

TERRAMIN AUSTRALIA LIMITED

ABN: 67 062 576 238

HALF YEAR REPORT

30 JUNE 2005

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**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES**

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2005

DIRECTORS' REPORT.

Your directors submit the financial report of the economic entity for the half-year ended 30 June 2005

Board of Directors

The names of directors who held office during or since the end of the half-year:

Dr Kevin C Moriarty
Mr David A Paterson
Mr Colin G Jackson
Mr Michael H Kennedy (appointed 15 June 2005)
Mr Steven A J Bonett (appointed 15 June 2005)

Review of Operations

Terramin ('the Company') focuses on investment in advanced mineral projects, with early cash flow potential and with a current preference in base metals, particularly zinc. To achieve this it seeks to identify and acquire projects with certain characteristics viz: identified resources or targets, proximity to infrastructure, potential for high-grade reserves, potential to grow resources or expand production to larger tonnages. It will undertake greenfields exploration if the tenements are located near infrastructure or existing operations. The Company is actively advancing some projects and assessing others for acquisition. The emphasis is on projects that already have substantial work, but which, for various reasons, have not been progressed.

Major events for the Half Year

The Company has progressed significantly in the last six months with the following points worthy of special note :

- Share placement to Macquarie Bank at 25 cents per share raising \$1.0 million confirming a relationship that may have value in future financings
- Share placement to Sempra Metals & Concentrates Corp ('Sempra') at 25 cents per share raising \$0.5 million.
- Issue of convertible notes to Sempra raising \$6.5 million in funding to complete mining studies at Angas.
- Commitment from Sempra to extend additional funding of \$10 million for Angas development subject to various conditions
- Signing by Sempra of a life of mine concentrate offtake agreement for Angas output.
- Formation of Menninnie Metals ('MML') to hold the Company's Gawler Craton titles
- Share placement to Zinifex Limited for a 20% interest in MML raising \$0.5 million
- Formation of an exploration joint venture with Zinifex over the Menninnie Dam Project (EL 2848) requiring them to spend up to \$8 million to earn a 70% interest.
- Receipt of South Australian Government PACE program funding (\$93,736) to conduct certain exploration at both Angas and Menninnie Dam
- Appointment of senior executives Bob Jones (General Manager, Angas Project) and John Parker (Managing Director, MML).
- Appointment of two additional directors in Michael Kennedy & Steven Bonett.
- Significant advancement of the Angas Project including expansion of the zinc resource and fast tracking of the project feasibility study.
- Ongoing exploration success at Menninnie Dam including new copper anomalies.

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (cont'd)

Angas Project EL 2839 (TZN 100%)

Angas has been the major focus of activities during the reporting period. The important funding milestones are noted above. This has enabled the following work to be advanced, much of which is ongoing.

- Drilling to improve resource definition and expand the limits of known mineralisation.
- Preparation of Mining Lease Application
- Mineral processing test work including optimisation of flotation reagents and confirmation of zinc and lead concentrate grade and characteristics.
- Refinement of project capital costs
- Preparation of mining and rehabilitation programs
- Strathalbyn community relations activities including presentations to key stakeholders

No new work was carried out on the company's Fleurieu exploration titles (EL's 3128 and 2677). PIRSA expenditure commitments have been amalgamated with Bremer, EL 2839 expenditure. Terramin continues to hold 100% of these titles.

A detailed update will be provided in the September 2005 quarterly Activities Report to be lodged with the Australian Stock Exchange Ltd ('ASX') during the month of October 2005.

Menninnie Dam EL 2848 (MML 100%)

Resource definition of the lead-zinc-silver deposits is to be fast-tracked under a heads of agreement announced in May 2005 between Terramin and Melbourne-based Zinifex Australia Limited. The agreement will see up to \$8 million injected by Zinifex – one of the world's largest integrated lead and zinc companies. Under the Menninnie agreement, Zinifex must:

- Spend a minimum \$2 million on the project's exploration and development by 31 December 2006, but with no project entitlement;
- Spend an additional \$3 million by 31 December 2008 to earn an initial 49% equity interest in the project; and
- Spend an additional \$3 million by 31 December 2010 to move to a 70% position in the joint venture.

