virtue of being a major shareholder. Mr Tucker is a founding member of the company and the board considers the independence or otherwise of the chairman not to be a critical matter, given that the company is in an exploration phase.
2	2.4	The board has not established a nomination committee	The board has no formal nomination committee. Acting in its ordinary capacity from time to time as required, the board carries out the process of determining the need for, screening and appointing new directors. In view of the size of the company and resources available, it is not considered that a separate nomination committee would add any substance to this process.
4	4.2, 4.3, 4.4	The board has not established an audit committee The Structure of audit committees should be such that it consists of: • Only non-executive directors • A majority of independent directors • An independent chairperson, who is not chairperson of the board, and • At least three members Audit committees should have a formal charter	Terrain's directors do not consider that the Company's affairs are of such a size and complexity as to merit the establishment of a separate audit committee. Until this situation changes the full Board of Terrain will carry out any necessary audit committee functions.
5	5.1	The Group has not established written policies and procedures designed to ensure compliance with ASX Listing Rule Disclosure requirements and to ensure accountability at a senior management level for that compliance.	Due to its size and structure the board is able to meet on a regular basis for both management and board meetings to ensure compliance with ASX Listing Rules disclosure requirements. The full board is accountable for ASX compliance.

Principle Ref.	Recommendation Ref.	Notification of Departure	Explanation for Departure
7	7.1	The board has not established policies on risk oversight and management	While the company does not have formalized policies on risk management the board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at board meetings and risk management culture is encouraged amongst employees and contractors.
9	9.2	The board has not established a remuneration committee	The full board is responsible for setting remuneration levels and individual performance targets. Due to the size of the company it is considered to be efficient and cost effective. Advice from professional independent advisors will be sought where necessary.

INTERESTS IN MINING TENEMENTS

AS AT 30 SEPTEMBER 2006

Project	Tenement Number	Terrain's Interest	
BUNDARRA (CELTIC)	M37/513	100%	
	M37/514	100%	
	M37/350	100%	
	M37/638	100%	
	M37/488	100%	
	M37/489	100%	
	E37/251	100%	
	P37/6029	100%	
EAST KAMBALDA (COOGEE)	M26/477	100%	
	M26/478	100%	
	M26/485	100%	
	E26/97	100%	
REDCASTLE	P39/4319	100%	Subject to the issue of additional shares and options on the 1st anniversary of listing on the ASX and at a Decision to Mine
	M39/318	100%	
	P39/4351	100%	
	P39/4352	100%	
	P39/2564	100%	
	P39/4229	100%	
	P39/4347	100%	
	P39/4403	100%	
	P39/4408	100%	
	P39/4458	100%	
	P39/4459	100%	
	P39/4460	100%	
	P39/4280	100%	
	P39/4465	100%	
	P39/4468	100%	
	P39/4469	100%	
	M39/495	100%	
	M39/541	100%	
	P39/4104	67%	
	P39/4107	100%	
	P39/4467	100%	
EURO	M35/585	100%	Subject to an additional share issue on the 1st anniversary of listing on the ASX

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

SHAREHOLDINGS

Substantial shareholders

The following substantial shareholders have lodged notices with the Company as at 28 March 2006:

Holders	Ordinary shares
St Barbara Limited	9,000,000
Denton Pty Ltd	4,000,000
M8 Holdings Pty Ltd	3,000,000
Razi Pty Ltd	3,000,000

Class of shares and voting rights

At 29 September 2006 there were 425 holders of ordinary shares on the Company. The voting rights attaching to the ordinary shares, set out in 10.10 of the Company's Constitution, are:

- On a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- On a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares, shall have a fraction of a vote for each partly paid share. The fraction shall be equivalent to the proportion which the amount paid is of the total amounts paid and payable, excluding amounts credited, provided that the amounts paid in advance of a call are ignored when calculating a true portion.

At 29 September 2006, there were options over 10,125,000 unissued ordinary shares. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

Distribution of share and option holders

Category	Ordinary shares	Options expiring 8 September 2008	Options expiring 24 March 2011
1 - 1,000	2	-	-
1,001 - 5,000	14	-	-
5,001 - 10,000	62	-	-
10,001 - 100,000	296	11	2
100,001 - and over	51	11	2
	425	**22**	**4**

There were 9 holders of less than a marketable parcel of ordinary shares.

Unquoted equity securities

(a) There were 22 holders of 9,525,000 options to acquire ordinary shares at an exercise price of 20 cents and expiring 8 September 2008.

(b) There were 4 holders of 600,000 options to acquire ordinary shares at an exercise price of 20 cents and expiring 24 March 2011.

Restricted securities

(a) 2,550,000 ordinary shares restricted until 4 November 2006.
(b) 1,000,000 ordinary shares restricted until 17 November 2006.
(c) 1,000,000 ordinary shares restricted until 18 November 2006.
(d) 25,000 ordinary shares restricted until 24 November 2006.
(e) 8,600,000 ordinary shares restricted until 22 March 2007.
(f) 9,230,000 ordinary shares restricted until 23 March 2008.
(g) 2,550,000 options expiring 8 September 2008 restricted until 4 November 2006.
(h) 1,000,000 options expiring 8 September 2008 restricted until 17 November 2006.
(i) 1,000,000 options expiring 8 September 2008 restricted until 18 November 2006.
(j) 25,000 options expiring 8 September 2008 until 24 November 2006.
(k) 250,000 options expiring 8 September 2008 restricted until 22 March 2007.
(l) 4,500,000 options expiring 8 September 2008 restricted until 23 March 2008.

On-market buy back

There is no current on-market buy back.

Twenty largest security holders (as at 29 September 2006)

	Ordinary shares	
Holder name	**Number**	**%**
St Barbara Limited	9,000,000	17.06
Denton Pty Ltd	4,000,000	7.58
M8 Holdings Pty Ltd	3,000,000	5.69
Razi Pty Ltd	3,000,000	5.69
Skycross Pty Ltd <Skycross Super Fund A/C>	2,570,503	4.87
Vietnam Industrial Investments Limited	2,250,000	4.27
JDE Equities Pty Ltd	2,100,000	3.98
Mr Ah Gaw Lean	1,500,000	2.84
Anren Investments Pty Ltd	1,100,000	2.09
Ms Loo Wuan Ng	1,002,000	1.90
Sandhurst Trustees Ltd	850,000	1.61
Mr Nicholas Steel	800,000	1.52
Martinick Investments Pty Ltd <Martinick Super Fund A/C>	750,000	1.42
ANZ Nominees Limited <Cash Income A/C>	675,000	1.28
Dr Marcin Zielinski & Ms Dorota Kesicka	456,859	0.87
Miss Mian Leng Lee	400,000	0.76
Mr Eng Hong Lim	400,000	0.76
Steedman Holdings Pty Ltd	300,000	0.57
Mr Denning Chong	250,000	0.47
Mr Ian Dunn	250,000	0.47
	34,654,362	**65.70**

Other information

Terrain Minerals Ltd, incorporated and domiciled in Australia, is a publicly listed company limited by shares.