Zinifex has also paid \$500,000 for a 20% interest in Terramin subsidiary, Menninnie Metals Limited (MML) which now holds title to EL 2848, Menninnie Dam and the Gawler Craton Titles referred to below.

A substantial air core drill program has been completed over soil and calcrete geochemical anomalies identified as being highly prospective for large copper, copper gold and copper-lead-zinc deposits. Preliminary results were released to ASX on 27 July 2005 which identified new copper, lead and zinc zones in five drill holes. A major program of diamond drilling planned for later this year will follow up these results and also target extensions of known lead-zinc mineralisation that makes up the central zone of the Menninnie Dam deposit.

A detailed update will be provided in the September 2005 quarterly Activities Report to be lodged with the ASX during the month of October 2005.

Gawler Craton Titles – EL 2969 Ingomar, EL 3039 National Trig, EL2987 Phar Lap (MML 100%)

There was no exploration expenditure on the titles during the half year. The tenements have been renewed until mid 2006. Exploration including surface geochemical sampling, air core drilling and gravity surveys have been scheduled for later this year.

Business Development

Terramin is investigating a number of advanced zinc projects outside of Australia with potential to meet the investment criteria outlined above. Importantly the Company can now quickly deploy a wide range of in-house expertise. Its relationships with Macquarie Bank, Semptra and Zinifex have the potential to achieve significant accretive value to shareholders.

The March and June quarterly Activities Reports lodged with ASX contain a summary of the Company's operations over the six month period under review.

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (cont'd)

Financial

The Company made a loss for the half year ended 30 June 2005 of \$213,074 (half year to 30 June 2004 loss \$241,687). A total of \$919,534 spent during the period on exploration and evaluation of the Company's tenements has been carried forward as an asset in the Company's Statement of Financial Position.

\$5,117 in previous exploration expenditure on EL 2970 Lake Eyre was written off.

During the period the Company raised \$1,500,000 from the issue of 6,000,000 new shares at 25 cents each. In addition another 250,000 shares were issued pursuant to the exercise of unlisted options at 20 cents raising \$ 50,000.

No dividends were paid and the directors have not recommended the payment of a dividend.

Corporate Governance

The recent appointments of Michael Kennedy and Steven Bonett as directors of the Company bring important legal, commercial, metals marketing and compliance skills to the board. Board committees covering the following corporate governance areas (1) Audit (2) Compliance (3) Remuneration (4) Environmental & Occupational Health and Safety (OHS) have been established.

Other Significant Events

Subsequent to the half year end, 3,243,436 options were exercised raising \$ 648,687 in share capital.

Adoption of Australian Equivalents to IFRS

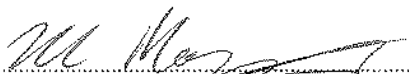
This interim financial report has been prepared under Australian equivalents to IFRS. A reconciliation of differences between previous GAAP and Australian equivalents to IFRS has been included in Note 9 of this report.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 4 for the half-year ended 30 June 2005.

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

Director.....


Kevin C Moriarty

Dated this 12th day of September 2005

Director.....


David A Paterson

Dated this 12th day of September 2005



TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES

Lead Auditor's Independence Declaration under Section 307C of the Corporation Act 2001

To: The Directors of Terramin Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2005, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

P D Robertson
Partner

Adelaide

12 September 2005



**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES**

**CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED
30 JUNE 2005**

		Economic Entity	
		30.6.2005	30.6.2004
		\$	\$
	Note		
Revenue		67,496	107,075
Depreciation expense		(7,407)	(5,139)
Employee benefits expense		(156,665)	(20,087)
Tenement expenditure written off		(5,117)	-
Administration expenses	2	(279,124)	(323,536)
Profit/(Loss) before income tax and unrealised foreign exchange loss		(380,817)	(241,687)
Unrealised foreign currency exchange loss	4	(128,339)	-
Income tax expense		-	-
Profit/(Loss) for the period		(509,156)	(241,687)
Profit/(Loss) attributable to minority equity interest		(296,082)	-
Profit/(Loss) attributable to members of the parent Entity		(213,074)	(241,687)
Overall Operations:			
Basic earnings per share (cents per share)		(0.37)	(0.44)
Diluted earnings per share (cents per share)		(0.37)	(0.44)

The accompanying notes form part of these financial statements

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES**

**CONSOLIDATED BALANCE SHEET
AS AT
30 JUNE 2005**

		Economic Entity	
		30.6.2005	31.12.2004
		\$	\$
ASSETS	Note		
CURRENT ASSETS			
Cash and cash equivalents		8,961,424	2,400,104
Trade and other receivables		306,396	13,848
TOTAL CURRENT ASSETS		9,267,820	2,413,952
NON-CURRENT ASSETS			
Property, plant and equipment		517,418	45,014
Exploration & evaluation	3	3,409,775	2,495,358
Other non-current assets		28,576	-
TOTAL NON-CURRENT ASSETS		3,955,769	2,540,372
TOTAL ASSETS		13,223,589	4,954,324
CURRENT LIABILITIES			
Trade and other payables		315,919	327,312
Provisions		20,104	1,002
TOTAL CURRENT LIABILITIES		336,023	328,314
NON-CURRENT LIABILITIES			
Borrowings	4	6,631,660	-
TOTAL NON-CURRENT LIABILITIES		6,631,660	-
TOTAL LIABILITIES		6,967,683	328,314
NET ASSETS		6,255,906	4,626,010
EQUITY			
Issued capital		7,540,609	5,992,109
Share option reserve	5	90,552	-
Retained earnings/(loss)		(1,579,173)	(1,366,099)
Parent entity interest		6,051,988	4,626,010
Minority equity interest		203,918	-
TOTAL EQUITY		6,255,906	4,626,010

The accompanying notes form part of these financial statements

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED
30 JUNE 2005**

	Share Capital Ordinary	Reserves	Retained Profits/(Loss)	Minority Interests	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2004	5,992,109	-	(911,514)	-	5,510,063
Profit attributable to members of parent entity		-	(241,687)	-	(241,687)
Balance at 30 June 2004	<u>5,992,109</u>	<u>-</u>	<u>(1,153,201)</u>		<u>4,838,907</u>
 Balance at 1 January 2005	 5,992,109	 -	 (1,366,099)		 4,626,010
Shares issued during the period	1,550,000				1,550,000
Share issue costs	(1,500)				(1,500)
Share option reserve		90,552			90,552
Share issue attributable to minority				500,000	500,000
	<u>7,540,609</u>	<u>90,552</u>	<u>(1,366,099)</u>	<u>500,000</u>	<u>6,765,062</u>
Loss for the period			(509,156)		(509,156)
Profit attributable to minority shareholders			(139)	139	-
Net profit on disposal (premium paid for acquisition) of minority interest in subsidiary			296,221	(296,221)	-
Attributable loss for the period			<u>(213,074)</u>	<u>(296,082)</u>	<u>(509,156)</u>
Balance at 30 June 2005	<u>7,540,609</u>	<u>90,552</u>	<u>(1,579,173)</u>	<u>203,918</u>	<u>6,255,906</u>

This is the first reporting period in which there is a minority equity interest due to the acquisition by Zinifex Limited of 20% of the issued capital in Menninnie Metals Limited as referred to in the Directors' report.

The accompanying notes form part of these financial statements.

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES**

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED
30 JUNE 2005**

	Economic Entity	
	30.6.2005	30.6.2004
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(233,416)	(292,512)
Interest received	47,472	92,364
Net cash provided by (used in) operating activities	(185,944)	(200,148)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of non-current assets	(492,944)	(58,812)
Exploration expenditure payments	(1,309,792)	(760,274)
Net cash provided by (used in) investing activities	(1,802,736)	(819,086)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	2,050,000	-
Proceeds from borrowings	6,500,000	-
Net cash provided by (used in) financing activities	8,550,000	-
Net increase in cash held	6,561,320	(1,019,234)
Cash at 1 January 2005	2,400,104	4,361,136
Cash at 30 June 2005	8,961,424	3,341,902

The accompanying notes form part of these financial statements.

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
30 JUNE 2005**

Note 1: Basis of Preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets. These accounting policies have been consistently applied by the Company and are consistent with those of the previous reporting period.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2004 and any public announcements made by Terramin Australia Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

As this is the first interim financial report prepared under Australian equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 31 December 2004 annual report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian equivalents to IFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and Australian equivalents to IFRS has been prepared per Note 9.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity Terramin Australia Limited has the power to control the financial and operating policies of, so as to obtain benefits from its activities.

All controlled entities have a December financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

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

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Terramin Australia Limited is not part of an income tax consolidated group under the Tax Consolidation Regime.

TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
30 JUNE 2005

Note 1: Basis of Preparation (cont'd)

(c) Property, Plant and Equipment

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

Property

Freehold land and buildings are shown at historical cost.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

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

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated over their useful lives to the economic entity commencing from the time the asset is held ready for use.

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

Class of Fixed Asset	Depreciation Rate
Computers & office equipment	15-40%
Plant and equipment	5-33%
Motor vehicles	22.5%

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.

(d) Exploration and Evaluation Expenditure

Exploration & evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

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

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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

(e) Impairment of Assets

At each reporting date, the group reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

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

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
30 JUNE 2005**

Note 1: Basis of Preparation (cont'd)

(f) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Share-based payments

Share-based compensation benefits are provided to employees and directors. 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-tradable 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.

(g) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will results and that outflow can be reliably measured.

(h) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(i) Revenue

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

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

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

(j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST. Receivables and payables in the balance sheet are shown inclusive of GST.

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

(k) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(l) Earnings Per Share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the half-year.

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 tax 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.

(m) Foreign Currency Translation

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at half year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(n) Borrowing Costs

Borrowing costs are recognised as a non-current asset and are amortised over the lesser of the period of the borrowings or 5 years.

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
30 JUNE 2005**

Note 2: Administration Expenses – Significant Items

Significant items included in administration expenses for the half year are:

Accounting and secretarial fees	\$24,481
Audit fee accrual	\$12,500
Consulting fees	\$26,669
Printing and stationery	\$16,311
Options issued	\$90,552
Rent and office services	\$29,684

Note 3: Exploration & Evaluation

	Half year to 30 June 2005	Half year to 30 June 2004
	\$	\$
Balance at the beginning of the period	2,495,358	771,976
Expenditure for the half year	919,534	1,010,936
Less, amounts written off	(5,117)	-
Balance at the end of the period	3,409,775	1,782,912

AASB 6 *Exploration for and Evaluation of Mineral Resources* is the Australian equivalent of IFRS 6. These standards apply from 1 January 2005 and 1 January 2006 respectively, and allow entities to continue with their existing policy for exploration and evaluation expenditure as applied in their most recent financial report. The exploration & evaluation assets are treated as intangible.

Note 4: Convertible Notes

Sempra Metals has subscribed for US\$5,050,000 (A\$6.5 million) five year unlisted convertible redeemable notes in Terramin, with the proceeds being used to finance scheduled capital expenditures until the commencement of mining. The foreign currency amounts have been translated to Australian dollar equivalents using the spot currency rate at 30 June 2005, which has given rise to an unrealised foreign currency exchange loss of \$128,339 for the half year. Interest is payable quarterly based on the London Interbank Offered Rate (Libor) plus a margin of 300 basis points, the total rate for the current interest period being 6.4394%. The interest and capital is payable in either cash or shares at the discretion of the Company.

Note 5: Options Issued

During the period 430,000 options (exercisable at \$0.52 before 16 June 2010) were issued to employees and 550,000 options (exercisable at \$0.52 before 16 June 2008) were issued to directors and the total thereof expensed at \$90,552 (refer note 2) being the fair value of the options at grant date as determined by the Black-Scholes option pricing model (refer to note 1(f)). In addition, 4,000,000 options were issued to non-employees or directors.

Note 6: Deferred Income Tax Asset

The company has potential future income tax benefits of \$398,884 calculated at 30% attributable to tax losses and timing differences carried forward. They have not been brought to account because the directors do not believe it is appropriate to record the realisation of the deferred tax asset as probable (refer note 1b). The benefits of these tax losses will only be obtained if:

- a) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be realised;
- b) the Company can comply with the conditions for deductibility imposed by tax legislation; and
- c) no changes in the income tax legislation adversely affect the Company in realising the benefit from the deduction of the loss.

**TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
30 JUNE 2005**

Note 7: Commitments & Contingencies

There are no material contractual commitments or contingent liabilities at the reporting date.

As at the date of this report, the Company is not involved in any litigation, other than the following.

On 18 September 2003 Terramin filed a claim for payment of \$335,375 against WRF Securities Limited ('WRF') in the District Court of South Australia. The claim arises from a former joint venture agreement with AXG Mining Limited ('AXG') (a subsidiary of WRF) and WRF dated 25 March 2002. The joint venture agreement required that AXG incur minimum expenditure of \$425,000 on exploration. WRF guaranteed the payment to Terramin of amounts due by AXG under the joint venture agreement. In the proceedings Terramin states that AXG did not incur the minimum exploration expenditure it was required to incur, and accordingly, WRF is liable for the amount of unpaid balance.

On April 8 2004, Terramin made separate claim against AXG in the District Court of South Australia seeking payment which totalled \$1.71 million. In addition to the exploration expenditure shortfall Terramin seeks resolution of losses related to potential joint venture exploration opportunities and various costs. The actions against WRF and AXG were successfully merged into a single claim on 22 June 2004.

The company will continue to seek a favourable outcome in relation to this litigation.

Note 8: Events subsequent to Reporting Date

Subsequent to the half year end, 3,243,436 options were exercised raising \$648,687 in share capital.

TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
30 JUNE 2005

	Economic Entity		
	Previous GAAP At 1.1.2004	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 1.1.2004
	\$	\$	\$
Note 9: First-time Adoption of Australian Equivalents To International Financial Reporting Standards			
Reconciliation of Equity at 1 January 2004			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4,361,136		4,361,136
Trade and other receivables	14,792		14,792
TOTAL CURRENT ASSETS	4,375,928		4,375,928
NON-CURRENT ASSETS			
Property, plant and equipment	2,798		2,798
Exploration & evaluation	771,976		771,976
TOTAL NON-CURRENT ASSETS	774,774		774,774
TOTAL ASSETS	5,150,702		5,150,702
CURRENT LIABILITIES			
Trade and other payables	70,108		70,108
TOTAL CURRENT LIABILITIES	70,108		70,108
TOTAL LIABILITIES	70,108		70,108
NET ASSETS	5,080,594		5,080,594
EQUITY			
Issued capital	5,992,109		5,992,109
Retained earnings	(911,515)		(911,515)
Parent interest	5,080,594		5,080,594
Minority equity interest	-		-
TOTAL EQUITY	5,080,594		5,080,594

TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
30 JUNE 2005

	Economic Entity		
	Previous GAAP At 30.6.2004	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 30.6.2004
	\$	\$	\$
Note 9: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)			
Reconciliation of Equity at 30 June 2004			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3,341,902		3,341,902
Trade and other receivables	79,199		79,199
TOTAL CURRENT ASSETS	3,421,101		3,421,101
NON-CURRENT ASSETS			
Property, plant and equipment	54,280		54,280
Exploration & evaluation	1,782,912		1,782,912
TOTAL NON-CURRENT ASSETS	1,837,192		1,837,192
TOTAL ASSETS	5,258,293		5,258,293
CURRENT LIABILITIES			
Trade and other payables	419,386		419,386
TOTAL CURRENT LIABILITIES	419,386		419,386
TOTAL LIABILITIES	419,386		419,386
NET ASSETS	4,838,907		4,838,907
EQUITY			
Issued capital	5,992,109		5,992,109
Retained earnings	(1,153,202)		(1,153,202)
Parent interest	4,838,907		4,838,907
Minority equity interest	-		-
TOTAL EQUITY	4,838,907		4,838,907

TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
30 JUNE 2005

	Economic Entity		
	Previous GAAP at 31.12.2004	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 31.12.2004
	\$	\$	\$
Note 9: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)			
Reconciliation of Equity at 31 December 2004			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2,400,104		2,400,104
Trade and other receivables	13,848		13,848
TOTAL CURRENT ASSETS	2,413,952		2,413,952
NON CURRENT ASSETS			
Property, plant and equipment	45,014		45,014
Exploration & evaluation	2,495,358		2,495,358
TOTAL NON-CURRENT ASSETS	2,540,372		2,540,372
TOTAL ASSETS	4,954,324		4,954,324
CURRENT LIABILITIES			
Trade and other payables	327,312		327,312
Short-term provisions	1,002		1,002
TOTAL CURRENT LIABILITIES	328,314		328,314
TOTAL LIABILITIES	328,314		328,314
NET ASSETS	4,626,010		4,626,010
EQUITY			
Issued capital	5,992,109		5,992,109
Retained earnings	(1,366,099)		(1,366,099)
Parent interest	4,626,010		4,626,010
Minority equity interest	-		-
TOTAL EQUITY	4,626,010		4,626,010

TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
30 JUNE 2005

Economic Entity

Previous GAAP At 31.12.2004	Effect of transition to Australian equivalents to IFRS	Australian equivalents to IFRS At 31.12.2004
\$	\$	\$

**Note 9: First-time Adoption of Australian Equivalents
to International Financial Reporting Standards (cont'd)**

Reconciliation of Profit or Loss for the half year 30 June 2004

Revenue	107,075	107,075
Employee benefits expense	(20,087)	(20,087)
Depreciation expense	(5,139)	(5,139)
Other expenses	(323,536)	(323,536)
Profit/(Loss) before income tax	(241,687)	(241,687)
Income tax expense	-	-
Profit/(Loss) for the year	(241,687)	(241,687)
Profit/(Loss) attributable to minority equity interest	-	-
Profit/(Loss) attributable to members of the parent entity	(241,687)	(241,687)

Reconciliation of Profit or Loss for the full year to 31 December 2004

Revenue	179,911	179,911
Employee benefits expense	(36,397)	(36,397)
Depreciation expense	(11,147)	(11,147)
Other expenses	(586,951)	(586,951)
Profits/(Loss) before income tax	(454,584)	(454,584)
Income tax expense	-	-
Profit/(Loss) for the year	(454,584)	(454,584)
Profit attributable to minority equity interest	-	-
Profit/(Loss) attributable to members of the parent entity	(454,584)	(454,584)

TERRAMIN AUSTRALIA LIMITED ABN 67 062 576 238

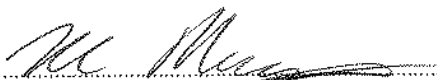
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 17:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) give a true and fair view of the economic entity's financial position as at 30 June 2005 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Director.....
Kevin C Moriarty

Dated this 12th day of September 2005

Director.....
David A Paterson

Dated this 12th day of September 2005

Independent review report to the members of Terramin Australia Limited

Scope

The financial report and directors' responsibility

The financial report comprises the consolidated interim statements of income, balance sheet, statement of recognised income and expense, cash flows, accompanying notes to the financial statements, and the directors' declaration for Terramin Australia Limited ("the Consolidated Entity"), for the half-year ended 30 June 2005. The Consolidated Entity comprises Terramin Australia Limited ("the Company") and the entities it controlled during that half year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 "First-Time Adoption of Australian equivalents to International Financial Reporting Standards".

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.



Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the interim financial report of Terramin Australia Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

KPMG

Peter Robertson
Partner

Adelaide

12 September 2005